



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

Basic Financial Statements

December 31, 2013

(With Independent Auditors' Report Thereon)

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

**Table of Contents**

	<b>Page</b>
<b>Section 1</b>	
Independent Auditors' Report	1
Management's Discussion and Analysis (Unaudited)	3
Basic Financial Statements:	
Statement of Net Position	8
Statement of Revenues, Expenses, and Changes in Net Position	9
Statement of Cash Flows	10
Notes to Basic Financial Statements	11
<b>Section 2</b>	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government</i> <i>Auditing Standards</i>	16



KPMG LLP  
345 Park Avenue  
New York, NY 10154-0102

## Independent Auditors' Report

The 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 (the UDSA), a component unit of the Long Island Power Authority and the State of New York, which comprise the statement of net position as of December 31, 2013, and the related statement of revenues, expenses, and changes in net position, and cash flows for the period 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 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 audit. We conducted our audit in accordance with 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. 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 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 financial position of the Utility Debt Securitization Authority as of December 31, 2013, and the changes in its net position and its cash flows for the period then ended in accordance with U.S. generally accepted accounting principles.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued a report dated March 27, 2014, 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 to describe the scope and of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the UDSA's internal control over financial reporting and compliance.

### **Other Matters**

#### *Required Supplementary Information*

U.S. generally accepted accounting principles require that Management's Discussion and Analysis, as listed in the table of contents, 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 regarding 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.

**KPMG LLP**

New York, New York  
March 27, 2014

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

Management's Discussion and Analysis

(unaudited)

December 31, 2013

**Overview of the Financial Statements**

This report consists of three parts: management's discussion and analysis (unaudited), the basic financial statements, and the notes to the financial statements, covering the period from inception July 29, 2013 through December 31, 2013.

The financial statements provide summary information about the overall financial condition of the Utility Debt Securitization Authority (UDSA). The notes provide explanation and more details about the contents of the financial statements.

UDSA is considered a special-purpose government entity engaged in business-type activities and follows financial reporting for enterprise funds. UDSA's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

***Management's Discussion and Analysis (Unaudited)***

The management's discussion and analysis of UDSA's financial performance provides an overview of UDSA's financial information for the period of inception through December 31, 2013. The discussion and analysis should be read in conjunction with the financial statements and accompanying notes, which follow this section. UDSA's basic financial statements are presented as an enterprise fund following the accrual basis of accounting. Revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred.

UDSA is subject to the provisions of GASB No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB No. 62 addresses accounting rules for regulated operations. This statement recognizes the economic impact of regulation, through the ratemaking process, to create future economic benefits and obligations affecting rate-regulated companies. Accordingly, UDSA records these future economic benefits and obligations as regulatory assets and regulatory liabilities, respectively.

**Nature of Operations**

UDSA was created as a result of New York State legislation, signed into law on July 29, 2013, referred to as the LIPA Reform Act (the Reform Act) Part B of the Reform Act (referred to as 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 UDSA. The Authority is the owner of the transmission and distribution system located in the New York State Counties of Nassau and Suffolk (with certain limited exceptions) and a small portion of Queens County known as the Rockaways (Service Area) and is responsible for facilitating the supply of electricity to customers within the Service Area.

UDSA is a special purpose corporate municipal instrumentality of the State of New York. UDSA has no commercial operations and is prohibited from engaging in any other activity except as specifically authorized by the Financing Order described below, and the Reform Act provides that UDSA is not authorized to be a debtor under any provision of the Bankruptcy Code. Under the Reform Act, the Restructuring Bonds are the only bonds

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

Management's Discussion and Analysis

(unaudited)

December 31, 2013

which may be issued by UDSA. UDSA was formed solely to issue the Restructuring Bonds for the purpose of purchasing restructuring property to finance the cost of purchasing, redeeming, or defeasing a portion of the outstanding debt of the Authority. The Restructuring Property is defined as the right, title, and interest: (a) in and to rates and charges to recover from 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 pursuant to the terms of the restructuring cost financing order adopted by the Authority's Board of Trustees (Board) on October 3, 2013. This nonbypassable consumption-based Restructuring Charge will be billed to all existing and future retail electric customers taking electric transmission or distribution service within the Service Area from the Authority or any of its successors or assignees. The Restructuring Charge is established by UDSA and is not subject to oversight by the Department of Public Service or any other regulatory body, including the Authority's Board. To pass the benefits of securitization to customers, the Authority has modified its rate structure to create a restructuring offset charge, which is an amount equal to and opposite the Restructuring Charge, so that the customer bill is no more than it would have been absent securitization. The securitization offset charge will be adjusted along with changes to the Restructuring Charge.

On December 18, 2013, UDSA issued \$1.54 billion Restructuring Bonds Series 2013TE (Federally Tax Exempt) and \$482.9 million Restructuring Bonds Series 2013T (Federally Taxable) and used the net proceeds to purchase the Restructuring Property from the Authority and pay expenses of issuance.

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

Management's Discussion and Analysis

(unaudited)

December 31, 2013

Below is summary-level information on UDSA's financial position:

**Summary of Statement of Net Position**

(Amounts in thousands)

**December 31, 2013**

**Assets**

Current assets:					
Restricted cash				\$	10,513
Noncurrent assets:					
Restructuring property					2,112,990
Regulatory asset – unamortized debt issuance costs					15,095
					<u>2,128,085</u>
Total noncurrent assets					<u>2,128,085</u>
Total assets				\$	<u><u>2,138,598</u></u>

**Liabilities and Net Position**

Current liabilities				\$	93,173
Long-term debt					<u>2,048,196</u>
					2,141,369
Total liabilities					2,141,369
Net position – unrestricted					<u>(2,771)</u>
Total liabilities and net position				\$	<u><u>2,138,598</u></u>

**Inception  
through  
December 31,  
2013**

Operating revenue				\$	—
Operating expenses:					
Interest expense					3,173
Amortization of restructuring bond premium and issuance costs					<u>(402)</u>
Total operating expenses					<u>2,771</u>
Change in net position					(2,771)
Net position – beginning of year					<u>—</u>
Net position – end of year				\$	<u><u>(2,771)</u></u>

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

Management's Discussion and Analysis

(unaudited)

December 31, 2013

**Change in Net Position**

The change in net position for the period of inception through December 31, 2013 resulted in a loss of \$3 million as UDSA issued the Restructuring Bonds on December 18, 2013 and the Authority is not imposing the Restructuring Charge on customer bills until March 1, 2014.

**Operating Revenues**

UDSA had no operating revenues for 2013 as the Restructuring Charge will not be imposed on the Authority's customer bills until March 1, 2014.

**Interest Charges and Credits**

Interest charges and credits for the period December 18, 2013 through December 31, 2013 includes 13 days of interest and amortization of both upfront financing costs and premium recognized on the issuance of debt, which occurred on December 18, 2013.

**Cash and Liquidity**

The balance in the Reserve Subaccount was established at a reserve level of 0.5% of the initial principal amount of the Restructuring Bonds originally issued and must be maintained at a level of 0.5% of the Restructuring Bonds outstanding. UDSA's restricted cash totaled approximately \$10.5 million at December 31, 2013.

**Debt**

UDSA issued the following debt (amounts in thousands):

<u>UDSA Restructuring Bonds</u>	<u>2013</u>
Series 2013 Taxable (T)	\$ 482,934
Series 2013 Tax Exempt (TE)	<u>1,539,390</u>
Total debt	2,022,324
Unamortized premium	115,872
Less current maturities	<u>90,000</u>
Total long-term debt	<u><u>\$ 2,048,196</u></u>

**UTILITY DEBT SECURITIZATION AUTHORITY**  
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Management's Discussion and Analysis

December 31, 2013

(Unaudited)

**Investment Ratings**

Below are UDSA's securities as rated by Moody's Investors Service (Moody's), Standard and Poor's Ratings Services (S&P), and Fitch Ratings (Fitch):

	<b>Investment ratings</b>		
	<b>Moody's</b>	<b>S&amp;P</b>	<b>Fitch</b>
UDSA Restructuring Bonds	Aaa (sf)	AAA (sf)	AAA (sf)

**Contacting the Utility Debt Securitization Authority**

This financial report is designed to provide the UDSA's bondholders, and other interested parties with a general overview of UDSA's finances and to demonstrate its accountability for the funds it receives. If you have any questions about this report or need additional information, contact the Authority at 333 Earle Ovington Blvd., Suite 403, Uniondale, New York 11553, or visit the UDSA's website at [www.lipower.org](http://www.lipower.org).

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

Statement of Net Position

December 31, 2013

(Amounts in thousands)

**Assets**

Current assets:		
Restricted cash	\$	10,513
Noncurrent assets:		
Restructuring property		2,112,990
Regulatory asset – unamortized debt issuance costs		<u>15,095</u>
Total noncurrent assets		<u>2,128,085</u>
Total assets	\$	<u><u>2,138,598</u></u>

**Liabilities and Net Position**

Current liabilities:		
Current maturities of long-term debt	\$	90,000
Accrued interest		<u>3,173</u>
Total current liabilities		<u>93,173</u>
Noncurrent liabilities:		
Long-term debt, including unamortized premium of \$115,872		<u>2,048,196</u>
Total noncurrent liabilities		2,048,196
Net position – unrestricted		<u>(2,771)</u>
Total liabilities and net position	\$	<u><u>2,138,598</u></u>

See accompanying notes to basic financial statements.

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

Statement of Revenues, Expenses, and Changes in Net Position  
Period from July 29, 2013 (Inception) through December 31, 2013  
(Amounts in thousands)

Operating revenue	\$	—
Operating expenses:		
Interest expense		3,173
Amortization of restructuring bond premium and issuance costs		<u>(402)</u>
Total operating expenses		<u>2,771</u>
Change in net position		(2,771)
Net position, beginning of year		<u>—</u>
Net position, end of year	\$	<u><u>(2,771)</u></u>

See accompanying notes to basic financial statements.

**UTILITY DEBT SECURITIZATION AUTHORITY**  
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Statement of Cash Flows

Period from July 29, 2013 (Inception) through December 31, 2013

(Amounts in thousands)

Cash flows from investing activities:	
Purchase of restructuring property	\$ <u>(2,112,990)</u>
Net cash used in investing activities	<u>(2,112,990)</u>
Cash flows from financing activities:	
Proceeds from issuance of restructuring bonds	2,138,683
Bond issuance costs	<u>(15,180)</u>
Net cash provided by financing activities	<u>2,123,503</u>
Net increase in restricted cash and cash equivalents	10,513
Restricted cash and cash equivalents at beginning of year	<u>—</u>
Restricted cash and cash equivalents at end of year	<u><u>\$ 10,513</u></u>
Reconciliation to net restricted cash provided by operating activities:	
Operating loss	\$ (2,771)
Adjustments to reconcile operating loss to net restricted cash provided by operating activities:	
Amortization of restructuring bond premium and issuance costs	(402)
Changes in operating assets and liabilities:	
Accrued interest	<u>3,173</u>
Net restricted cash provided by operating activities	<u><u>\$ —</u></u>

See accompanying notes to basic financial statements.

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

Notes to Basic Financial Statements

December 31, 2013

**(1) Basis of Presentation**

The Utility Debt Securitization Authority (UDSA) was created as a result of New York State legislation, signed into law on July 29, 2013, referred to as the LIPA Reform Act (the Reform Act.) Part B of the Reform Act (referred to as 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 UDSA. The Authority is the owner of the transmission and distribution system located in the New York State Counties of Nassau and Suffolk (with certain limited exceptions) and a small portion of Queens County known as the Rockaways (Service Area), and is responsible for facilitating the supply of electricity to customers within the Service Area.

Under Governmental Accounting Standard Board Statement (GASB) No. 61, *The Financial Reporting Entity*, UDSA is considered a blended component unit of the Authority. The assets, liabilities, and results of operations are consolidated with the operation of the Authority for financial reporting purposes.

**(2) Nature of Operations**

UDSA is a special purpose corporate municipal instrumentality of the State of New York (the State). UDSA has no commercial operations and is prohibited from engaging in any other activity except as specifically authorized by a financing order. The Reform Act provides that UDSA is not authorized to be a debtor under any provision of the Bankruptcy Code. Under the Reform Act, the Restructuring Bonds are the only bonds which may be issued by UDSA. UDSA was formed solely to issue the Restructuring Bonds for the purchase of Restructuring Property to finance the cost of purchasing, redeeming, or defeasing a portion of the outstanding debt of the Authority. The Restructuring Property is defined as the right, title, and interest: (a) in and to rates and charges to recover from 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. This nonbypassable consumption-based Restructuring Charge will be billed to all existing and future retail electric customers taking electric transmission or distribution service within the Service Area from the Authority or any of its successors or assignees. The Restructuring Charge is established by the UDSA, and is not subject to oversight by the Department of Public Service or any other regulatory body, including the Authority's Board of Trustees (Board). To pass the benefits of securitization to customers, the Authority has modified its rate structure to create a restructuring offset charge, which is an amount equal to and opposite the Restructuring Charge, so that the customer bill is no more than it would have been absent securitization. The securitization offset charge will be adjusted along with changes to the Restructuring Charge.

The Authority acts as the initial Servicer of the Restructuring Property pursuant to the terms of the Servicing Agreement with UDSA. However, pursuant to the Amended and Restated Operations Services Agreement, PSEG-LI will, among other things, perform the billing and collections, meter reading, and forecasting required of the Servicer under the Servicing Agreement. The Authority is responsible for taking all necessary action in connection with True-Up Adjustments (described below) and certain reporting requirements.

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

Notes to Basic Financial Statements

December 31, 2013

The Restructuring Charges will be adjusted (True-Up Adjustments) at least annually and, if determined by the Servicer in connection with a midyear review process to be necessary, semiannually 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 other all ongoing financing costs when due.

**(3) Summary of Significant Accounting Policies**

**(a) General**

UDSA complies with all applicable pronouncements of GASB. The operations of UDSA are presented as an enterprise 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 and the notes to the financial statements cover the period from inception July 29, 2013 through December 31, 2013.

**(b) Use of Estimates**

The accompanying financial statements were prepared in conformity with U.S. generally accepted accounting principles, which require 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.

**(c) Accounting for the Effects of Rate Regulation**

UDSA is subject to the provisions of GASB No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB 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, as UDSA's Board is its regulator and authorizes its ratemaking process, UDSA records these future economic benefits and obligations as regulatory assets or regulatory liabilities, respectively.

**(d) Restricted Cash**

Restricted cash consists of funds held by UDSA's Trustee to pay the principal, interest, and other expenses associated with the bonds. UDSA has specific investment guidelines that address the legal and contractual requirements of the transaction including that investments must be matched to meet the debt service obligations of the bonds.

The Trustee must maintain a segregated trust account for the bonds known as the Collection Account. The Collection Account for the bonds will consist of four subaccounts: a General Subaccount, an Excess Funds Subaccount, a Reserve Subaccount, and an Upfront Financing Costs Subaccount. For administrative purposes, the subaccounts may be established by the Trustee as separate accounts, which will be recognized collectively as the Collection Account. The balance in

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

Notes to Basic Financial Statements

December 31, 2013

the Reserve Subaccount was established at a reserve level of 0.5% of the initial principal amount of the Restructuring Bonds originally issued and must be maintained at a level of 0.5% of the Restructuring Bonds outstanding.

Restricted cash, as of December 31, 2013, includes approximately \$10.1 million in the Reserve Subaccount and approximately \$0.4 million in the Upfront Financing Costs Subaccount, both held by the Trustee.

The Trustee shall have sole dominion and exclusive control over all money in the 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 the Collection Account for the purpose of making deposits in and withdrawals from the Collection Account. Funds in the Collection Account shall not be commingled with any other monies.

**(e) *Regulatory Assets – Unamortized Debt Issuance Costs***

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, UDSA has classified these costs as a regulatory asset, in accordance with GASB No. 62, to be collected over the life of the debt issuance to which they relate.

**(f) *Restructuring Property***

The Restructuring Property consists primarily of the irrevocable contract right to impose, bill, and collect the nonbypassable consumption-based Restructuring Charge. The amortization of the Restructuring Property will be equal to UDSA's debt service requirements as reflected in the Restructuring Charge, subject to the True-Up Adjustments.

**(g) *Revenues***

Beginning on March 1, 2014, the Authority implemented the nonbypassable Restructuring Charge on behalf of the UDSA. The UDSA will record revenue for the charge under the accrual method.

**(h) *Income Taxes***

UDSA is a political subdivision of the State and, therefore, is exempt from federal, state, and local income taxes.

**(i) *Long-Term and Short-Term Debt***

The Restructuring Cost Financing Order, adopted by the Authority's Board on October 3, 2013, authorized the creation of the Restructuring Property and issuance of Restructuring Bonds by UDSA to provide funds for the purchase of the Restructuring Property from the Authority. The Authority was authorized to use the proceeds from the sale of the Restructuring Property to purchase, redeem, repay, or defease certain of its outstanding debt.

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

Notes to Basic Financial Statements

December 31, 2013

The Restructuring Bonds are consolidated on the Authority's financial statement but are not considered direct obligations of the Authority, PSEG-LI, or any of their affiliates. 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 UDSA. UDSA was formed for the sole purpose of issuing and servicing securitization bonds related to New York State Securitization Legislation.

On December 18, 2013, UDSA issued its Restructuring Bonds Series 2013TE (Tax Exempt), totaling \$1.54 billion and Series 2013T (Federally Taxable) totaling \$482.9 million and are displayed separately in the current and long-term liability section on the statement of net position.

The refunding of a portion of the Authority's outstanding debt produced an approximate \$132 million net present value savings. The Restructuring Bonds have an average life of 14.3 years and an all in cost of 4.22%.

Interest payments on the Restructuring Bonds are due semiannually, to begin on June 15, 2014. 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.

Below is the UDSA's schedule of capitalization for the period ended December 31, 2013 (amounts in thousands):

	<b>Year of maturity</b>	<b>Interest rate</b>	<b>2013</b>
UDSA Restructuring Bonds:			
Series 2013T	2017–2023	2.04%–3.44%	\$ 482,934
Series 2013TE	2014–2039	5.00%	1,539,390
			2,022,324
Unamortized premium			115,872
Less current maturities and short-term debt			(90,000)
Total long-term debt			\$ 2,048,196

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

Notes to Basic Financial Statements

December 31, 2013

The debt service requirements for UDSA's bonds as of December 31, 2013 are as follows (amounts in thousands):

<u>Due</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 90,000	90,030	180,030
2015	15,000	86,286	101,286
2016	60,000	84,786	144,786
2017	13,148	82,469	95,617
2018	46,433	82,032	128,465
2019–2023	424,033	375,412	799,445
2024–2028	501,490	310,250	811,740
2029–2033	403,690	157,141	560,831
2034–2038	306,960	97,574	404,534
2039–2044	161,570	6,309	167,879
Total	\$ <u>2,022,324</u>	<u>1,372,289</u>	<u>3,394,613</u>

**(4) Significant Agreements and Related-Party Transactions**

Under the servicing agreement entered into by the Authority and UDSA, concurrently with the issuance of the Restructuring Bonds, the Authority, as Servicer, is required to manage and administer the UDSA bondable Restructuring Property and to collect the restructuring charge on UDSA's behalf. Under the finance order, the Authority withholds from the restructuring charge collections an annual servicing fee equal to 0.05% of the initial balance of bonds issued. Pursuant to the Amended and Restated OSA, PSEG-LI will perform the billing and collections, meter reading, and forecasting required of the Servicer under the Servicing Agreement.



KPMG LLP  
345 Park Avenue  
New York, NY 10154-0102

**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***

The 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 (the UDSA), which comprise the statement of net position as of December 31, 2013 and the related statements of revenues, expenses, and changes in net position, and cash flows for the period then ended, and the related notes to the basic financial statements, which collectively comprise the UDSA's basic financial statements, and have issued our report thereon dated March 27, 2014.

**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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the 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 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 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an



opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 the USDA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

New York, New York  
March 27, 2014