UTILITY DEBT SECURITIZATION AUTHORITY

(A Component Unit of the Long Island Power Authority)

Basic Financial Statements

And Required Supplementary Information

December 31, 2019 and 2018

(With Independent Auditors' Reports Thereon)

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

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KPMG LLP
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Independent Auditors' Report

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, which comprise the statements of net position as of December 31, 2019 and 2018, 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 the standards applicable to the financial audits contained in *Government Auditing* Standard 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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the Utility Debt Securitization Authority as of December 31, 2019 and 2018, and the respective changes in its net position and cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis on pages 3 through 8 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 23, 2020 on our consideration of 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 UDSA's internal control over financial reporting and compliance.

KPMG LLP

Melville, New York
March 23, 2020

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

Management's Discussion and Analysis
(Unaudited)

December 31, 2019 and 2018

Overview of the Financial Statements

The management's discussion and analysis of the financial performance of the Utility Debt Securitization Authority (UDSA) provides an overview for the years ended December 31, 2019 and 2018, with comparative information as of and for the year ended December 31, 2017. 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 (LIPA) through the issuance of securitized restructuring bonds (Restructuring Bonds) by the UDSA. The Securitization Law permits LIPA'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 LIPA utility customer bills. The LIPA'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:

(Amounts in thousands)

	Order No. 1 2013 Restructuring Bonds	Order No. 2 2015 Restructuring Bonds	Order No. 3 2016A Restructuring Bonds	Order No. 4 2016B Restructuring Bonds	Order No. 5 2017 Restructuring Bonds
Issuance Date	December 18, 2013	October 27, 2015	April 7, 2016	September 8, 2016	November 21, 2017
Amount Issued	$ 2,022,324	1,002,115	636,770	469,320	369,465
Net Present Value Savings	$ 131,609	127,978	115,238	71,647	45,387
Average Life	14.2 years	15.6 years	11.8 years	6.9 years	16.7 years
All-in Cost	4.22%	3.40%	2.70%	2.01%	3.45%

Financial Condition Overview

The UDSA's Statements of Net Position as of December 31, 2019, 2018, and 2017 are summarized below:

(Amounts in thousands)

		2019	2018	2017
Assets				
Current assets	$	154,162	173,837	162,360
Non-current assets		4,351,860	4,523,469	4,696,155
Total assets		4,506,022	4,697,306	4,858,515
Liabilities and Net Position				
Current liabilities		134,426	139,500	132,573
Non-current liabilities		4,286,774	4,457,610	4,634,508
Net position-restricted		84,822	100,196	91,434
Total liabilities and net position	$	4,506,022	4,697,306	4,858,515

2019 Compared to 2018

The changes in the UDSA's financial condition as of December 31, 2019 and 2018 were as follows:

Current assets decreased by $20 million compared to 2018 due to lower cash and investment balances of $16 million and lower accounts receivable balances of $4 million.

Non-current assets decreased by $172 million compared to 2018 due to the scheduled amortization of the Restructuring Property.

Current liabilities decreased by $5 million compared to 2018 due to lower scheduled current maturities of long-term debt.

Non-current liabilities decreased by $171 million compared to 2018 due to $126 million in scheduled current maturities of long-term debt and amortization of debt premium of $45 million.

2018 Compared to 2017

The changes in the UDSA's financial condition as of December 31, 2018 and 2017 were as follows:

Current assets increased by $11 million compared to 2017 due to increased cash and investment balances of $15 million partially offset by lower accounts receivable balances of $4 million.

Non-current assets decreased by $173 million compared to 2017 due to the scheduled amortization of the Restructuring Property.

Current liabilities increased by $7 million compared to 2017 due to increased scheduled current maturities of long-term debt.

Non-current liabilities decreased by $177 million compared to 2017 due to $131 million in scheduled current maturities of long-term debt and amortization of debt premium of $46 million

Results of Operations

The UDSA's Statements of Revenues, Expenses, and Changes in Net Position for the years ended December 31, 2019, 2018 and 2017 are summarized as follows:

(Amounts in thousands)

		2019	2018	2017
Operating revenues	$	307,400	336,350	296,334
Operating expenses		172,457	173,379	120,853
Operating income		134,943	162,971	175,481
Interest charges and credits		(154,129)	(157,161)	(146,211)
Other income		3,812	2,952	989
Change in net position		(15,374)	8,762	30,259
Restricted net position, beginning of year		100,196	91,434	61,175
Restricted net position, end of year	$	84,822	100,196	91,434

2019 Compared to 2018

Revenues decreased by $29 million compared to 2018 due to the decreased 2019 restructuring charges resulting from the application of prior year excess recoveries to the current year charge.

Operating expenses decreased by $1 million compared to 2018 due to lower amortization of the Restructuring Property, which is amortized annually based on total principal payments due, plus premium amortization on the Restructuring Bonds.

Interest charges and credits decreased by $3 million compared to 2018 due to lower debt outstanding.

2018 Compared to 2017

Revenues increased by $40 million compared to 2017 due to the higher debt service requirements resulting from the additional Financing Order bonds issued in November 2017 and higher scheduled debt maturities.

Operating expenses increased by $53 million compared to 2017 due to the higher amortization of the Restructuring Property, which is amortized annually based on total principal payments due, plus premium amortization on the Restructuring Bonds.

Interest charges and credits increased by $11 million compared to 2017 due to the Restructuring Bonds issued in November 2017, which were outstanding for the full year in 2018.

Cash and Liquidity

Included in current assets are the UDSA's restricted cash accounts totaling approximately $109 million, $125 million, and $109 million as of December 31, 2019, 2018 and 2017, respectively. The lower balance in 2019 compared to 2018 is due to decreased restructuring charges resulting from the application of prior year excess recoveries in the current year charge.

Bond Ratings

Below are the bond ratings on 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, 2019 and 2018

(Amounts in thousands)

		2019	2018
Assets			
Current assets:			
Restricted cash and cash equivalents	$	109,049	124,597
Accounts receivable (net of uncollectible accounts of $130 and $168, respectively)		44,863	49,018
Prepaid assets		250	222
Total current assets		154,162	173,837
Non-current assets:			
Restructuring property (net of accumulated amortization)		4,331,947	4,501,288
Regulatory asset - unamortized debt issuance costs		19,913	22,181
Total non-current assets		4,351,860	4,523,469
Total assets	$	4,506,022	4,697,306
Liabilities and Net Position			
Current liabilities:			
Current maturities of long-term debt	$	126,057	130,761
Accrued interest		8,082	8,213
Accrued expenses		287	526
Total current liabilities		134,426	139,500
Non-current liabilities:			
Long-term debt		3,882,775	4,008,832
Unamortized premium of long-term debt		403,999	448,778
Total non-current liabilities		4,286,774	4,457,610
Net position - restricted		84,822	100,196
Total liabilities and net position	$	4,506,022	4,697,306

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, 2019 and 2018

(Amounts in thousands)

		2019	2018
Operating revenue	$	307,400	336,350
Operating expenses:			
Amortization of restructuring property		169,341	170,168
Servicing, administrative, and other fees		3,116	3,211
Total operating expenses		172,457	173,379
Operating income		134,943	162,971
Other income		3,812	2,952
		138,755	165,923
Interest charges:			
Interest expense		196,248	200,495
Bond administrative costs		392	285
Amortization of restructuring bond premium and issuance costs		(42,511)	(43,619)
Total interest charges		154,129	157,161
Change in net position		(15,374)	8,762
Net position, beginning of year		100,196	91,434
Net position, end of year	$	84,822	100,196

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, 2019 and 2018

(Amounts in thousands)

		2019	2018
Cash flows from operating activities:			
Operating revenues received	$	311,069	340,789
General and administrative expenditures		(2,897)	(3,298)
Net cash provided by operating activities		308,172	337,491
Cash flows from investing activities:			
Earnings received		3,812	2,952
Net cash provided by investing activities		3,812	2,952
Cash flows from financing activities:			
Interest paid		(196,379)	(201,925)
Redemption of long-term debt		(130,761)	(122,803)
Bond administrative costs		(392)	(285)
Net cash used in financing activities		(327,532)	(325,013)
Net (decrease) increase in restricted cash and cash equivalents		(15,548)	15,430
Restricted cash and cash equivalents, beginning of year		124,597	109,167
Restricted cash and cash equivalents, end of year	$	109,049	124,597

		2019	2018
Reconciliation of operating income to net restricted cash provided by operating activities:			
Operating income	$	134,943	162,971
Adjustments to reconcile operating income to net restricted cash provided by operating activities:			
Amortization of restructuring property		169,341	170,168
Changes in operating assets and liabilities:			
Prepaid assets and accrued expenses		(267)	399
Accounts receivable		4,155	3,953
Net restricted cash provided by operating activities	$	308,172	337,491

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, a body corporate and politic, and a 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 allow the Long Island Power Authority (LIPA) to retire a portion of its outstanding indebtedness and provides savings to LIPA's utility customers on a net present value basis. LIPA 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 (U.S. GAAP). 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, 2019 and 2018.

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

(c) Use of Estimates

The accompanying financial statements were prepared in conformity with U.S. GAAP, which requires 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) Reclassifications

Certain amounts in the 2018 Financial Statements have been reclassified in order to conform to the 2019 financial statement presentation.

(e) 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 Pre-November 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.

(f) Accounts Receivable

The UDSA accounts receivable include amounts due from the customers served by the Authority and the accrual of unbilled revenue to be received in the subsequent year. LIPA accrues unbilled revenue by estimating unbilled consumption at the utility customer meter. Unbilled revenue for the UDSA totaled $17 million and $19 million as of December 31, 2019 and 2018, respectively.

Accounts receivable are classified as current assets and are reported net of an allowance for uncollectible accounts. The UDSA records bad debts for its estimated uncollectible accounts as a reduction to the related operating revenues in the Statements of Revenues, Expenses, and Changes in Net Position.

(g) Restructuring Property

The Financing Orders, as adopted by LIPA'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 LIPA. LIPA 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 utility 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 non-by-passable 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 LIPA 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 LIPA's Board. LIPA has lowered its electric 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 utility 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.

(Amounts in thousands, unless otherwise stated)

The Restructuring Property is amortized annually based on principal payments due on the Restructuring Bonds. 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 and the original issuance amounts:

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	

(h) Revenues

The UDSA records revenue for Restructuring Charges under the accrual method of accounting in an amount equal to the imposed charges.

(i) 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.

(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 Bond Trustee (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 (described below), and an Upfront Financing Costs Subaccount. For administrative purposes, the subaccounts have been 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 each Collection Account for the purpose of making deposits to and withdrawals from such account. Funds in each Collection Account shall not be commingled with any other monies.

(Amounts in thousands, unless otherwise stated)

Reserve Subaccounts

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. Each Operating Reserve Subaccount requires a reserve level of 0.5% of the initial principal amount of the respective Restructuring Bonds. The Debt Service Reserve Subaccounts were each established at a reserve level of 1.50% of the aggregate principal amount of the respective Restructuring Bonds issued. The Debt Service Reserve Subaccounts are subsequently measured at 1.50% of aggregate principal amounts of Bonds minus the minimum principal amount of Bonds due on the next scheduled debt service payment date. Any release from the Debt Service Reserve Subaccounts are transferred to the Collection Account to fund debt service.

Below is a summary of the Reserve Subaccounts as of December 31:

Reserve Subaccounts		2019	2018
Restructuring Bonds Series 2013	$	10,125	10,247
Restructuring Bonds Series 2015		20,069	20,311
Restructuring Bonds Series 2016A		12,778	12,906
Restructuring Bonds Series 2016B		7,359	7,454
Restructuring Bonds Series 2017		7,399	7,487
	$	57,730	58,405

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 institutions (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 Trustee, the UDSA Board shall be notified. The UDSA deposits invested in money-market mutual funds are primarily invested in U.S. government obligations, with an immaterial amount invested in prime money market funds (less than 0.5%).

(Amounts in thousands, unless otherwise stated)

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 all investments, therefore, 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, 2019 and 2018:

Deposit/investment type		2019 Fair value	Percent of portfolio	2018 Fair value	Percent of portfolio
Money-market mutual fund	$	109,049	100%	124,597	100%
Total	$	109,049	100%	124,597	100%

The Money-market mutual funds were rated by S&P and Moody's as AAAm and Aaa-mf, respectively.

(3) Long-Term Debt

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

The Restructuring Bonds are consolidated on LIPA's financial statements; however, they are not direct obligations of LIPA. 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, LIPA used the net proceeds from the sale of the Restructuring Property to retire debt and other obligations of LIPA, producing net present value savings to LIPA's utility customers.

Interest payments on all the Restructuring Bonds are paid semi-annually 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 restructuring bonds contain a provision that in an event of a default, including defaults of debt service payments, the timing of repayment of outstanding amounts may become immediately due.

(Amounts in thousands, unless otherwise stated)

The UDSA's long-term debt as of December 31, 2019 consisted of the following:

	Beginning balance	Additions	Maturities	Ending balance	Years of Maturity	Interest Rate (%)
Restructuring bonds:						
Series 2013T	$ 423,353	—	130,761	292,592	2020-2023	2.55-3.44
Series 2013TE	1,374,390	—	—	1,374,390	2023-2039	5.00
Series 2015	1,002,115	—	—	1,002,115	2021-2035	3.00-5.00
Series 2016A	636,770	—	—	636,770	2023-2033	5.00
Series 2016B	333,500	—	—	333,500	2020-2033	4.00-5.00
Series 2017	369,465	—	—	369,465	2020-2039	5.00
Subtotal	4,139,593	—	130,761	4,008,832		
Less: current maturities	(130,761)			(126,057)		
Total long-term debt	$ 4,008,832			3,882,775		

The UDSA's long-term debt as of December 31, 2018 consisted of the following:

	Beginning balance	Additions	Maturities	Ending balance	Years of Maturity	Interest Rate (%)
Restructuring bonds:						
Series 2013T	$ 469,786	—	46,433	423,353	2019-2023	2.04-3.44
Series 2013TE	1,374,390	—	—	1,374,390	2023-2039	5.00
Series 2015	1,002,115	—	—	1,002,115	2021-2035	3.00-5.00
Series 2016A	636,770	—	—	636,770	2023-2033	5.00
Series 2016B	409,870	—	76,370	333,500	2020-2033	4.00-5.00
Series 2017	369,465	—	—	369,465	2020-2039	5.00
Subtotal	4,262,396	—	122,803	4,139,593		
Less: current maturities	(122,803)			(130,761)		
Total long-term debt	$ 4,139,593			4,008,832		

(Amounts in thousands, unless otherwise stated)

The debt service requirements for the UDSA's bonds as of December 31, 2019 are as follows:

Due		Principal	Interest	Annual Debt Service Requirements
2020		126,057	192,973	319,030
2021		179,419	187,969	367,388
2022		177,511	180,037	357,548
2023		231,660	171,270	402,930
2024		207,285	160,844	368,129
2025–2029		1,002,685	652,469	1,655,154
2030–2034		1,177,790	370,689	1,548,479
2035–2039		906,425	133,000	1,039,425
Total	$	4,008,832	2,049,251	6,058,083

(4) Significant Agreements and Related-Party Transactions

LIPA 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, LIPA, 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 LIPA'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. LIPA 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 mid-year review process to be necessary, semi-annually 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 2019 and 2018, the UDSA reset its Restructuring Charge on all its Restructuring Bonds semi-annually, as provided by the Servicing Agreements.

Under the Financing Orders, LIPA 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, 2020 through March 23, 2020, 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.

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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*

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), a component unit of the Long Island Power Authority, as of and for the year ended December 31, 2019, and the related notes to the basic financial statements, and have issued our report thereon dated March 23, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the basic financial statements, 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 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 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 basic 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*.

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 UDSA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Melville, New York
March 23, 2020