

UTILITY DEBT SECURITIZATION AUTHORITY

(A Component Unit of the Long Island Power Authority)

Basic Financial Statements

And Required Supplementary Information

December 31, 2020 and 2019

(With Independent Auditors' Reports Thereon)

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

Table of Contents

	Page
Independent Auditors' Report	1
Management's Discussion and Analysis (Unaudited)	3
Basic Financial Statements:	
Statements of Net Position	9
Statements of Revenues, Expenses, and Changes in Net Position	10
Statements of Cash Flows	11
Notes to Basic Financial Statements	12
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	20



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, 2020 and 2019, 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, 2020 and 2019, 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 26, 2021 on our consideration of USDA'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 effectiveness of 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 USDA's internal control over financial reporting and compliance.

KPMG LLP

Melville, New York
March 26, 2021

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

Management's Discussion and Analysis
(Unaudited)

December 31, 2020 and 2019

Overview of the Financial Statements

The annual financial report for the Utility Debt Securitization Authority (UDSA) includes management's discussion and analysis and the Basic Financial Statements. The Basic Financial Statements consist of the Statements of Net Position, the Statements of Revenue, Expenses, and Changes in Net Position, and the Statements of Cash Flows.

The Statements of Net Position provide information about the nature and amount of resources and obligations at a specific point in time.

The Statements of Revenues, Expenses, and Changes in Net Position report all of UDSA's revenues and expenses for the periods shown.

The Statements of Cash Flows report the cash provided and used by operating activities, as well as other cash sources, such as investment income, and other cash uses such as payments for debt service.

The management's discussion and analysis of the financial performance of UDSA provides an overview for the years ended December 31, 2020 and 2019, with comparative information as of and for the year ended December 31, 2018. The management's discussion and analysis should be read in conjunction with the Basic Financial Statements and the accompanying notes (Notes), which follow this section. The Notes are an integral part of UDSA's Basic Financial Statements and 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).

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

Management's Discussion and Analysis
(Unaudited)

December 31, 2020 and 2019

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. 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%

During 2020, LIPA proposed a change to the UDSA legislation that would permit the issuance of additional securitized bonds. These additional securitization bonds, under current interest rate conditions, could provide several hundred million dollars of present value debt service savings for LIPA customers.

The proposed legislation would also authorize the issuance of securitized bonds to fund LIPA transmission and distribution system resiliency investments. These investments will improve the electric grid's ability to withstand severe weather events. Funding these investments from UDSA bonds would provide a lower cost to customers than issuing LIPA bonds for the same purpose.

The Governor included this legislation in his executive budget proposal, which was presented to the Legislature in January. It is currently being considered by the New York State Senate and Assembly as part of their deliberations. The New York State budget is due by April 1, 2021; however, there can be no assurances legislation will be approved.

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

Management's Discussion and Analysis
(Unaudited)

December 31, 2020 and 2019

Financial Condition Overview

The UDSA's Statements of Net Position as of December 31, 2020, 2019, and 2018 are summarized below:

(Amounts in thousands)

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Assets			
Current assets	\$ 181,819	154,162	173,837
Non-current assets	<u>4,183,706</u>	<u>4,351,860</u>	<u>4,523,469</u>
Total assets	<u><u>4,365,525</u></u>	<u><u>4,506,022</u></u>	<u><u>4,697,306</u></u>
Liabilities and Net Position			
Current liabilities	188,054	134,426	139,500
Non-current liabilities	<u>4,061,650</u>	<u>4,286,774</u>	<u>4,457,610</u>
Total liabilities	4,249,704	4,421,200	4,597,110
Net position-restricted	<u>115,821</u>	<u>84,822</u>	<u>100,196</u>
Total liabilities and net position	<u><u>\$ 4,365,525</u></u>	<u><u>4,506,022</u></u>	<u><u>4,697,306</u></u>

2020 Compared to 2019

The changes in the UDSA's financial condition as of December 31, 2020 and 2019 were as follows:

Current assets increased by \$28 million compared to 2019 due to higher cash and investment balances of \$20 million and higher accounts receivable balances of \$8 million.

Non-current assets decreased by \$168 million compared to 2019 due to the scheduled amortization of the Restructuring Property.

Current liabilities increased by \$54 million compared to 2019 due to higher scheduled current maturities of long-term debt.

Non-current liabilities decreased by \$225 million compared to 2019 due to \$179 million in scheduled current maturities of long-term debt and amortization of debt premium of \$46 million.

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

Management's Discussion and Analysis
(Unaudited)

December 31, 2020 and 2019

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.

Results of Operations

The UDSA's Statements of Revenues, Expenses, and Changes in Net Position for the years ended December 31, 2020, 2019 and 2018 are summarized as follows:

(Amounts in thousands)

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Operating revenues	\$ 348,867	307,400	336,350
Operating expenses	<u>169,091</u>	<u>172,457</u>	<u>173,379</u>
Operating income	179,776	134,943	162,971
Interest charges and credits	(149,552)	(154,129)	(157,161)
Other income	<u>775</u>	<u>3,812</u>	<u>2,952</u>
Change in net position	30,999	(15,374)	8,762
Restricted net position, beginning of year	<u>84,822</u>	<u>100,196</u>	<u>91,434</u>
Restricted net position, end of year	<u>\$ 115,821</u>	<u>84,822</u>	<u>100,196</u>

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

Management's Discussion and Analysis
(Unaudited)

December 31, 2020 and 2019

2020 Compared to 2019

Revenues increased by \$41 million compared to 2019 due to an increase in restructuring charge rates. Any excess recoveries resulting from the 2020 charges will be applied to the rate resets for 2021.

Operating expenses decreased by \$3 million compared to 2019 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.

Other income decreased by \$3 million compared to 2019 due to lower investment income due to lower interest rates on the UDSA cash balances.

Interest charges and credits decreased by \$5 million compared to 2019 due to lower debt outstanding.

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.

Cash and Liquidity

Included in current assets are the UDSA's restricted cash accounts totaling approximately \$129 million, \$109 million, and \$125 million as of December 31, 2020, 2019, and 2018, respectively. The higher balance in 2020 compared to 2019 is due to an increase restructuring charges. 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):

	<u>Moody's</u>	<u>S&P</u>	<u>Fitch</u>
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)

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

Management's Discussion and Analysis
(Unaudited)

December 31, 2020 and 2019

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, 2020 and 2019
(Amounts in thousands)

	2020	2019
Assets		
Current assets:		
Restricted cash and cash equivalents	\$ 128,833	109,049
Accounts receivable (net of uncollectible accounts of \$243 and \$130, respectively)	52,725	44,863
Prepaid assets	261	250
Total current assets	181,819	154,162
Non-current assets:		
Restructuring property (net of accumulated amortization)	4,165,967	4,331,947
Regulatory asset - unamortized debt issuance costs	17,739	19,913
Total non-current assets	4,183,706	4,351,860
Total assets	\$ 4,365,525	4,506,022
Liabilities and Net Position		
Current liabilities:		
Current maturities of long-term debt	\$ 179,419	126,057
Accrued interest	7,913	8,082
Accrued expenses	722	287
Total current liabilities	188,054	134,426
Non-current liabilities:		
Long-term debt	3,703,356	3,882,775
Unamortized premium of long-term debt	358,294	403,999
Total non-current liabilities	4,061,650	4,286,774
Net position - restricted	115,821	84,822
Total liabilities and net position	\$ 4,365,525	4,506,022

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, 2020 and 2019

(Amounts in thousands)

	2020	2019
Operating revenue, (net of uncollectible expense)	\$ 348,867	307,400
Operating expenses:		
Amortization of restructuring property	165,980	169,341
Servicing, administrative and other fees	3,111	3,116
Total operating expenses	169,091	172,457
Operating income	179,776	134,943
Other income	775	3,812
	180,551	138,755
Interest charges:		
Interest expense	192,803	196,248
Bond administrative costs	280	392
Amortization of restructuring bond premium and issuance costs	(43,531)	(42,511)
Total interest charges	149,552	154,129
Change in net position	30,999	(15,374)
Net position, beginning of year	84,822	100,196
Net position, end of year	\$ 115,821	84,822

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, 2020 and 2019

(Amounts in thousands)

	2020	2019
Cash flows from operating activities:		
Operating revenues received	\$ 341,007	311,069
General and administrative expenditures	(2,703)	(2,897)
Net cash provided by operating activities	338,304	308,172
Cash flows from investing activities:		
Earnings received	775	3,812
Net cash provided by investing activities	775	3,812
Cash flows from financing activities:		
Interest paid	(192,972)	(196,379)
Redemption of long-term debt	(126,057)	(130,761)
Bond administrative costs	(266)	(392)
Net cash used in financing activities	(319,295)	(327,532)
Net increase (decrease) in restricted cash and cash equivalents	19,784	(15,548)
Restricted cash and cash equivalents, beginning of year	109,049	124,597
Restricted cash and cash equivalents, end of year	\$ 128,833	109,049
Reconciliation of operating income to net restricted cash provided by operating activities:		
Operating income	\$ 179,776	134,943
Adjustments to reconcile operating income to net restricted cash provided by operating activities:		
Amortization of restructuring property	165,980	169,341
Changes in operating assets and liabilities:		
Prepaid assets and accrued expenses	410	(267)
Accounts receivable	(7,862)	4,155
Net restricted cash provided by operating activities	\$ 338,304	308,172

See accompanying notes to financial statements.

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

Notes to Basic Financial Statements

December 31, 2020 and 2019

(Amounts in thousands, unless otherwise stated)

(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 allows 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, 2020 and 2019.

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.

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

Notes to Basic Financial Statements

December 31, 2020 and 2019

(Amounts in thousands, unless otherwise stated)

(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 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.

(e) Accounts Receivable

The UDSA accounts receivable includes amounts due from the customers served by LIPA 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 \$20 million and \$17 million as of December 31, 2020 and 2019, 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.

(f) 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.

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

Notes to Basic Financial Statements

December 31, 2020 and 2019

(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:

<u>Financing Order</u>	<u>Date Issued</u>	<u>Initial Amount Issued</u>	<u>Restructuring Charge Rate Effective Date</u>
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 an amount equal to 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.

(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.

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

Notes to Basic Financial Statements

December 31, 2020 and 2019

(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	2020	2019
Restructuring Bonds Series 2013	\$ 10,176	10,125
Restructuring Bonds Series 2015	20,171	20,069
Restructuring Bonds Series 2016A	12,843	12,778
Restructuring Bonds Series 2016B	7,396	7,359
Restructuring Bonds Series 2017	7,437	7,399
	<u>\$ 58,023</u>	<u>57,730</u>

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%).

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

Notes to Basic Financial Statements

December 31, 2020 and 2019

(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, 2020 and 2019:

Deposit/investment type	2020 Fair value	Percent of portfolio	2019 Fair value	Percent of portfolio
Money-market mutual fund	\$ 128,833	100%	109,049	100%
Total	<u>\$ 128,833</u>	<u>100%</u>	<u>109,049</u>	<u>100%</u>

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

(3) Long-Term Debt

The Financing Orders adopted by 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.

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

Notes to Basic Financial Statements

December 31, 2020 and 2019

(Amounts in thousands, unless otherwise stated)

The UDSA's long-term debt as of December 31, 2020 consisted of the following:

	<u>Beginning balance</u>	<u>Maturities</u>	<u>Ending balance</u>	<u>Years of Maturity</u>	<u>Interest Rate (%)</u>
Restructuring bonds:					
Series 2013T	\$ 292,592	106,392	186,200	2021-2023	2.94-3.44
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	16,230	317,270	2021-2033	4.00-5.00
Series 2017	369,465	3,435	366,030	2021-2039	5.00
Subtotal	<u>4,008,832</u>	<u>126,057</u>	<u>3,882,775</u>		
Less: current maturities	<u>(126,057)</u>		<u>(179,419)</u>		
Total long-term debt	<u>\$ 3,882,775</u>		<u>3,703,356</u>		

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

	<u>Beginning balance</u>	<u>Maturities</u>	<u>Ending balance</u>	<u>Years of Maturity</u>	<u>Interest Rate (%)</u>
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	<u>4,139,593</u>	<u>130,761</u>	<u>4,008,832</u>		
Less: current maturities	<u>(130,761)</u>		<u>(126,057)</u>		
Total long-term debt	<u>\$ 4,008,832</u>		<u>3,882,775</u>		

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

Notes to Basic Financial Statements

December 31, 2020 and 2019

(Amounts in thousands, unless otherwise stated)

The debt service requirements for the UDSA's bonds as of December 31, 2020 are as follows:

<u>Due</u>	<u>Principal</u>	<u>Interest</u>	<u>Annual Debt Service Requirements</u>
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	219,785	150,325	370,110
2026–2030	1,044,935	601,920	1,646,855
2031–2035	1,082,170	313,679	1,395,849
2036–2039	740,010	90,234	830,244
Total	<u>\$ 3,882,775</u>	<u>1,856,278</u>	<u>5,739,053</u>

The UDSA has approximately \$2.9 billion of Restructuring Bonds that become callable from 2023 through 2027.

(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 2020 and 2019, 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.

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

Notes to Basic Financial Statements

December 31, 2020 and 2019

(Amounts in thousands, unless otherwise stated)

(5) Subsequent Events

During 2020, LIPA proposed a change to the UDSA legislation that would permit the issuance of additional securitized bonds. These additional securitization bonds could provide present value debt service savings for LIPA customers. The proposed legislation would also authorize the issuance of securitized bonds to fund LIPA transmission and distribution system resiliency investments.

The Governor included this legislation in his executive budget proposal, which was presented to the Legislature in January. It is currently being considered by the New York State Senate and Assembly as part of their deliberations. The New York State budget is due by April 1, 2021; however, there can be no assurances legislation will be approved.



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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, 2020, and the related notes to the basic financial statements, and have issued our report thereon dated March 26, 2021.

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) as a basis for designing 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 basic financial statements. 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 USDA's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering USDA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Melville, New York
March 26, 2021