UTILITY DEBT SECURITIZATION AUTHORITY
(A Component Unit of the Long Island Power Authority)

Basic Financial Statements

And Required Supplementary Information

December 31, 2017 and 2016

(With Independent Auditors' Report Thereon)

UTILITY DEBT SECURITIZATION AUTHORITY
(A Component Unit of the Long Island Power Authority)

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KPMG LLP
345 Park Avenue
New York, NY 10154-0102

Independent Auditors' Report

The Board of Trustees
Utility Debt Securitization Authority:

Report on the Financial Statements

We have audited the accompanying basic financial statements of the Utility Debt Securitization Authority (UDSA), a component unit of the Long Island Power Authority and the State of New York, which comprise the statements of net position as of December 31, 2017 and 2016, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these basic financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of basic financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these basic financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and those standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the basic financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the basic financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the basic financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Financial Statements

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the UDSA as of December 31, 2017 and 2016, and the changes in their net position and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

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Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis and Required Supplementary Information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2018 on our consideration of the UDSA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the UDSA's internal control over financial reporting and compliance.

KPMG LLP

New York, New York
March 26, 2018

Overview of the Financial Statements

The management's discussion and analysis of the Utility Debt Securitization Authority's (UDSA) financial performance provides an overview of the UDSA's financial information for the years ended December 31, 2017 and 2016. The discussion and analysis should be read in conjunction with the Basic Financial Statements that follow this section. The notes to the UDSA's Basic Financial Statements provide additional information on certain components of these statements.

The UDSA's financial statements are prepared on an accrual basis in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

Management's Discussion and Analysis
Of Financial Condition and Results of Operations

Nature of Operations

The UDSA was created by Part B of Chapter 173, Laws of New York, 2013 (as amended by Chapter 58 of the Laws of New York, 2015, the "Securitization Law"). The Securitization Law allowed for the retirement of certain outstanding indebtedness of the Long Island Power Authority (Authority) through the issuance of securitized restructuring bonds (Restructuring Bonds) by the UDSA. The Securitization Law permits the Authority's Board of Trustees (Board) to adopt financing orders pursuant to which the UDSA may issue Restructuring Bonds in an amount not to exceed a $4.5 billion statutorily authorized amount (inclusive of any previously issued Restructuring Bonds). The Restructuring Bonds are to be repaid by an irrevocable, nonbypassable restructuring charge on all Authority customer bills. The Authority's Board adopted Financing Order No. 1 on October 3, 2013, Financing Orders No. 2, No. 3 and No. 4 on June 26, 2015 and Financing Order No. 5 on September 29, 2017, each authorizing the UDSA to issue Restructuring Bonds. All such financing orders are substantively the same. Each financing order authorized Restructuring Bonds secured by a separate restructuring charge created pursuant to that financing order. A total of $4.5 billion of UDSA Restructuring Bonds have been issued, with no statutory capacity remaining.

Below is a summary of the financing results of each Financing Order:

- *Financing Order No. 1.* On December 18, 2013, the UDSA issued $2.022 billion of 2013 Restructuring Bonds. The issuance produced approximately $132 million of net present value savings. The 2013 Restructuring Bonds have an average life of 14.2 years and an all-in cost of 4.22%.

- *Financing Order No. 2.* On October 27, 2015, the UDSA issued $1.002 billion of 2015 Restructuring Bonds. The issuance produced approximately $128 million of net present value savings. The 2015 Restructuring Bonds have an average life of 15.6 years and an all-in cost of 3.40%.

- *Financing Order No. 3.* On April 7, 2016, the UDSA issued $636.8 million of 2016A Restructuring Bonds. The issuance produced approximately $115.2 million of net present value savings. The 2016A Restructuring Bonds have an average life of 11.8 years and an all-in cost of 2.70%.

- *Financing Order No. 4.* On September 8, 2016, the UDSA issued $469.3 million of 2016B Restructuring Bonds. The issuance produced approximately $71.6 million of net present value savings. The 2016B Restructuring Bonds have an average life of 6.9 years and an all-in cost of 2.01%.

- *Financing Order No. 5.* On November 21, 2017, the UDSA issued $369.5 million of 2017 Restructuring Bonds. The issuance produced approximately $45.4 million of net present value savings. The 2017 Restructuring Bonds have an average life of 16.7 years and an all-in cost of 3.45%.

For a further discussion of the UDSA, see the notes to Basic Financial Statements.

UTILITY DEBT SECURITIZATION AUTHORITY
(A Component Unit of the Long Island Power Authority)
Management's Discussion and Analysis
(Unaudited)
December 31, 2017 and 2016

Financial Condition Overview

The UDSA's Statements of Net Position as of December 31, 2017, 2016, and 2015 are summarized below:

		(Amounts in thousands)		
		2017	**2016**	**2015**
Assets				
Current assets	$	162,360	128,267	51,041
Noncurrent assets		4,700,023	4,383,747	3,174,571
Total assets		4,862,383	4,512,014	3,225,612
Liabilities and Net Position				
Current liabilities		136,441	90,108	72,688
Noncurrent liabilities		4,634,508	4,360,731	3,127,322
Net position - restricted		91,434	61,175	25,602
Total liabilities and net position	$	4,862,383	4,512,014	3,225,612

2017 Compared to 2016

The primary changes in the UDSA's financial condition as of December 31, 2017 and 2016 were as follows:

Total assets

Current assets increased by $34 million compared to 2016 due primarily to increased cash and investment balances of $21 million and increased accounts receivable balances of $14 million resulting from the additional Financing Order issued in 2017, which imposed an additional Restructuring Charge on utility customer bills.

Noncurrent assets increased by $316 million compared to 2016 due to the issuance of the additional Restructuring Property under Financing Order No. 5.

Total liabilities and net position

Current liabilities increased by $46 million compared to 2016 due primarily to higher scheduled debt maturities payable within one year resulting from the issuance of the 2017 Restructuring Bonds.

Noncurrent liabilities increased by $274 million compared to 2016 due primarily to the issuance of the 2017 Restructuring Bonds, totaling $440 million, including premium, partially offset by $122 million in current debt maturities and premium amortizations of $43 million.

2016 Compared to 2015

The primary changes in the UDSA's statement of financial condition as of December 31, 2016 and 2015 were as follows:

Total assets

Current assets increased by $77 million compared to 2015 due primarily to increased cash and investment balances of $55 million and increased accounts receivable balances of $22 million resulting from the two additional Financing Orders issued in 2016.

Noncurrent assets increased by $1.2 billion compared to 2015 due to the issuance of the additional Restructuring Property under Financing Orders No. 3 and No. 4.

Total liabilities and net position

Current liabilities increased by $17 million compared to 2015 due primarily to higher scheduled debt maturities payable within one year resulting from the issuance of the 2016 Restructuring Bonds.

Noncurrent liabilities increased by $1.2 billion compared to 2015 due primarily to the issuance of the 2016A and 2016B Restructuring Bonds, totaling $783 million and $555 million, including premium, respectively.

Results of Operations

The UDSA's Statements of Revenues, Expenses and Changes in Net Position for the years ended December 31, 2017, 2016 and 2015 are summarized as follows:

	(Amounts in thousands)		
	2017	**2016**	**2015**
Operating revenues	$ 297,679	278,975	73,158
Operating expenses	122,198	108,949	18,108
Operating income	175,481	170,026	55,050
Interest charges and credits	(146,211)	(134,678)	(84,741)
Other income	989	225	33
Change in net position	30,259	35,573	(29,658)
Restriced net position – beginning of year	61,175	25,602	55,260
Restricted net position – end of year	$ 91,434	61,175	25,602

2017 Compared to 2016

Net Position

The net position and changes in net position reflect the timing differences between the accrual-based accounting required under GAAP and the ratemaking treatment followed by the UDSA. The UDSA's Restructuring Charge is set at an amount sufficient to recover the debt service payments and other cash operating expenses that the UDSA incurs in any given year, which may differ from the accrued revenues and expenses recognized. As shown below, the relevant information from the Statements of Cash Flows demonstrates the UDSA has been recovering a stable and consistent amount of revenue sufficient to meet all debt service obligations. The under or over recovery of net cash from current operations offsets any excess or shortfall in the previous year.

		(Amounts in thousands)		
		2017	**2016**	**2015**
Net cash provided by operating activities	$	276,849	254,698	92,213
Interest and other interest paid		(192,213)	(162,193)	(86,286)
Redemption of long-term debt		(72,598)	(60,000)	(15,000)
Net cash provided by (used in) current year	$	12,038	32,505	(9,073)

Operating revenues

Revenues increased by $19 million compared to 2016 due primarily to the two additional Financing Orders issued in 2016.

Operating expenses

Operating expenses increased by $13 million compared to 2016 due primarily to the higher amortization of Financing Order No. 4 Restructuring Property, which is amortized annually based on its total principal payments due plus premium amortization on the Restructuring Bonds. The restructuring bonds under Financing Order No. 5 had no principal payments due in 2017.

Interest charges and credits

Interest charges and credits increased by $12 million compared to 2016 due to the issuance of the 2016A and 2016B Restructuring Bonds which were outstanding for the full year 2017.

2016 Compared to 2015

Operating revenues

Revenues increased by $206 million compared to 2015 due primarily to the two additional Financing Orders issued in 2016 plus the increase in the Restructuring Charge for Financing Order No. 1.

Operating expenses

Operating expenses increased by $91 million compared to 2015 due primarily to the higher amortization of Financing Orders No. 2, 3 and 4 Restructuring Property.

Interest charges and credits

Interest charges and credits increased by $50 million compared to 2016 due to the issuance of the 2016A and 2016B Restructuring Bonds.

Cash and Liquidity

Included in current assets are the UDSA's restricted cash accounts totaling approximately $109.2 million, $88.6 million and $33.5 million at December 31, 2017, 2016 and 2015, respectively. The higher balance in 2017 compared to 2016 is due to the additional cash reserve balances required for the 2017 Restructuring Bonds (discussed in note 2 to the Basic Financial Statements).

Bond Ratings

Below are the UDSA's securities as rated by Moody's Investors Service (Moody's), Standard and Poor's Global Ratings (S&P), and Fitch Ratings (Fitch):

	Moody's	S&P	Fitch
UDSA Restructuring Bonds Series 2013	Aaa (sf)	AAA (sf)	AAA (sf)
UDSA Restructuring Bonds Series 2015	Aaa (sf)	AAA (sf)	AAA (sf)
UDSA Restructuring Bonds Series 2016A	Aaa (sf)	AAA (sf)	AAA (sf)
UDSA Restructuring Bonds Series 2016B	Aaa (sf)	AAA (sf)	AAA (sf)
UDSA Restructuring Bonds Series 2017	Aaa (sf)	AAA (sf)	AAA (sf)

Contacting the Utility Debt Securitization Authority

This financial report is designed to provide the UDSA's bondholders, and other interested parties, with a general overview of the UDSA's finances and to demonstrate its accountability for the funds it receives. For more information, contact the Utility Debt Securitization Authority, in care of the Long Island Power Authority, at 333 Earle Ovington Blvd., Suite 403, Uniondale, New York 11553, or visit the UDSA's website at www.lipower.org/UDSA.

UTILITY DEBT SECURITIZATION AUTHORITY

(A Component Unit of the Long Island Power Authority)

Statements of Net Position

December 31, 2017 and 2016

(Amounts in thousands)

		2017	2016
Assets			
Current assets:			
Restricted cash and cash equivalents	$	109,167	88,572
Accounts receivable (net of uncollectible accounts of $134 and $156, respectively)		52,971	39,436
Prepaid assets		222	259
Total current assets		162,360	128,267
Noncurrent assets:			
Restructuring property (net of accumulated amortization)		4,675,324	4,359,428
Regulatory asset - unamortized debt issuance costs		24,699	24,319
Total noncurrent assets		4,700,023	4,383,747
Total assets	$	4,862,383	4,512,014
Liabilities and Net Position			
Current liabilities:			
Current maturities of long-term debt	$	122,803	72,598
Accrued interest		9,643	14,693
Accrued expenses		3,995	2,817
Total current liabilities		136,441	90,108
Noncurrent liabilities:			
Long-term debt		4,139,593	3,892,931
Unamortized premium of long-term debt		494,915	467,800
Total noncurrent liabilities		4,634,508	4,360,731
Net position - restricted		91,434	61,175
Total liabilities and net position	$	4,862,383	4,512,014

See accompanying notes to financial statements.

UTILITY DEBT SECURITIZATION AUTHORITY

(A Component Unit of the Long Island Power Authority)

Statements of Revenues, Expenses, and Changes in Net Position

Years ended December 31, 2017 and 2016

(Amounts in thousands)

		2017	2016
Operating revenue	$	297,679	278,975
Operating expenses:			
Amortization of restructuring property		117,844	104,566
Provision for uncollectible accounts		1,345	1,713
Servicing, administrative and other fees		3,009	2,670
Total operating expenses		122,198	108,949
Operating income		175,481	170,026
Other income		989	225
		176,470	170,251
Interest charges:			
Interest expense		187,163	164,574
Other interest expense		246	316
Amortization of restructuring bond premium and issuance costs		(41,198)	(30,212)
Total interest charges		146,211	134,678
Change in net position		30,259	35,573
Net position, beginning of year		61,175	25,602
Net position, end of period	$	91,434	61,175

See accompanying notes to financial statements.

UTILITY DEBT SECURITIZATION AUTHORITY

(A Component Unit of the Long Island Power Authority)

Statements of Cash Flows

Years ended December 31, 2017 and 2016

(Amounts in thousands)

		2017	2016
Cash flows from operating activities:			
Operating revenues received	$	282,853	255,027
General and administrative expenditures		(6,004)	(329)
Net cash provided by operating activities		276,849	254,698
Cash flows from investing activities:			
Restructuring property		(429,873)	(1,308,434)
Earnings received		989	225
Net cash used in investing activities		(428,884)	(1,308,209)
Cash flows from financing activities:			
Proceeds from issuance of restructuring bonds		440,242	1,338,384
Interest paid		(192,213)	(162,139)
Redemption of long-term debt		(72,598)	(60,000)
Bond issuance and bond administration costs		(2,801)	(7,680)
Net cash provided by financing activities		172,630	1,108,565
Net increase in restricted cash and cash equivalents		20,595	55,054
Restricted cash and cash equivalents, beginning of year		88,572	33,518
Restricted cash and cash equivalents, end of period	$	109,167	88,572

Reconciliation of operating income to net restricted cash provided by operating activities:

		2017	2016
Operating income	$	175,481	170,026
Adjustments to reconcile operating income to net restricted cash provided by operating activities:			
Amortization of restructuring property		117,844	104,566
Changes in operating assets and liabilities:			
Prepaid assets and accrued expenses		(2,941)	2,341
Accounts receivable		(13,535)	(22,235)
Net restricted cash provided by operating activities	$	276,849	254,698

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

(a) General

The Utility Debt Securitization Authority (UDSA) is a special purpose corporate municipal instrumentality, body corporate and politic, political subdivision and public benefit corporation of the State of New York, created by Part B of Chapter 173, Laws of New York, 2013 (as amended by Chapter 58 of the Laws of New York, 2015, the "Securitization Law").

The Securitization Law provided the legislative foundation for the issuance of restructuring bonds (Restructuring Bonds) by the UDSA. The issuance of Restructuring Bonds allows the Long Island Power Authority (Authority) to retire a portion of its outstanding indebtedness to provide savings to the Authority's utility customers on a net present value basis. The Authority is the owner of the electric transmission and distribution system located in the Counties of Nassau and Suffolk (with certain limited exceptions) and a portion of Queens County known as the Rockaways (Service Area).

(b) Financial Reporting Entity

The Securitization Law prohibits the UDSA from engaging in any activity except as specifically authorized by a financing order and provides that the UDSA is not authorized to be a debtor under Chapter 9 or any other provision of the Bankruptcy Code.

The financial statements of the UDSA have been prepared in conformity with accounting principles generally accepted in the United States of America applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The operations of the UDSA are presented as a proprietary fund following the accrual basis of accounting in order to recognize the flow of economic resources. Revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred. The basic financial statements cover the years ended December 31, 2017 and 2016.

Under GASB Statement No. 61, *The Financial Reporting Entity*, the UDSA is considered a blended component unit of the Authority. The assets, liabilities, and results of operations are consolidated with the operations of the Authority for financial reporting purposes in the Long Island Power Authority Financial Statements.

(c) Use of Estimates

The accompanying financial statements were prepared in conformity with U.S. GAAP, which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(d) Accounting for the Effects of Rate Regulation

The UDSA is subject to the provisions of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in PreNovember- 30, 1989 FASB and AICPA Pronouncements*. GASB Statement No. 62 addresses accounting rules for regulated operations. This statement recognizes the economic ability of regulators, through the ratemaking process, to create future economic benefits and obligations affecting rate-regulated companies. Accordingly, the UDSA records these future economic benefits and obligations as regulatory assets or regulatory liabilities, respectively.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, requires that debt issuance costs be expensed in the current financial period. As the UDSA charge provides recovery for debt issuance costs on a systematic basis over the life of the debt, the UDSA has classified these costs as a regulatory asset, in accordance with GASB Statement No. 62, to be collected over the life of the debt issuance to which they relate.

(e) Accounts Receivable

The UDSA receivables include amounts due from the customers served by the Authority and the accrual of unbilled revenue to be received in the subsequent year. The Authority accrues unbilled revenues by estimating unbilled consumption at the customer meter. Unbilled revenue for the UDSA totaled $20 million and $15 million as of December 31, 2017 and 2016, respectively.

Accounts receivable are classified as current assets and are reported net of an allowance for uncollectible amounts.

(f) Restructuring Property

The Financing Orders, as adopted by the Authority's Board, authorized the creation of Restructuring Property and the issuance of Restructuring Bonds by the UDSA to provide funds for the purchase of Restructuring Property from the Authority. The Authority was authorized to use the proceeds from the sale of Restructuring Property to purchase, redeem, repay, or defease certain of its outstanding debt. Restructuring Property is defined as the right, title, and interest: (a) in and to rates and charges to recover from customers the debt service requirements on the Restructuring Bonds (referred to as Restructuring Charges); (b) in and to all revenues, collections, claims, payments, money, or proceeds of or arising from the Restructuring Charges, regardless of whether such revenues, collections, claims, payments, money, or proceeds are imposed, billed, received, collected, or maintained together with or commingled with other revenues, collections, claims, payments, money, or proceeds; and (c) in and to all rights to obtain adjustments to the Restructuring Charges. These nonbypassable consumption based Restructuring Charges are billed to all existing and future retail electric customers taking electric transmission or distribution service within the Service Area from the Authority or any of its successors or assignees. Restructuring Charges are established on behalf of the UDSA, and are not subject to oversight by the Public Service Commission, the Department of Public Service or any other regulatory body, including the Authority's Board. The Authority has lowered its rates to reflect the savings from the securitization and modified its rate structure to create restructuring offset charges, which are amounts equal to and opposite the Restructuring Charges, so that customer bills are less than they would have been absent the sale of Restructuring Bonds. The securitization offset charges will be adjusted along with changes to the Restructuring Charges, subject to true-up adjustments as discussed in note 4.

The Restructuring Property is amortized annually based on principal payments due on the Restructuring Bonds. Also, included in the annual amortization is an amount equal to the bond premium amortization which is recorded using the effective interest rate method.

Below is a summary of the Financing Orders issued:

(amounts in thousands, unless otherwise stated)

Financing Order	Date Issued		Initial Amount Issued	Restructuring Charge Rate Effective Date
Financing Order No. 1	December 18, 2013	$	2,022,324	March 1, 2014
Financing Order No. 2	October 27, 2015		1,002,115	January 1, 2016
Financing Order No. 3	April 7, 2016		636,770	April 7, 2016
Financing Order No. 4	September 8, 2016		469,320	September 8, 2016
Financing Order No. 5	November 21, 2017		369,465	January 1, 2018
		$	4,499,994	

(g) Revenues

The UDSA records revenue for Restructuring Charges under the accrual method of accounting in accordance with the imposed charges.

(h) Income Taxes

The UDSA is a political subdivision of the State of New York (State) and, therefore, is exempt from federal, state, and local income taxes.

(i) Recent Accounting Pronouncements

GASB Statement No. 85, *Omnibus 2017*, addresses issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits. The requirements of this Statement are effective for periods beginning after June 15, 2017.

GASB Statement No. 86, *Certain Debt Extinguishment Issues*, addresses the consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.

UDSA is currently evaluating the impact of these statements on the accompanying financial statements, and does not expect a material impact upon adoption.

(amounts in thousands, unless otherwise stated)

(2) Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents consist of funds held in the UDSA's restricted bank accounts to pay the principal, interest, and other expenses associated with the Restructuring Bonds. The UDSA has specific investment guidelines to address the legal and contractual requirement such that investment maturities are managed to meet the restructuring bonds debt service obligations.

The Trustee, under the indenture for each series of Restructuring Bonds, must maintain a segregated trust account for each series of Restructuring Bonds known as the Collection Account. The Collection Account for the bonds consists of four subaccounts: a General Subaccount, an Excess Funds Subaccount, Reserve Subaccounts, and an Upfront Financing Costs Subaccount. For administrative purposes, the subaccounts may be established by the Trustee as separate accounts, which will be recognized collectively as the Collection Account.

The Trustee shall have sole dominion and exclusive control over all money in each Collection Account and shall apply such money as provided in the Indenture. Each account shall remain at all times with a securities intermediary. Only the Trustee shall have access to the Collection Accounts for the purpose of making deposits to and withdrawals from such account. Funds in the Collection Accounts shall not be commingled with any other monies.

Reserve Accounts

The Reserve Subaccount related to the Series 2013 Restructuring Bonds was established at a reserve level of 0.5% of the initial principal amount of the Restructuring Bonds originally issued.

The Reserve Subaccounts related to the Series 2015, 2016A, 2016B and 2017 Restructuring Bonds were each established with two subaccounts - the Operating Reserve Subaccount and the Debt Service Reserve Subaccount. The Operating Reserve Subaccounts were each established at a reserve level of 0.5% of the initial principal amount of the Restructuring Bonds. The Debt Service Reserve Subaccounts were each established at a reserve level of 1.50% of the aggregate principal amount of Restructuring Bonds then outstanding less the minimum principal amount due on any subsequent scheduled payment date.

Below is a summary of the Reserve Subaccounts as of December 31, 2017 and 2016:

Reserve Subaccounts		2017	2016
Restructuring Bonds Series 2013	$	10,217	10,144
Restructuring Bonds Series 2015		20,222	20,078
Restructuring Bonds Series 2016A		12,843	12,752
Restructuring Bonds Series 2016B		9,458	9,391
Restructuring Bonds Series 2017		7,389	-
	$	60,129	52,365

(amounts in thousands, unless otherwise stated)

Risks

Credit Risk: The UDSA's permissible investments include (i) demand deposits and certificates of deposit, (ii) direct obligations of, or obligations guaranteed by the United States of America, (iii) commercial paper having a rating of not less than A-1, P-1, F1 at the time of the commitment, (iv) money market funds which have the highest rating available, (v) repurchase obligations that are a direct obligation of or obligation guaranteed by the United States of America, and (vi) repurchase obligations meeting the minimum ratings criteria set forth in the investment guidelines.

Concentration of Credit Risk: The UDSA's investment policies have established limits such that no more than 5% of the investment portfolio may be invested in the securities of any one issuer except as follows: (i) U.S. Treasury Obligations; (ii) demand deposits, time deposits, or certificates of deposit and bankers' acceptance of eligible institution (as defined in investment guidelines) (iii) repurchase obligations with respect to any security that is a direct obligation of, or obligations guaranteed by, the United States of America; (iv) repurchase obligations with an eligible institution; and (v) money market funds which have the highest rating available. To the extent that more than 35% of the UDSA's total invested funds are invested with any single eligible institution, other than the Bond Trustee, the UDSA Board shall be notified. UDSA deposits invested in money-market mutual funds are invested in U.S. government obligations.

Custodial Credit Risk: The UDSA believes that custodial credit risk is minimal, as it is the UDSA's policy and practice, as stipulated in its investment guidelines, that its investments be held by only eligible institutions with investment grade credit ratings.

Interest Rate Risk: The UDSA's investment guidelines state that investments must mature on or before the business day preceding the debt service payment dates of the restructuring bonds and therefore, all investments are generally maturities of a short nature. As such, the UDSA presently holds its funds in money-market mutual funds as cash equivalents.

Below is a summary of the UDSA's restricted cash and cash equivalents as of December 31, 2017 and 2016:

Deposit/investment type		2017 Fair value	Percent of portfolio
Money-market mutual fund	$	101,607	93%
Cash		7,560	7%
Total	$	109,167	100%

Deposit/investment type		2016 Fair value	Percent of portfolio
Money-market mutual fund	$	88,572	100%
Cash		-	- %
Total	$	88,572	100%

(amounts in thousands, unless otherwise stated)

(3) Long-Term Debt

The Financing Orders adopted by the Authority's Board authorize the issuance of Restructuring Bonds by the UDSA to provide funds for the purchase of Restructuring Property from the Authority.

The Restructuring Bonds are consolidated on the Authority's financial statements; however, they are not direct obligations of the Authority. The Restructuring Bonds are also not a debt and do not constitute a pledge of the faith and credit or taxing power of the State or of any county, municipality, or any other political subdivision, agency, or instrumentality of the State other than the UDSA.

Each Restructuring Property (2013, 2015, 2016A, 2016B, and 2017) secures only their respective Restructuring Bonds. In each restructuring transaction, the Authority used the net proceeds from the sale of the Restructuring Property to retire debt and other obligations of the Authority producing net present value savings to the Authority's customers.

Interest payments on all the Restructuring Bonds are paid semiannually every June 15th and December 15th. Restructuring Charges are set to collect amounts sufficient to pay principal of, and interest on the bonds on a timely basis and any ongoing financing costs.

The UDSA's long-term debt at December 31, 2017 consisted of the following:

	Beginning balance	Accretion/ additions	Maturities	Ending balance	Years of Maturity	Interest Rate
						(%)
Restructuring bonds:						
Series 2013T	$ 482,934	—	13,148	469,786	2018-2023	2.04-3.44
Series 2013TE	1,374,390	—	—	1,374,390	2023-2039	5.00
Series 2015TE	1,002,115	—	—	1,002,115	2021-2035	3.00-5.00
Series 2016A	636,770	—	—	636,770	2023-2033	5.00
Series 2016B	469,320	—	59,450	409,870	2018-2033	4.00-5.00
Series 2017	—	369,465	—	369,465	2020-2039	5.00
Subtotal	3,965,529	369,465	72,598	4,262,396		
Less: current maturities	(72,598)			(122,803)		
Total long-term debt	$ 3,892,931			4,139,593		

(amounts in thousands, unless otherwise stated)

The UDSA's long-term debt at December 31, 2016 consisted of the following:

		Beginning balance	Accretion/ additions	Maturities	Ending balance	Years of Maturity	Interest Rate
							(%)
Restructuring bonds:							
Series 2013T	$	482,934	—	—	482,934	2017-2023	2.04-3.44
Series 2013TE		1,434,390	—	60,000	1,374,390	2023-2039	5.00
Series 2015TE		1,002,115	—	—	1,002,115	2021-2035	3.00-5.00
Series 2016A		—	636,770	—	636,770	2023-2033	5.00
Series 2016B		—	469,320	—	469,320	2017-2033	4.00-5.00
Subtotal		2,919,439	1,106,090	60,000	3,965,529		
Less: current maturities		(60,000)			(72,598)		
Total long-term debt	$	2,859,439			3,892,931		

The debt service requirements for the UDSA's bonds as of December 31, 2017 are as follows:

Due		Principal	Interest	Annual Debt Service Requirements
2018		122,803	201,925	324,728
2019		130,761	196,379	327,140
2020		126,057	192,973	319,030
2021		179,419	187,969	367,388
2022		177,511	180,037	357,548
2023–2027		1,026,155	753,467	1,779,622
2028–2032		1,225,930	491,645	1,717,575
2033–2037		856,010	215,092	1,071,102
2038–2042		417,750	28,068	445,818
Total	$	4,262,396	2,447,555	6,709,951

(4) Significant Agreements and Related-Party Transactions

The Authority acts as the initial Servicer of the applicable Restructuring Property pursuant to the terms of a Servicing Agreement with the UDSA executed in connection with each issuance of Restructuring Bonds. Under the Servicing Agreement entered into by the Authority and the UDSA, concurrently with the issuance of the Restructuring Bonds, the Authority, as Servicer, is required to manage and administer the UDSA bondable Restructuring Property and to collect the Restructuring Charges on the UDSA's behalf. However, pursuant to the Authority's Amended and Restated Operation Services Agreement, PSEG Long Island, among other things, performs the billing and collections, meter reading, and forecasting required of the Servicer under the Servicing Agreement. The Authority is responsible for taking all necessary action in connection with true-up adjustments (described below) and certain reporting requirements.

The Restructuring Charges will be adjusted at least annually (true-up adjustment) and, if determined by the Servicer during the midyear review process to be necessary, semiannually or more frequently, to ensure that the expected collections of the Restructuring Charges are adequate to timely pay all scheduled payments of principal and interest on the Restructuring Bonds and all other ongoing financing costs when due.

During 2017 and 2016, the UDSA reset its Restructuring Charge on all its Restructuring Bonds semiannually, except for Series 2017 as its charge was set in November 2017 with an effective date of January 1, 2018.

Under the Financing Orders, the Authority withholds from the Restructuring Charge collections an annual servicing fee equal to 0.05% of the initial principal amount of the Restructuring Bonds originally issued.

(5) Subsequent Events

In connection with the preparation of the financial statements, management has evaluated subsequent events from January 1, 2018 through March 26, 2018, which was the date the financial statements were available for issuance, and concluded that no additional disclosures or adjustments to the financial statements were necessary.

KPMG LLP
345 Park Avenue
New York, NY 10154-0102

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Board of Trustees
Utility Debt Securitization Authority:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the basic financial statements of the Utility Debt Securitization Authority (UDSA), which comprise the statements of net position as of December 31, 2017 and 2016 and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the basic financial statements, and have issued our report thereon dated March 26, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the basic financial statements as of and for the year ended December 31, 2017, we considered UDSA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the UDSA's internal control. Accordingly, we do not express an opinion on the effectiveness of UDSA's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's basic financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether UDSA's basic financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of UDSA's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the UDSA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

New York, New York
March 26, 2018