UTILITY DEBT SECURITIZATION AUTHORITY

(A Component Unit of the Long Island Power Authority)

Basic Financial Statements

And Required Supplementary Information

December 31, 2021 and 2020

(With Independent Auditors' Reports Thereon)

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

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Independent Auditors' Report

Board of Trustees
Utility Debt Securitization Authority:

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the business-type activities of the Utility Debt Securitization Authority (UDSA), a component unit of the Long Island Power Authority, as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the UDSA's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the UDSA, as of December 31, 2021 and 2020, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the UDSA, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the UDSA's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 UDSA's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the UDSA's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

U.S. generally accepted accounting principles require that the *management's discussion and analysis* on pages 4 through 8 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 audit 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 28, 2022 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 effectiveness of the UDSA's 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

Melville, New York
March 28, 2022

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, 2021 and 2020, with comparative information as of and for the year ended December 31, 2019. 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 U.S. generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

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 permitted 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 $4.5 billion (inclusive of any previously issued Restructuring Bonds).

On August 2, 2021, changes to the UDSA legislation were authorized and signed into law to permit the issuance of additional securitized bonds for refinancing, and to fund LIPA transmission and distribution system resiliency investments. Such investments will improve the electric grid's ability to withstand severe weather events. Funding from UDSA bonds provides a lower cost to customers than issuing LIPA bonds for the same purpose. With these legislative changes the UDSA may issue up to $8.0 billion of securitized bonds (inclusive of the bonds already issued). There were no additional securitized bonds issued in 2021 as a result of the changes to the UDSA legislation.

UDSA 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 as follows:

(Amounts in thousands)

		Order No. 1	Order No. 2	Order No. 3	Order No. 4	Order No. 5
		2013 Restructuring Bonds	2015 Restructuring Bonds	2016A Restructuring Bonds	2016B Restructuring Bonds	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, 2021, 2020, and 2019 are summarized below:

(Amounts in thousands)

		2021	2020	2019
Assets				
Current assets	$	165,917	181,819	154,162
Non-current assets		3,946,865	4,183,706	4,351,860
Total assets		4,112,782	4,365,525	4,506,022
Liabilities and Net Position				
Current liabilities		186,125	188,054	134,426
Non-current liabilities		3,839,019	4,061,650	4,286,774
Total liabilities		4,025,144	4,249,704	4,421,200
Net position-restricted		87,638	115,821	84,822
Total liabilities and net position	$	4,112,782	4,365,525	4,506,022

2021 Compared to 2020

The changes in the UDSA's financial condition as of December 31, 2021 and 2020 were as follows:

Current assets decreased by $16 million compared to 2020 due to lower cash and cash equivalents.

Non-current assets decreased by $237 million compared to 2020 due to the scheduled amortization of the Restructuring Property.

Current liabilities decreased by $2 million compared to 2020 due to lower scheduled current maturities of long-term debt.

Non-current liabilities decreased by $223 million compared to 2020 due to $178 million in scheduled current maturities of long-term debt and amortization of debt premium of $45 million.

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 cash equivalents 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.

Results of Operations

The UDSA's Statements of Revenues, Expenses, and Changes in Net Position for the years ended December 31, 2021, 2020 and 2019 are summarized as follows:

(Amounts in thousands)

		2021	2020	2019
Operating revenues, net	$	354,409	348,867	307,400
Operating expenses		237,942	169,091	172,457
Operating income		116,467	179,776	134,943
Interest charges and credits, net		(144,689)	(149,552)	(154,129)
Other income		39	775	3,812
Change in net position		(28,183)	30,999	(15,374)
Restricted net position – beginning of year		115,821	84,822	100,196
Restricted net position – end of year	$	87,638	115,821	84,822

2021 Compared to 2020

Operating revenues, net of uncollectible expense, increased by $6 million compared to 2020 due to an increase in restructuring charge rates. Any excess recoveries resulting from the 2021 charges are applied to the rate resets for 2022.

Operating expenses increased by $69 million compared to 2020 due to 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 decreased by $5 million compared to 2020 due to lower debt outstanding.

2020 Compared to 2019

Operating revenues, net of uncollectible expense, increased by $41 million compared to 2019 due to an increase in restructuring charge rates. Any excess recoveries resulting from the 2020 charges were 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 interest rates earned on the UDSA cash balances.

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

Cash and Liquidity

Included in current assets are the UDSA's restricted cash accounts totaling approximately $112 million, $129 million, and $109 million as of December 31, 2021, 2020, and 2019, respectively. The lower balance in 2021 compared to 2020 is due to the higher redemptions of bonds outstanding required in 2021. The higher balance in 2020 compared to 2019 was due to increased restructuring charges.

Bond Ratings

The UDSA bonds are rated Aaa (sf) by Moody's and AAA (sf) by S&P and Fitch for the years ended December 31, 2021, 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, 2021 and 2020

(Amounts in thousands)

		2021	2020
Assets			
Current assets:			
Restricted cash and cash equivalents	$	111,694	128,833
Accounts receivable (net of uncollectible accounts of $75 and $243, respectively)		53,946	52,725
Prepaid assets		277	261
Total current assets		165,917	181,819
Non-current assets:			
Restructuring property (net of accumulated amortization)		3,931,161	4,165,967
Regulatory asset - unamortized debt issuance costs		15,704	17,739
Total non-current assets		3,946,865	4,183,706
Total assets	$	4,112,782	4,365,525
Liabilities and Net Position			
Current liabilities:			
Current maturities of long-term debt	$	177,511	179,419
Accrued interest		7,586	7,913
Accrued expenses		1,028	722
Total current liabilities		186,125	188,054
Non-current liabilities:			
Long-term debt		3,525,845	3,703,356
Unamortized premium of long-term debt		313,174	358,294
Total non-current liabilities		3,839,019	4,061,650
Total liabilities		4,025,144	4,249,704
Net position - restricted		87,638	115,821
Total liabilities and net position	$	4,112,782	4,365,525

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, 2021 and 2020

(Amounts in thousands)

		2021	2020
Operating revenue, net of uncollectible expense	$	354,409	348,867
Amortization of restructuring property		234,806	165,980
Servicing, administrative and other fees		3,136	3,111
Total operating expenses		237,942	169,091
Operating income		116,467	179,776
Other income		39	775
		116,506	180,551
Interest charges and (credits):			
Interest on debt		187,643	192,803
Other interest		130	280
Other interest amortizations		(43,084)	(43,531)
Total interest charges and (credits), net		144,689	149,552
Change in net position		(28,183)	30,999
Net position, beginning of year		115,821	84,822
Net position, end of year	$	87,638	115,821

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, 2021 and 2020

(Amounts in thousands)

		2021	2020
Cash flows from operating activities:			
Operating revenues received	$	353,187	341,007
General and administrative expenditures		(2,847)	(2,703)
Net cash provided by operating activities		350,340	338,304
Cash flows from investing activities:			
Earnings received		39	775
Net cash provided by investing activities		39	775
Cash flows from financing activities:			
Interest paid		(187,969)	(192,972)
Redemption of long-term debt		(179,419)	(126,057)
Bond administrative costs		(130)	(266)
Net cash used in financing activities		(367,518)	(319,295)
Net (decrease) increase in restricted cash and cash equivalents		(17,139)	19,784
Restricted cash and cash equivalents, beginning of year		128,833	109,049
Restricted cash and cash equivalents, end of year	$	111,694	128,833

Reconciliation of operating income to net restricted cash provided by operating activities:			
Operating income	$	116,467	179,776
Adjustments to reconcile operating income to net restricted cash provided by operating activities:			
Amortization of restructuring property		234,806	165,980
Changes in operating assets and liabilities:			
Prepaid assets and accrued expenses		288	410
Accounts receivable		(1,221)	(7,862)
Net restricted cash provided by operating activities	$	350,340	338,304

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 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).

On August 2, 2021, changes to the UDSA legislation were authorized and signed into law to permit the issuance of additional securitized bonds for refinancing, and to fund LIPA transmission and distribution system resiliency investments. With these legislative changes the UDSA may issue up to $8.0 billion of securitized bonds (inclusive of the bonds already issued). There were no additional securitized bonds issued in 2021 as a result of the changes to the UDSA legislation.

(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 accordance with U.S. generally accepted accounting principles (GAAP) 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, 2021 and 2020.

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 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) Accounting for the Effects of Rate Regulation

The UDSA is subject to the provisions of GASB Codification Section RE10, *Regulated Operations*, which 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 Section RE10, *Regulated Operations*, to be collected over the life of the debt issuance to which they relate.

(e) Accounts Receivable

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.

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 $18 million and $20 million as of December 31, 2021 and 2020, respectively.

(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.

(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	

* See note 3 for details on current outstanding balances.

(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.

(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		2021	2020
	$		
Restructuring Bonds, Series 2013		10,112	10,176
Restructuring Bonds, Series 2015		19,948	20,171
Restructuring Bonds, Series 2016A		12,737	12,843
Restructuring Bonds, Series 2016B		6,569	7,396
Restructuring Bonds, Series 2017		7,224	7,437
	$	56,590	58,023

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.

(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, 2021 and 2020:

Deposit/investment type		2021 Fair value	Percent of portfolio	2020 Fair value	Percent of portfolio
Money-market mutual fund	$	111,694	100%	128,833	100%
Total	$	111,694	100%	128,833	100%

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.

(Amounts in thousands, unless otherwise stated)

The UDSA's long-term debt as of December 31, 2021 consisted of the following:

		Beginning balance	Maturities	Ending balance	Years of Maturity	Interest Rate (%)
Restructuring bonds:						
Series 2013T	$	186,200	71,559	114,641	2022-2023	3.44
Series 2013TE		1,374,390	—	1,374,390	2023-2039	5.00
Series 2015		1,002,115	13,020	989,095	2022-2035	3.00-5.00
Series 2016A		636,770	—	636,770	2023-2033	5.00
Series 2016B		317,270	72,595	244,675	2022-2033	4.00-5.00
Series 2017		366,030	22,245	343,785	2022-2039	5.00
Subtotal		3,882,775	179,419	3,703,356		
Less: current maturities		(179,419)		(177,511)		
Total long-term debt	$	3,703,356		3,525,845		

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

		Beginning balance	Maturities	Ending balance	Years of Maturity	Interest Rate (%)
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		4,008,832	126,057	3,882,775		
Less: current maturities		(126,057)		(179,419)		
Total long-term debt	$	3,882,775		3,703,356		

(Amounts in thousands, unless otherwise stated)

The debt service requirements for the UDSA's bonds as of December 31, 2021 are as follows:

Due		Principal	Interest	Annual Debt Service Requirements
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		170,695	139,942	310,637
2027–2031		1,144,130	549,155	1,693,285
2032–2036		969,425	261,563	1,230,988
2037–2039		582,865	55,173	638,038
Total	$	3,703,356	1,668,309	5,371,665

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 2021 and 2020, 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

Subsequent events for UDSA have been evaluated through March 28, 2022, which is the date that the financial statements were available to be issued.

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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 financial statements of the business-type activities 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, 2021, and the related notes to the financial statements, which collectively comprise UDSA*'s* basic financial statements, and have issued our report thereon dated March 28, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the basic financial statements, we considered the 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 opinion 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 the 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 UDSA'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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 the 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

Melville, New York
March 28, 2022