

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

Quarterly Unaudited Financial Report

For the six month period ended June 30, 2016

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Introduction

The Utility Debt Securitization Authority (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.

Overview of the Financial 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).

The Management’s Discussion and Analysis provides an overview of the UDSA for the six month period ended June 30, 2016 compared to 2015. The unaudited quarterly financial statements should be read in conjunction with the annual audited financial statements, which may be found on the UDSA’s website at www.lipower.org/UDSA.

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Statements of Net Position

(Amounts in thousands)

	June 30, 2016 (unaudited)	December 31, 2015 (audited)
Assets		
Current assets:		
Restricted cash and cash equivalents	\$ 51,544	33,518
Accounts receivable	36,858	17,201
Prepaid assets	117	322
Total current assets	<u>88,519</u>	<u>51,041</u>
Noncurrent assets:		
Restructuring property	3,890,102	3,155,559
Regulatory asset - unamortized debt issuance costs	22,527	19,012
Total noncurrent assets	<u>3,912,629</u>	<u>3,174,571</u>
Total assets	<u>\$ 4,001,148</u>	<u>3,225,612</u>
Liabilities and Net Position		
Current liabilities:		
Current maturities of long-term debt	\$ 30,000	60,000
Accrued interest	12,880	12,257
Accrued expenses	1,766	431
Total current liabilities	<u>44,646</u>	<u>72,688</u>
Noncurrent liabilities:		
Long-term debt, including unamortized premium	<u>3,897,591</u>	<u>3,127,322</u>
Net position - restricted	58,911	25,602
Total liabilities and net position	<u>\$ 4,001,148</u>	<u>3,225,612</u>

UTILITY DEBT SECURITIZATION AUTHORITY
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Statements of Revenues, Expenses, and Changes in Net Position
(unaudited)
(Amounts in thousands)

	Six months ended June 30,	
	2016	2015
Operating revenue	\$ 129,125	25,206
Operating expenses:		
Amortization of restructuring property	31,345	7,836
Uncollectible expense	651	279
Servicing, administrative and other fees	1,196	808
Total operating expenses	33,192	8,923
Operating income	95,933	16,283
Other income	84	22
	96,017	16,305
Interest charges:		
Interest expense	74,360	43,143
Amortization of restructuring bond premium and issuance costs	(11,652)	(4,170)
Total interest charges	62,708	38,973
Change in net position	33,309	(22,668)
Net position, beginning of year	25,602	55,260
Net position, end of period	\$ 58,911	32,592

UTILITY DEBT SECURITIZATION AUTHORITY
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Statements of Cash Flows

(unaudited)

(Amounts in thousands)

	Six months ended June 30,	
	2016	2015
Cash flows from operating activities:		
Operating revenues received	\$ 108,818	50,704
Net cash provided by operating activities	<u>108,818</u>	<u>50,704</u>
Cash flows from investing activities:		
Restructuring property	(765,888)	—
Earnings received	84	22
Net cash (used in) provided by investing activities	<u>(765,804)</u>	<u>22</u>
Cash flows from financing activities:		
Proceeds from issuance of restructuring bonds	783,288	—
Interest paid	(73,738)	(43,143)
Redemption of long-term debt	(30,000)	—
Bond issuance and bond administration costs	(4,538)	—
Net cash provided by (used in) financing activities	<u>675,012</u>	<u>(43,143)</u>
Net increase in restricted cash and cash equivalents	18,026	7,583
Restricted cash and cash equivalents, beginning of year	<u>33,518</u>	<u>22,483</u>
Restricted cash and cash equivalents, end of period	<u><u>\$ 51,544</u></u>	<u><u>30,066</u></u>
Reconciliation to net restricted cash provided by operating activities:		
Operating income	\$ 95,933	16,283
Adjustments to reconcile operating income to net restricted cash provided by operating activities:		
Amortization of restructuring property	31,345	7,836
Changes in operating assets and liabilities:		
Prepaid assets and accrued expenses	1,197	808
Accounts receivable	<u>(19,657)</u>	<u>25,777</u>
Net restricted cash provided by operating activities	<u><u>\$ 108,818</u></u>	<u><u>50,704</u></u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

Six Month Period ended June 30, 2016 Compared to 2015

The UDSA result for the six months ended June 30, 2016 was \$56 million more favorable than the six month period of 2015.

Operating revenue increased \$104 million compared to 2015. The primary drivers were changes in the restructuring charges and the issuance of additional restructuring bonds. The restructuring charge on the 2013 bonds increased, effective January 1, 2016, to provide for the higher debt service requirements in 2016. Also effective January 1, 2016, a new charge was added for the \$1.0 billion Restructuring Property issued in October 2015. An additional charge was also added for the \$766 million Restructuring Property issued on April 7, 2016.

Operating expenses increased \$24 million compared to 2015 primarily due to the increase in the amortization of the Restructuring Property. The UDSA recognizes the amortization of the Restructuring Property on a proportionate basis annually based upon the total principal payments due on its restructuring bonds. Scheduled debt maturities in 2016 are higher by \$45 million compared to 2015.

Interest charges increased \$24 million compared to 2015 due to the higher outstanding debt balances in 2016 compared to 2015.