

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

Quarterly Unaudited Financial Report

For the nine month period ended September 30, 2016

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Introduction

The Utility Debt Securitization Authority (UDSA) was created by Part B of Chapter 173, Laws of New York, 2013 (as amended by Chapter 58 of the Laws of New York, 2015, the “Securitization Law”). The Securitization Law allowed for the retirement of certain outstanding indebtedness of the Long Island Power Authority (Authority) through the issuance of securitized restructuring bonds (Restructuring Bonds) by the UDSA.

Overview of the Financial Statements

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

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

UTILITY DEBT SECURITIZATION AUTHORITY
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Statements of Net Position

(Amounts in thousands)

	September 30, 2016 (unaudited)	December 31, 2015 (audited)
Assets		
Current assets:		
Restricted cash and cash equivalents	\$ 123,730	33,518
Accounts receivable	61,401	17,201
Prepaid assets	30	322
Total current assets	185,161	51,041
Noncurrent assets:		
Restructuring property	4,394,365	3,155,559
Regulatory asset - unamortized debt issuance costs	24,909	19,012
Total noncurrent assets	4,419,274	3,174,571
Total assets	\$ 4,604,435	3,225,612
Liabilities and Net Position		
Current liabilities:		
Current maturities of long-term debt	\$ 62,790	60,000
Accrued interest	56,071	12,257
Accrued expenses	1,736	431
Total current liabilities	120,597	72,688
Noncurrent liabilities:		
Long-term debt, including unamortized premium	4,411,271	3,127,322
Net position - restricted	72,567	25,602
Total liabilities and net position	\$ 4,604,435	3,225,612

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

	Nine months ended	
	September 30,	
	2016	2015
	<u> </u>	<u> </u>
Operating revenue	\$ 217,211	50,178
Operating expenses:		
Amortization of restructuring property	69,629	11,754
Uncollectible expense	1,129	396
Servicing, administrative and other fees	1,969	1,174
Total operating expenses	<u>72,727</u>	<u>13,324</u>
Operating income	<u>144,484</u>	<u>36,854</u>
Other income	127	26
	<u>144,611</u>	<u>36,880</u>
Interest charges:		
Interest expense	117,551	64,714
Other interest expense	209	1
Amortization of restructuring bond premium and issuance costs	(20,114)	(6,259)
Total interest charges	<u>97,646</u>	<u>58,456</u>
Change in net position	<u>46,965</u>	<u>(21,576)</u>
Net position, beginning of year	<u>25,602</u>	<u>55,260</u>
Net position, end of period	<u>\$ 72,567</u>	<u>33,684</u>

UTILITY DEBT SECURITIZATION AUTHORITY
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Statements of Cash Flows

(unaudited)

(Amounts in thousands)

	Nine months ended September 30,	
	2016	2015
Cash flows from operating activities:		
Operating revenues received	\$ 171,882	72,030
Paid to suppliers:		
Servicing and Administrative Fees	(480)	—
Net cash provided by operating activities	<u>171,402</u>	<u>72,030</u>
Cash flows from investing activities:		
Restructuring property	(1,308,434)	—
Earnings received	127	26
Net cash (used in) provided by investing activities	<u>(1,308,307)</u>	<u>26</u>
Cash flows from financing activities:		
Proceeds from issuance of restructuring bonds	1,338,384	—
Interest paid	(73,738)	(43,143)
Redemption of long-term debt	(30,000)	—
Bond issuance and bond administration costs	(7,529)	—
Net cash provided by (used in) financing activities	<u>1,227,117</u>	<u>(43,143)</u>
Net increase in restricted cash and cash equivalents	90,212	28,913
Restricted cash and cash equivalents, beginning of year	33,518	22,483
Restricted cash and cash equivalents, end of period	<u>\$ 123,730</u>	<u>51,396</u>
Reconciliation to net restricted cash provided by operating activities:		
Operating income	\$ 144,484	36,854
Adjustments to reconcile operating income to net restricted cash provided by operating activities:		
Amortization of restructuring property	69,629	11,754
Changes in operating assets and liabilities:		
Prepaid assets and accrued expenses	1,489	1,174
Accounts receivable	(44,200)	22,248
Net restricted cash provided by operating activities	<u>\$ 171,402</u>	<u>72,030</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Nine Month Period ended September 30, 2016 Compared to 2015

The UDSA result for the nine months ended September 30, 2016 was \$69 million more favorable than the nine month period of 2015.

Operating revenue increased \$167 million compared to 2015. The primary drivers were changes in the restructuring charges and the issuance of additional restructuring bonds. The restructuring charge on the 2013 bonds increased, effective January 1, 2016, to provide for the higher debt service requirements in 2016. Also effective January 1, 2016, a new charge was added for the \$1.0 billion Restructuring Property issued in October 2015. Additional charges were also added for the \$766 million Restructuring Property issued on April 7, 2016, and the \$543 million Restructuring Property issued on September 8, 2016.

Operating expenses increased \$59 million compared to 2015 primarily due to the increase in the amortization of the Restructuring Property. The UDSA recognizes the amortization of the Restructuring Property on a proportionate basis annually based upon the total principal payments due and premiums outstanding on its restructuring bonds. Scheduled debt maturities in 2016 are higher by \$45 million compared to 2015.

Interest charges increased \$39 million compared to 2015 due to the higher outstanding debt balances in 2016 compared to 2015.