KPMG

SUFFOLK COUNTY WATER AUTHORITY

Financial Statements and
Required Supplementary Information

May 31, 2022 and 2021

(With Independent Auditors' Reports Thereon)

SUFFOLK COUNTY WATER AUTHORITY

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

Independent Auditors' Report

The Members
Suffolk County Water Authority:

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Suffolk County Water Authority (the Authority) as of and for the years ended May 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements for the years then ended as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of May 31, 2022 and 2021, and the changes in its financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits 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 Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 Authority'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 opinion. 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 Authority'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 Authority'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, the schedule of employer contributions – New York State and Local Employees' Retirement System, the schedule of proportionate share of the net pension liability – New York State and Local Employees' Retirement System, and the schedule of changes in the Authority's total OPEB liability and related ratios 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 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 September 1, 2022 on our consideration of the Authority'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 Authority'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 Authority's internal control over financial reporting and compliance.

KPMG LLP

New York, New York
September 1, 2022

Suffolk County Water Authority ("the Authority") is an independent public benefit corporation operating under the Public Authorities Law of the State of New York. The Authority was created by resolution of the Suffolk County Board of Supervisors in 1937, with a twofold purpose. The first was to acquire, construct, maintain, and operate a public water supply for Suffolk County. The second was to develop a single, integrated public water supply and distribution system to serve all of Suffolk County. The accounts of the Authority are maintained generally in accordance with the *Uniform System of Accounts* prescribed by the New York State Public Service Commission (PSC), although the Authority is not subject to PSC rules and regulations. Board members are appointed by the Suffolk County Legislature for five-year overlapping terms. Vacancies, other than by expiration of term, are filled by the Suffolk County Legislature by appointment for the unexpired term. The chairman of the Authority is also appointed by the Suffolk County Legislature. The rates established by the Authority do not require PSC or Suffolk County legislative approval.

The Financial Statements

The statements of net position provide information about the nature and amounts of investments in resources (assets), obligations to the Authority's creditors (liabilities) as well as the deferred outflows and inflows of resources, with the difference between these amounts reported as net position.

The statements of revenues, expenses, and changes in net position report how the Authority's net position changed during each year presented. The statement accounts for all of the revenues and expenses for the year, measures the financial results of the Authority's operations for the year, and can be used to determine how the Authority has funded its costs.

The statements of cash flows provide information about the Authority's cash receipts, cash payments, and net changes in cash resulting from operating activities, investing activities, and capital and related financing activities.

The notes to the financial statements contain information that is essential to understanding the financial statements, such as the Authority's accounting methods and policies.

Management provides the following discussion and analysis of the Authority's financial activities and financial statements. This overview is provided for the fiscal years ended May 31, 2022 and 2021 with comparative information for the fiscal year ended May 31, 2020. The reader should use the information contained in this analysis in conjunction with the information contained in the audited financial statements. The financial statements as of and for the years ended May 31, 2022 and 2021 follow this narrative on the subsequent pages.

Summary of Revenues, Expenses, and Changes in Net Position

		Year ended May 31		
		2022	2021	2020
			(In thousands)	
Operating revenues:				
Water service	$	215,524	224,724	188,352
Other		24,447	22,962	20,653
Total operating revenues		239,971	247,686	209,005
Operating expenses:				
Operations and maintenance		119,984	135,618	132,837
Depreciation and amortization		56,938	54,393	51,786
Total operating expenses		176,922	190,011	184,623
Operating income		63,049	57,675	24,382
Nonoperating revenues and expenses:				
Interest expense, net		(30,750)	(31,506)	(31,511)
Amortization of deferred amounts on refinancing		(2,794)	(1,657)	(1,456)
Income from investments		(5,515)	1,347	8,700
Capital reimbursement fees and other		12,407	11,014	25,833
Total nonoperating revenues and expenses, net		(26,652)	(20,802)	1,566
Change in net position		36,397	36,873	25,948
Net position, beginning of year		395,448	358,575	332,627
Net position, end of year	$	431,845	395,448	358,575

Operating Revenues

Water service revenues decreased $9.2 million, or 4.1% in 2022. This decrease was the result of a decrease in pumping of approximately 8.6%, offset by a 4.5% rate increase on June 1, 2021.

Water service revenues increased $36.4 million in 2021. In 2021, Water Quality & Treatment Charge revenues increased $14.2 million as a result of this fee being effective for an entire year; in 2020, this fee was effective for a partial year. Additionally, there was an effective 4.0% rate increase on April 1, 2020, which generated an additional $7.2 million. Lastly, an increase in pumping of approximately 9.0% generated an additional $15.0 million in consumption revenues.

Other operating revenues increased $1.5 million in 2022. This increase is primarily attributable to a $0.2 million increase in water district revenue as the result of a rate increase and offset by a decrease in pumping, a

$0.3 million increase in late charge revenue, a $0.4 million increase in antenna lease revenue as a result of escalations in rent in accordance with lease agreements, and a $0.6 million increase in other fees.

Other operating revenues increased $2.3 million in 2021. This increase is primarily attributable to a $1.4 million increase in water district revenue as the result of a rate increase and the execution of a new agreement with an additional managed water district, a $0.6 million increase in late charge revenue, and a $0.5 million increase in antenna lease revenue as a result of escalations in rent in accordance with lease agreements. These increases were offset by a $0.2 million decrease in reimbursed damages.

Operating Expenses

Operations and maintenance expense decreased $15.6 million in 2022. The decrease is attributable to a $16.2 million GASB 75 adjustment to postemployment benefit other than pension (OPEB) expense based on an actuarial valuation, a $2.2 million GASB 68 adjustment to pension expense based on an actuarial valuation, a $0.7 million decrease in transmission and distribution maintenance costs, and a $0.2 million decrease in consulting services. This decrease was offset by an increase in workers' compensation expense of $0.8 million due to an increase in claims and expenses based on the GASB 10 actuarial valuation, a $1.8 million increase in administrative costs related to general services for increased contract pricing, a $0.7 million increase in wages as a result of standard annual wage increases, and a $0.4 million increase in transportation related costs due to increased fuel and maintenance related costs.

Operations and maintenance expense increased $2.8 million in 2021. The increase is attributable to an increase in wells and pumping expense of $0.2 million due to increased maintenance costs, an increase in treatment expense of $0.6 million due to additional testing for emerging contaminants, an increase in transmission and distribution expense of $2.2 million mainly attributable to the maintenance of water mains, an increase of $0.6 million in administrative costs due to increased insurance premiums and COVID-19 mitigation costs, an increase of $0.8 million in accounting and collecting costs, an increase of $7.3 million due to the impact of GASB 75 adjustments to postemployment benefit other than pension (OPEB) expense based on an actuarial valuation, and an increase in power costs of $5.4 million due to an increase in consumption and pumpage, power rate increases, and additional wells and pump stations that were put in service. These increases were offset by decreases in workers' compensation expense of $3.7 million due to a decrease in claims and a reduction in expense based on the GASB 10 actuarial valuation, a decrease in benefits expense of $1.7 million, a decrease in consulting services of $0.2 million due to the completion of projects in the previous year, and a decrease of $8.7 million in pension expense due to the impact of GASB 68 adjustments based on an actuarial valuation.

Depreciation and amortization expenses were $56.9 million in 2022, an increase of $2.5 million or 4.7% from 2022. The increase is attributable to a 3.1% increase in water plant less asset retirements.

Depreciation and amortization expenses were $54.4 million in 2021, an increase of $2.6 million or 5.0% from 2020. The increase is attributable to a 5.6% increase in water plant less asset retirements.

Nonoperating Revenues and Expenses

Interest expense and other bond expense was $30.8 million in 2022, a net decrease of $0.7 million from 2021. The decrease is attributable to a net decrease of $0.4 million in issuance cost expense and amortization of debt discount and premium and a net decrease of $0.3 million in interest paid net of subsidy on bonds payable.

(Continued)

Interest expense and other bond expense was $31.5 million in 2021, and was consistent with 2020.

Loss from investments was $5.5 million in 2022, a decrease of $6.9 million from 2021. The change was the result of a decrease in market value of investments of $6.6 million and a decrease of interest revenues of $0.3 million.

Income from investments was $1.3 million in 2021, a decrease of $7.4 million from 2020. The change was the result of decreased market values of investments and lower interest rates on restricted long-term investments.

Capital reimbursement fees were $12.4 million in 2022, an increase of $1.4 million from 2021. The increase in 2022 is primarily due to a $1.1 million increase in surcharge fee revenue and a $0.6 million increase in tapping fee revenues due to tap fee increases. These increases were offset by a $0.3 million decrease in other construction fee revenues.

Capital reimbursement fees were $11.0 million in 2021, a decrease of $14.8 million from 2020. The decrease in 2021 is primarily due to a $2.7 million decrease in construction fee revenue and a decrease of $6.2 million in revenue related to projects completed in 2020 for the Town of East Hampton, Wainscott project. Additionally, there was a $5.8 million decrease due to NYS EFC IMG and WIIA grant revenue earned in 2020 and a decrease of $0.1 million in vault fee revenue. There were no grant revenues recognized in 2022 or 2021.

(Continued)

Statement of Net Position Summary

		May 31		
		2022	**2021**	**2020**
			(In thousands)	
Assets:				
Capital assets (water plant), net	$	1,223,641	1,203,123	1,186,890
Current assets		427,187	424,778	357,445
Other noncurrent assets		128,085	155,896	207,180
Total assets	$	1,778,913	1,783,797	1,751,515
Deferred outflows of resources	$	91,727	116,112	70,342
Liabilities:				
Current liabilities	$	74,981	63,923	64,150
Other long-term liabilities		278,250	367,676	356,458
Long-term debt, net of current portion		921,358	983,246	994,749
Total liabilities	$	1,274,589	1,414,845	1,415,357
Deferred inflows of resources	$	164,206	89,616	47,925
Net position:				
Net investment in capital assets	$	300,279	274,944	288,706
Restricted for debt service		111,885	107,175	115,823
Unrestricted		19,681	13,329	(45,954)
Total net position	$	431,845	395,448	358,575

Capital Assets (Water Plant), Net

		May 31, 2021	**Additions/ reclassifications**	**Deletions/ reclassifications**	**May 31, 2022**
			(In thousands)		
Water plant in service	$	2,018,069	64,770	(2,591)	2,080,248
Less accumulated depreciation		(845,990)	(56,787)	2,591	(900,186)
Net water plant in service		1,172,079	7,983	—	1,180,062
Construction in progress		31,044	77,305	(64,770)	43,579
Water plant	$	1,203,123	85,288	(64,770)	1,223,641

		May 31, 2020	Additions/ reclassifications	Deletions/ reclassifications	May 31, 2021
			(In thousands)		
Water plant in service	$	1,910,980	113,502	(6,413)	2,018,069
Less accumulated depreciation		(798,161)	(54,242)	6,413	(845,990)
Net water plant in service		1,112,819	59,260	—	1,172,079
Construction in progress		74,071	70,475	(113,502)	31,044
Water plant	$	1,186,890	129,735	(113,502)	1,203,123

There was a net increase in water plant in fiscal year 2022 of $20.5 million, the result of $77.3 million in new construction, reduced by an increase in accumulated depreciation of $56.8 million.

There was a net increase in water plant in fiscal year 2021 of $16.2 million, the result of $70.4 million in new construction, reduced by an increase in accumulated depreciation of $54.2 million.

Current Assets

		May 31		
		2022	2021	2020
			(In thousands)	
Increases (decreases):				
Cash and cash equivalents	$	(22,038)	73,783	69,614
Investments		25,524	2,804	(17,015)
Accounts receivables, net		5,610	(7,284)	11,610
Accrued water services and fire protection revenues		(8,086)	(271)	5,217
Interest and other receivables		(652)	(318)	764
Materials and supplies		1,705	(1,434)	(2)
Prepayments and other current assets		346	53	98
Net change in current assets	$	2,409	67,333	70,286

Current Assets

The Authority's investment policy complies with the New York State Comptroller's guidelines for investments. The investment policy permits investments in, among others, obligations of the U.S. Treasury, U.S. government, any state of the United States or any political subdivision, sponsored entity securities, and repurchase agreements backed by such obligations. Authority investments are generally reported at fair value.

Cash and cash equivalents decreased by $22.0 million at May 31, 2022, from May 31, 2021. The decrease is primarily attributable to a $46.6 million bond defeasance that was completed in May 2022. This decrease was offset by fluctuations in cash from the timing of unrestricted investment sales and purchases.

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Cash and cash equivalents increased by $73.8 million at May 31, 2021, from May 31, 2020. The increase is primarily attributable to cash receipts from customers due to rate increases and the Water Quality & Treatment Charge, which was effective for the entire fiscal year in 2021. Additionally, the timing of unrestricted investment sales and purchases in fiscal year 2021 resulted in an increase to cash balances.

The Authority's investments increased by $25.5 million at May 31, 2022, from May 31, 2021. The increase is attributable to unrestricted investment purchases exceeding redemptions and maturities throughout 2022.

The Authority's investments increased by $2.8 million at May 31, 2021 from May 21, 2020. The increase is attributable to unrestricted investment purchases exceeding redemptions and maturities throughout 2021.

Accounts receivable, net of allowance for doubtful accounts increased by $5.6 million at May 31, 2022 from May 31, 2021. This increase is attributable to a 4.5% rate increase that was effective at the start of the year and delayed customer payments in 2022.

Accounts receivable, net of allowance for doubtful accounts decreased by $7.3 million at May 31, 2021 from May 31, 2020. This decrease is attributable to $7.6 million in payments received against prior year billings related to the EFC Inter-Municipal Grant Agreement with the Town of East Hampton, Village of Wainscott, a $4.9 million decrease in construction loan contract receivables, and a $1.9 million payment from the Air National Guard to reimburse for treatment costs. These decreases were offset by a $6.7 million increase in water service receivables due to delayed customer payments in 2021 and a $0.4 million increase in miscellaneous receivables due to the timing of payments for managed water district fees.

Accrued water services and fire protection revenues decreased $8.1 million at May 31, 2022 from May 31, 2021. This decrease is primarily attributable to a reduction in the year end revenue accrual due to reduced consumption throughout fiscal year 2022 of 8.6%.

Accrued water services and fire protection revenues remained consistent at May 31, 2021 with amounts at May 31, 2020.

Materials and supplies increased by $1.7 million at May 31, 2022. This increase is attributable to rising costs of materials. Additionally, inventory reserves have been increased from a three-month supply to a six month supply to minimize future supply chain disruptions.

Materials and supplies decreased by $1.4 million at May 31, 2021. This decrease is attributed to supply chain delays that resulted in utilization of $0.4 million of existing inventory and a $1.0 million decrease due to inventory write-offs.

Other Noncurrent Assets

Other noncurrent assets decreased by $27.8 million as of May 31, 2022. This decrease is attributed to the expenditure of $46.1 million of bond proceeds classified as restricted investments. This decrease was offset by a $4.7 million increase in debt service reserves related to a June 2022 bond principal payment and a $13.6 million GASB 68 adjustment to pension expense based on an actuarial valuation.

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Other noncurrent assets decreased by $51.3 million as of May 31, 2021. This decrease is attributed to the expenditure of $42.3 million of bond proceeds classified as restricted investments, an $8.6 million decrease in debt service reserves used to fund escrow accounts primarily related to the June 2020 bond refunding, and a $0.4 million decrease in goodwill and other assets.

Liabilities

Current Liabilities

		May 31		
		2022	**2021**	**2020**
			(In thousands)	
Increases (decreases):				
Current maturities of bonds payable	$	8,008	(1,142)	2,952
Current maturities of bond anticipation notes payable		—	—	(334)
Accounts payable		2,439	1,575	(1,887)
Accrued interest		(59)	(210)	106
Accrued employee welfare costs		(419)	(288)	428
Rate stabilization reserve		—	—	—
Other accrued liabilities		813	(162)	2,076
Net change in current liabilities	$	10,782	(227)	3,341

Current Liabilities

The $8.0 million increase in current maturities of bonds payable in 2022 from 2021 is attributable to a $0.9 million increase in EFC bonds payable and a $7.1 million increase in the Authority's bonds payable maturing in less than one year.

The $1.1 million decrease in current maturities of bonds payable in 2021 from 2020 is attributable to a $2.4 million decrease in EFC bonds payable, offset by a $1.3 million increase in the Authority's bonds payable maturing in less than one year.

The $2.4 million increase and $1.6 million increase in accounts payable in 2022 and 2021, respectively, is attributable to the timing of processing invoices for work performed, completed, and paid for, subsequent to May 31, 2022 and 2021.

The $0.8 million increase in other accrued liabilities in 2022 from 2021 is attributable to a $1.5 million increase in various reimbursable customer deposits. This increase was offset by of $0.7 million decrease in self-insured workers' compensation, general, and auto insurance liabilities based on the actuarial valuation required under GASB Statement No. 10.

Other Long-Term Liabilities

Other long-term liabilities decreased by $89.4 million at May 31, 2022 as a result of an decrease in postemployment benefits other than pension (OPEB) of $92.6 million based on the actuarial valuation required under GASB Statement No. 75, a decrease in the net pension liability as provided by New York State & Local Retirement System of $0.1 million, and a $3.3 million increase in advances for construction.

Other long-term liabilities increased by $11.2 million at May 31, 2021 as a result of an increase in postemployment benefits other than pension (OPEB) of $57.0 million, a decrease in the net pension liability as provided by New York State & Local Retirement System of $42.8 million, and a $3.0 million decrease in advances for construction.

In accordance with GASB 75, the financial statements at May 31, 2022 and 2021 include a liability for postemployment benefits other than pension in the amount of $270.4 million and $363.0 million, respectively. GASB Statement No. 75 was adopted by the Authority in 2019.

GASB Statement No. 75 does not require that the unfunded liability be funded, only that the Authority account for the unfunded accrued liability. However, beginning in 2012, to mitigate possible future rate impacts related to any expected legislation, the Authority has established a non-trusted reserve for this purpose. As of May 31, 2022 and 2021, the non-trusted reserve is $103.0 million and $88.8 million, respectively. During both the fiscal years ended May 31, 2022 and 2021 the Authority contributed $14.2 million and $15.6 million to this reserve, respectively.

Long-Term Debt

The Authority's long-term debt, net of current portion and including unamortized discounts and deferred amounts, decreased in fiscal year 2022 by $61.9 million. This decrease was due to $5.5 million in bonds maturing, a $44.9 million defeasance, an $8.0 million increase in the current portion of long-term debt over prior year, and a net decrease of $3.5 million in amortization of long-term debt premium and discount.

The Authority's long-term debt, net of current portion and including unamortized discounts and deferred amounts, decreased in fiscal year 2021 by $11.5 million. This decrease was due to $6.6 million in bonds maturing during the fiscal year, net of change in current portion, and a net decrease of $4.9 million in amortization of long-term debt premium and discount.

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The following tables contain long-term debt activity by fiscal year, including current maturities of bonds payable and excluding premiums and discounts:

Water System Revenue and Environmental Facilities Corporation Revenue Bonds

	Fiscal year 2022	Fiscal year 2021	Fiscal year 2020
		(In thousands)	
Balance, beginning	$ 966,706	974,593	881,363
New issues:			
EFC 2020A	—	—	10,255
SCWA 2020B	—	—	87,000
SCWA 2020 (Tx) Refunding	—	88,280	—
	—	88,280	97,255
Maturities, retirements, and defeasances:			
SCWA	(48,155)	(91,580)	(530)
EFC	(2,190)	(4,587)	(3,495)
	(50,345)	(96,167)	(4,025)
Net changes in long-term debt	(50,345)	(7,887)	93,230
Balance, ending	$ 916,361	966,706	974,593

Investment ratings on debt issued by the Authority given by Standard and Poor's Ratings Services (S&P) and Fitch Ratings (Fitch) at May 31, 2021 and at May 31, 2020 were AAA. In May 2021, Fitch Ratings re-affirmed the Authority's Water System Revenue Bonds with AAA rating. As of May 2022, ratings have remained unchanged.

As a result of legislation initiated by New York State and enacted by the U.S. Congress, a Drinking Water State Revolving Fund (DWSRF) was created to provide financial incentive for public and private water systems to finance drinking water infrastructure improvements in the form of subsidized low interest rate loans and grants for qualified projects. The New York State Environment Facilities Corporation (NYS EFC) administers the financial aspects of the DWSRF. The Authority has participated in this program since 1998.

In December 2021, the NYS Environmental Facilities Corporation (NYS EFC) closed on a Series 2021B refinancing initiative on behalf of the municipalities that previously financed projects through the State Drinking Water Revolving Funds (SRF) Series 2011C. The refunding reduced future debt service in the form of subsidy credits, while principal and interest on the remaining debt remains the same. The savings recognized from this refinancing is $10.0 thousand over the remaining life of the bonds outstanding. The 2011C (2021B) have a final maturity date of October 15, 2022.

In May 2022, the Authority completed a bond defeasance of $44.9 million Water System Revenue Bonds comprising of $13.2 million of the Water System Revenue Bonds, Series 2014A, $1.3 million of the Water System Revenue Bonds, Series 2015 (Refunding), $4.1 million of the Water System Revenue Bonds, Series 2016 (Refunding), and $26.3 million of the Water System Revenue Bonds Series 2020 (Refunding),Taxable. The Authority funded an escrow account for a total of $46.6 million, which includes the interest due on the defeased bonds. The defeased bonds mature on June 1, 2023 and June 1, 2024.

During the fiscal year ended May 31, 2021, the Authority issued $88.3 million in Series 2020 (Taxable Refunding) Senior Lien Water System Revenue Bonds. The Series 2020 (Refunding) Bonds were issued to refund the Authority's outstanding 2011 (Refunding) and 2012 (Refunding) Senior Lien Water System Revenue Bonds, fund the reserve account, pay cost of issuance, and fund the escrow account along with existing reserve and bond funds on hand. The Series 2020 (Refunding) bonds bear interest ranging from 0.39% to 2.43% and have a final maturity date of June 1, 2040.

During the fiscal year ended May 31, 2020, the Authority issued $87.0 million in Series 2020B Senior Lien Water System Revenue Bonds. The Series 2020B Bonds were issued to finance the cost of acquisition and construction of improvements and additions to the water system, fund the reserve account, and to pay cost of issuance. The Series 2020B bonds bear an interest rate of 3.0% and have a final maturity date of June 1, 2045.

As of May 31, 2020, the Authority received a total of $12.9 million in advances against its EFC Bond Anticipation Note, 2015A and made principal payments of $0.2 million in accordance with the terms of the agreement. All projects were completed as of May 31, 2019 and the final re-sizing of the loan was completed in February 2020: grant revenues of $2.5 million were recognized and a loan of $10.2 million was converted into Suffolk County Water Authority Revenue Bond EFC Series 2020A long-term debt, bearing interest at 0.0% and maturing May 24, 2045.

Short-Term Debt

The Authority, from time to time, issues Bond Anticipation Notes to finance improvements and additions to the water system.

During the fiscal years ended May 31, 2022 and 2021, the Authority did not engage in any Bond Anticipation Note transactions.

Deferred Outflows and Deferred Inflows of Resources

Deferred outflows related to bond refunding decreased $3.0 million at May 31, 2022 from May 31, 2021. The decrease is due to $2.1 million annual amortization of the deferred loss on refunding bonds and a $0.9 million loss recognized from the cash defeasance of the Authority's Water System Revenue Bonds Series 2014A, Series 2015 (Refunding), Series 2016 (Refunding) and Series 2020 Tx (Refunding). The loss on the Suffolk County Water Authority's refunding bond series currently being amortized are the 2013 Refunding, 2015 Refunding, 2016 Refunding bonds, and the 2020 Refunding Bonds.

Deferred outflows related to bond refunding decreased $0.4 million at May 31, 2021 from May 31, 2020. The decrease is due to the annual amortization of the deferred loss on refunding bonds net of an additional loss recognized from the issuance of the Authority's Water System Revenue Bonds Series 2020 (Refunding). The loss on the Suffolk County Water Authority's refunding bond series currently being amortized are the 2013 Refunding, 2015 Refunding, 2016 Refunding bonds, and the 2020 Refunding Bonds.

(Continued)

In 2022 and 2021, the remaining variances in the deferred outflows and inflows of resources are due to recognition of the total OPEB liability and net pension liability adjustments. These adjustments are made in accordance with GASB 75 and GASB 68, respectively. These adjustments are also in accordance with the most recent actuarial valuations.

Net Position – Net Investment in Capital Assets

Net investment in capital assets represents the Authority's total investment in capital assets net of related long-term debt. In 2022, the increase of $25.3 million from May 31, 2021 is the result of an increase in water plant expenditures, a decrease in funds available for construction, offset by the net decrease in debt balances.

In 2021, the decrease of $13.8 million from May 31, 2020 is the result of an increase in water plant expenditures, a decrease in funds available for construction, offset by the net decrease in debt balances.

Net Position – Restricted for Debt Service

Net position restricted for debt service includes monies held in the reserve accounts by the bond trustee as established by bond resolution for the purpose of security as it pertains to the respective bond issue. Restricted for debt service also represents the proportional amount of principal and interest as prescribed by bond resolution due to bondholders on the next prescribed payment date.

The increase of $4.7 million at May 31, 2022 is the result of a $7.4 million increase in the Senior Lien Bond Fund to fund debt service in June 2022 and a net decrease in the Reserve Funds of $2.7 million. The $2.7 million reserve fund decrease is attributable to the a decreased market valuation of reserve funds of $3.3 million and $0.6 million increase in reserve fund cash balances due to interest income.

The decrease of $8.6 million at May 31, 2021 is the result of a $1.2 million increase in the Senior Lien Bond Fund to fund debt service in June 2021 and a net decrease in the Reserve Funds of $9.8 million. The $9.8 million reserve fund decrease is attributable to the release of the Authority's Series 2011 Refunding Water System Revenue Bonds of $12.2 million, a decreased market valuation of reserve funds of $1.5 million, a $1.1 million decrease due to the final maturity of EFC series related debt, offset by a $5.0 million reserve requirement for the issuance of the Authority's Series 2020 (Refunding) Water System Revenue Bonds.

Net Position – Unrestricted

In 2022, net position – unrestricted increased $6.4 million from May 31, 2021 as a result of operations, net of those changes that impact investments in capital assets and net position restricted for debt service.

Contacting the Authority's Financial Management

This financial report is designed to provide the customers, clients, and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the resources at its disposal. If you have any questions about this report or need additional financial information, contact the Public Information Officer, Suffolk County Water Authority, 4060 Sunrise Highway, Oakdale, New York 11769.

SUFFOLK COUNTY WATER AUTHORITY

Statements of Net Position

May 31, 2022 and 2021

(In thousands)

Assets		**2022**	**2021**
Current assets:			
Cash and cash equivalents	$	288,777	310,815
Investments		80,865	55,341
Accounts receivable, less allowance for doubtful accounts of $640 and $54, respectively		32,376	26,766
Accrued water services and fire protection revenues		14,146	22,232
Interest and other receivables		212	864
Materials and supplies, at average cost		8,006	6,301
Prepayments and other current assets		2,805	2,459
Total current assets		427,187	424,778
Restricted investments		111,886	153,235
Goodwill		1,820	1,973
Net pension asset		13,621	—
Other assets		758	688
Capital assets, net		1,223,641	1,203,123
Total noncurrent assets		1,351,726	1,359,019
Total assets		1,778,913	1,783,797
Deferred Outflows of Resources			
Deferred outflows of resources:			
Pension related		26,154	32,587
Other postemployment benefits related		54,114	69,063
Deferred amounts due to bond refunding		11,459	14,462
Total deferred outflows of resources		91,727	116,112
Liabilities			
Current liabilities:			
Current maturities of bonds payable		13,463	5,455
Accounts payable		14,413	11,974
Accrued interest		17,030	17,089
Accrued employee welfare costs		8,137	8,280
Other accrued liabilities		21,938	21,125
Total current liabilities		74,981	63,923
Bonds payable, less current portion and unamortized discounts		921,358	983,246
Net pension liability		—	158
Postemployment benefits other than pension		270,358	362,964
Advances for construction		7,892	4,554
Total liabilities		1,274,589	1,414,845
Deferred Inflows of Resources			
Deferred inflows of resources:			
Pension related		46,792	46,548
Other postemployment benefits related		117,414	43,068
Total deferred inflows of resources		164,206	89,616
Net Position			
Net position:			
Net investment in capital assets		300,279	274,944
Restricted for debt service		111,885	107,175
Unrestricted		19,681	13,329
Total net position	$	431,845	395,448

See accompanying notes to financial statements.

SUFFOLK COUNTY WATER AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Position

Years ended May 31, 2022 and 2021

(In thousands)

		2022	2021
Operating revenues:			
Water service	$	215,524	224,724
Other		24,447	22,962
Total operating revenues		239,971	247,686
Operating expenses:			
Operations		82,473	98,969
Maintenance		37,511	36,649
Depreciation and amortization		56,938	54,393
Total operating expenses		176,922	190,011
Operating income		63,049	57,675
Nonoperating revenues and expenses:			
Interest and other bond expense, net		(30,750)	(31,506)
Amortization of deferred amounts on refinancing		(2,794)	(1,657)
Income (loss) from investments, net		(5,515)	1,347
Capital reimbursement fees		12,407	11,014
Total nonoperating revenues and expenses, net		(26,652)	(20,802)
Change in net position		36,397	36,873
Net position:			
Beginning of year		395,448	358,575
End of year	$	431,845	395,448

See accompanying notes to financial statements.

SUFFOLK COUNTY WATER AUTHORITY

Statements of Cash Flows

Years ended May 31, 2022 and 2021

(In thousands)

		2022	2021
Cash flows from operating activities:			
Cash receipts from customers	$	218,315	218,096
Other operating cash receipts		26,345	23,379
Cash payments to employees for services, including benefits		(73,133)	(69,125)
Cash payments to suppliers of goods and services		(58,988)	(55,060)
Net cash provided by operating activities		112,539	117,290
Cash flows from capital and related financing activities:			
Additions to water plant		(76,430)	(70,029)
Proceeds from refunding		—	88,280
Bonds escrowed from refunding		—	(93,930)
Repayment of current maturities of bonds payable		(5,455)	(6,597)
Cost of issuance		—	(477)
Debt defeasance		(46,617)	—
Loss on defeasance		687	—
Interest paid		(32,459)	(32,887)
Proceeds from advances for construction and other capital, net of refunds		15,361	22,390
Net cash used in capital and related financing activities		(144,913)	(93,250)
Cash flows from investing activities:			
Purchase of investments		(258,560)	(196,870)
Proceeds from sales and maturities of investments		265,478	242,979
Interest received		3,418	3,634
Net cash provided by investing activities		10,336	49,743
Net (decrease) increase in cash and cash equivalents		(22,038)	73,783
Cash and cash equivalents at beginning of year		310,815	237,032
Cash and cash equivalents at end of year	$	288,777	310,815
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	63,049	57,675
Depreciation and amortization expense		56,938	54,393
Decrease (increase) in operating assets:			
Accounts receivable		(5,224)	(7,151)
Accrued water services and fire protection revenues		8,086	271
Materials and supplies and prepayments		(2,051)	1,381
Other assets		(70)	252
Increase (decrease) in operating liabilities:			
Accounts payable		1,553	1,129
Accrued employee welfare costs		(143)	(288)
Postemployment benefits other than pension, net of deferred amounts		(3,310)	12,965
Other accrued liabilities		812	(162)
Net pension liability, net of deferred amounts		(7,101)	(3,175)
Net cash provided by operating activities	$	112,539	117,290
Noncash investing activities:			
Change in the fair value of investments and discount/premium expense	$	(8,468)	(1,869)
Amortization of deferred amounts on refinancing		2,794	1,657

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

Suffolk County Water Authority ("the Authority") is an independent public benefit corporation operating under the Public Authorities Law of the State of New York. The Authority was created by resolution of the Suffolk County Board of Supervisors in 1937, with a twofold purpose. The first was to acquire, construct, maintain, and operate a public water supply for Suffolk County. The second was to develop a single, integrated public water supply and distribution system to serve all of Suffolk County. The accounts of the Authority are maintained generally in accordance with the *Uniform System of Accounts* prescribed by the New York State Public Service Commission (PSC), although the Authority is not subject to PSC rules and regulations. The rates established by the Authority do not require PSC or Suffolk County legislative approval.

(a) Basis of Presentation

In its accounting and financial reporting, the Authority follows the pronouncements of the Governmental Accounting Standards Board (GASB). In accordance with GASB standards, the accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. As required by GASB standards, the transactions of the Authority are accounted for on a flow of economic resources measurement focus and accrual basis of accounting.

(b) Water Plant (Capital Assets)

Water plant is recorded at historical cost. The capitalized cost of additions to water plant includes charges for ancillary construction costs such as engineering, supervision, payroll taxes, and pension benefits. The original cost of property replaced, retired, or otherwise disposed of in ordinary retirements is deducted from plant accounts and together with costs to remove, less any salvage, is charged to accumulated depreciation. The costs of repairs, minor betterments, and renewals are charged to maintenance expense as incurred.

(c) Depreciation

The provisions for depreciation for water plant result from the application of straight-line rates by groups of depreciable properties in service. The rates are determined by age-life studies performed on depreciable properties. The most recent rate study, done in November 2003, established the composite depreciation rate of 2.84%. The Authority reviews the composition of its fixed assets annually to determine the appropriateness of this depreciation rate. The Authority determined that the depreciation rate of 2.84% is appropriate at May 31, 2022 and 2021.

(d) Cash and Cash Equivalents and Investments

Funds held by the Authority are administered in accordance with the Authority's investment guidelines pursuant to Section 2925 of the New York State Public Authorities Law. These guidelines comply with the New York State Comptroller's investment guidelines for public authorities. Certain investments and cash and cash equivalents have been designated by the Authority's board of trustees to be used for specific purposes, including rate stabilization, debt service, and capital expenditures.

Investments with original maturities of 90 days or less are considered cash equivalents.

All investments with original maturities of longer than 90 days are reported as investments and are carried at fair value, except for money markets, guaranteed investment contracts, and certificates of deposit. Money markets, guaranteed investment contracts, and certificates of deposit are valued at amortized cost.

(e) Investments Held for Debt Service

In accordance with the 1988 General Bond Resolution, as amended (the Resolution), the Authority maintains a debt service reserve. This reserve is held by a fiscal agent.

Investments held for debt service reserve and bond funds are used solely for the purpose of paying the principal and interest on the bonds, and for retiring the bonds prior to maturity and are reported as restricted investments in the accompanying statements of net position. Amounts in the debt service and bond funds are invested in U.S. Treasury notes and U.S. government-sponsored entity securities.

(f) Investments Held for Construction

In accordance with the Resolution, investments held for construction in the construction fund are for the costs of acquiring, constructing, and replacing the water system and are reported as restricted investments in the accompanying statements of net position.

(g) Goodwill

Goodwill was derived from the Authority’s acquisition of various private water purveyors where the purchase price paid exceeded the net position acquired. The Authority amortizes goodwill over a 40-year period.

(h) Advances for Construction and Capital Reimbursement Fees

Under current standard construction contracts with residential real estate developers and others, the developer advances to the Authority the cost of new main installations based on a flat cost per foot. Upon completion of construction, the moneys are recognized as capital reimbursement fees in the statements of revenues, expenses, and changes in net position.

There exist certain construction contracts with residential real estate developers and others, whereby the developer advances to the Authority the cost of new main installations based on actual costs. Upon completion of construction, the developer is either billed (not to exceed 10% of original estimate) or refunded the difference between the advance and actual cost. The moneys paid by the developer are recognized as capital reimbursement fees in the statements of revenues, expenses, and changes in net position when the construction is completed.

Capital reimbursement fees also include service, tapping, and other fees.

(i) Managed Water Districts

The Towns of Islip, Babylon, Brookhaven, Southampton, Shelter Island, and the Village of Dering Harbor, on behalf of the water districts of Brentwood, East Farmingdale, Stony Brook, Riverside, Shelter Island West Neck, and Dering Harbor, respectively, have entered into 40-year lease agreements with the Authority, whereby the Authority agrees to operate, construct, maintain, and repair, at its own expense, the entire operating plant in exchange for an agreed upon fee. The Towns and Village of Dering Harbor, on behalf of the respective districts, agree to lease the rights, title, and interest to the entire operations, plant, hydrants, and distribution system, real property, of the districts, and all extensions thereto. These leases expire between 2040 and 2062.

(j) Water District Contracts

The Authority has contracted with various municipalities throughout Suffolk County for the purpose of installing water mains within the related municipality's created water district. Under the terms of these contracts, the municipality agrees to pay for the installation of the water main, plus interest over a 38-year period. The Authority agrees to provide a credit against the annual payment due equal to a percentage of the water revenues collected from customers within the designated water improvement area. The amount of the credit cannot exceed the gross payments due.

As of May 31, 2022, the Authority had 6 active contracts where the credit did not equal the gross amount due. Annual gross payments for these contracts range from $2,800 to $291,000 with final maturity dates through 2032. The cumulative gross payments due for all of these water district contracts through their respective maturity dates at May 31, 2022 and 2021 amount to approximately $2.2 million and $2.6 million, respectively. The Authority has determined that it has the right to offset the asset and liability created from these contracts and therefore, these amounts are not reflected on the statements of net position as of May 31, 2022 and 2021.

The cost of these installations has been paid for and capitalized through the Authority's capital budget.

(k) Net Position

The Authority's net position represents the excess of assets plus deferred outflows of resources over liabilities less deferred inflows of resources and is categorized as follows:

Net investment in capital assets are the amounts expended by the Authority for the acquisition of capital assets, net of accumulated depreciation, and related debt and deferred amounts due to bond refunding.

Restricted net position is the net position that has been restricted as to use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position is the remaining net position, which can be further categorized as designated or undesignated. Designated assets are not governed by statute or contract but are committed for specific purposes pursuant to the Authority's policy and/or board directives. Designated assets include funds and assets committed to working capital and water quality.

(l) Bond Discounts and Premiums

Discounts and premiums are amortized over the life of the related bond issues. Deferred bond refunding costs are amortized to expense over the shorter of (1) the life of the refunding bonds or (2) the refunded bonds and are reported as deferred outflows of resources in the accompanying statements of net position.

(m) Accrued Employee Welfare Costs

The Authority permits employees to accumulate a limited amount of earned but unused leave benefits, which will be paid to employees upon separation from service. Unpaid compensated absences are recorded as a liability in the accompanying statement of net position. As of May 31, 2022 and 2021, the accrued employee welfare costs are $7.9 million and $8.3 million, respectively.

(n) Net Pension (Asset) Liability and Related Pension Amounts

For purposes of measuring the net pension (asset) liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the New York State and Local Employees' Retirement System (the System), and additions to/deductions from the System's fiduciary net position have been determined on the same basis as they are reported by the System. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the statutes governing the System. Investments of the System are reported at fair value.

(o) Revenues

The Authority distinguishes operating revenues and expenses from nonoperating items in the preparation of its financial statements. Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations. Water service revenues are recognized based on actual customer water usage, including estimates for unbilled periods. Other operating revenues are recognized when service has been rendered and collection is reasonably assured. The Authority's operating expenses include operations and maintenance expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

(p) Use of Resources

Pursuant to the Resolution, revenues received are used as follows: (1) payment of operations and maintenance expenses, (2) payment of debt service, and (3) any lawful purpose of the Authority, including use by the construction fund. The payment of capital expenditures is generally done with restricted bond proceeds, other restricted resources, and by funds previously transferred to the general fund.

(q) Income Taxes

As a public benefit corporation of the State of New York, the Authority is exempt from federal, state, and local income taxes.

(r) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) 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 revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the useful lives of capital assets, the valuation of accounts receivable, inventory, financial instruments other than cash, accrued water services and fire protection revenues, accrued

(Continued)

employee welfare costs, workers' compensation and postemployment benefits, pension benefits, and other uncertainties and other contingencies.

(s) Workers' Compensation

The Authority self-insured its workers' compensation coverage in accordance with New York statutory regulations, effective April 1, 2016. Excess insurance was purchased to cover any liability that exceeds $800,000 per claim. A national third-party claims administrator (TPA) administers claims for the Authority.

(t) Fair Value Measurement

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the financial statement measurement date. The fair value hierarchy categories the inputs to valuation techniques used to measure fair value into three levels as follows:

- Level 1 – unadjusted quoted or published prices for identical assets or liability in active markets that a government can access at the measurement date
- Level 2 – quoted or published prices other than those included within Level 1 and other inputs that are observable for an asset or liability, either directly or indirectly
- Level 3 – unobservable inputs for an asset or liability

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3. When the fair value of an asset or a liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is based on the lowest priority level that is significant to the entire measurement.

(u) Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring other postemployment benefits (OPEB) liabilities, deferred outflows of resources, deferred inflows of resources, and expenses related to OPEB in the financial statements, a third party, independent actuarial evaluation is performed.

(v) Accounting Pronouncements Applicable to the Authority, Issued but Not Yet Effective

In June 2017, the GASB issued Statement No. 87, *Leases* (GASB 87). The statement addresses accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that are currently classified as operating leases and recognized as inflows of resources or outflows of resources. GASB 87 establishes the lessee's requirement to recognize a lease liability and an intangible right-to-use lease asset. Additionally, GASB 87 establishes the lessor's requirement to recognize a lease receivable and a deferred inflow of resources. In May 2020, the GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. This statement allows governments and other stakeholders to postpone the effective dates of certain provisions that first became effective or are scheduled to become effective for the period beginning after June 15, 2018, and later; this includes GASB 87, which can be postponed by 18 months. GASB 87 will be effective for the Authority for the fiscal year ending May 31, 2023. The Authority is currently assessing the impact of GASB 87 on its financial statements.

(Continued)

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements* (GASB 96). This statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for governments. This statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset – an intangible asset – and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires not disclosures regarding a SBITA. GASB 96 will be effective for the Authority for the fiscal year ending May 31, 2024.

In April 2022, GASB issued Statement No. 99, *Omnibus 2022* (GASB 99). The objectives of this statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements involving leases, public-private partnerships (PPPs), and subscription-based information technology arrangements (SBITAs), use of LIBOR and derivative instruments, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63, and (2) accounting and financial reporting for financial guarantees. The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance. The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter. The Authority is currently assessing the impact of GASB 99 on its financial statements.

In June 2022, the GASB issued Statement No. 101, *Compensated Absences* (GASB 101). This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. GASB 101 will be effective for the Authority for the fiscal year ending May 31, 2025.

(2) Capital Assets, Net

		May 31, 2021	Additions/ reclassifications	Deletions/ reclassifications	May 31, 2022
			(In thousands)		
Land and land rights (non-depreciable)	$	27,028	—	—	27,028
Distribution systems		1,201,613	44,086	(1,094)	1,244,605
Wells, reservoirs, and structures		388,648	12,907	(130)	401,425
Pumping and purification equipment		179,691	2,894	(29)	182,556
Meters		90,744	1,291	(912)	91,123
Compressors/backhoes		5,053	—	—	5,053
Computer equipment		34,234	1,592	(8)	35,818
Equipment		37,553	708	(91)	38,170
Hydrants		53,505	1,292	(327)	54,470
Water plant in service		2,018,069	64,770	(2,591)	2,080,248
Less accumulated depreciation		(845,990)	(56,787)	2,591	(900,186)
Net water plant in service		1,172,079	7,983	—	1,180,062
Construction in progress		31,044	77,305	(64,770)	43,579
Water plant	$	1,203,123	85,288	(64,770)	1,223,641

In 2022, the additions to construction in progress of $78.5 million are comprised of the following: construction projects of $41.3 million, hydrants $1.1 million, services $5.8 million, wells $5.9 million, tanks $6.0 million, treatment facilities $12.1 million, pump stations $2.1 million, meters $1.3 million, fleet

$1.8 million, equipment $0.9 million, technological advancement $1.1 million, less other miscellaneous adjustments of $0.9 million.

		May 31, 2020	Additions/ reclassifications	Deletions/ reclassifications	May 31, 2021
			(In thousands)		
Land and land rights (non-depreciable)	$	27,027	1	—	27,028
Distribution systems		1,122,655	82,347	(3,389)	1,201,613
Wells, reservoirs, and structures		368,702	20,534	(588)	388,648
Pumping and purification equipment		176,852	3,938	(1,099)	179,691
Meters		89,965	1,563	(784)	90,744
Compressors/backhoes		5,053	—	—	5,053
Computer equipment		32,249	1,985	—	34,234
Equipment		36,149	1,404	—	37,553
Hydrants		52,328	1,730	(553)	53,505
Water plant in service		1,910,980	113,502	(6,413)	2,018,069
Less accumulated depreciation		(798,161)	(54,242)	6,413	(845,990)
Net water plant in service		1,112,819	59,260	—	1,172,079
Construction in progress		74,071	70,475	(113,502)	31,044
Water plant	$	1,186,890	129,735	(113,502)	1,203,123

In 2021, the additions to construction in progress of $70.5 million are comprised of the following: construction projects of $35.6 million, wells $5.5 million, tanks $5.0 million, equipment $1.1 million, meters $1.5 million, services $5.6 million, treatment facilities $10.4 million, pump stations $2.9 million, fleet $1.0 million, hydrants $1.5 million, technological advancement $1.7 million, less other miscellaneous adjustments of $1.3 million.

Depreciation and amortization expenses amounted to approximately $56.8 million and $54.4 million for the years ended May 31, 2022 and 2021, respectively.

(3) Cash and Cash Equivalents and Investments

(a) Cash and Cash Equivalents

Cash consists of deposits insured by the Federal Deposit Insurance Corporation (FDIC) or collateralized deposits that have carrying values of approximately $288.8 million and $310.8 million and bank balances of approximately $292.5 million and $314.5 million at May 31, 2022 and 2021, respectively. Collateral for deposits is held by a third-party bank in the name of the Authority.

(b) Investments

Investments, including restricted investments, at May 31, 2022 and 2021, consist of the following (dollars in thousands):

	May 31, 2022			
		Investment maturities (in years)		
	Total	Less than 1	1 to 5	Greater than 5
Certificates of deposit *	$ 756	—	756	—
U.S. Treasury notes (1)	73,155	—	72,779	376
U.S. Treasury bonds (1)	847	—	847	—
FNMA notes (1)	6,514	—	6,514	—
FHLB notes (1)	46,903	—	28,239	18,664
FHLMC notes (1)	11,365	—	11,365	—
FFCB notes (1)	3,800	—	1,950	1,850
NYS municipal bonds	20,716	—	20,716	—
Guaranteed investment contracts (1) *	28,695	28,695	—	—
Total investments	$ 192,751	28,695	143,166	20,890

* Reported at amortized cost

(1) Includes approximately $111.9 million of investments, including cash, held by a fiscal agent in the Authority's name at May 31, 2022

	May 31, 2021			
		Investment maturities (in years)		
	Total	Less than 1	1 to 5	Greater than 5
Certificates of deposit *	$ 1,304	510	794	—
U.S. Treasury notes (1)	66,521	—	66,521	—
U.S. Treasury bonds (1)	847	—	847	—
FNMA notes (1)	18,681	9,724	8,957	—
FHLB notes (1)	21,398	9,432	9,965	2,001
FHLMC notes (1)	11,968	—	11,968	—
FFCB notes (1)	2,999	—	2,999	—
NYS municipal bonds	18,147	—	18,147	—
Money markets *	46,060	46,060	—	—
Guaranteed investment contracts (1) *	20,651	20,651	—	—
Total investments	$ 208,576	86,377	120,198	2,001

* Reported at amortized cost

(1) Includes approximately $107.1 million of investments, including cash, held by a fiscal agent in the Authority's name at May 31, 2021

		2022	2021
Investment breakdown:			
Restricted for:			
Debt service	$	111,886	107,175
Construction		—	46,060
Unrestricted		80,865	55,341
Total investments	$	192,751	208,576

Accrued interest on investments other than guaranteed investment contracts is included in interest and other receivables on the statements of net position. Investments bear interest at rates that range from 0.01% to 3.12%.

The Authority's investment policy states that securities underlying repurchase agreements must have a market value at least equal to the cost of the investment. All investments are either insured or registered and held by the Authority or its agent in the Authority's name.

U.S. Treasury notes and bonds are considered Level 1 in the fair value hierarchy. All other investments are considered Level 2 in the fair value hierarchy due to the fair value being determined through matrix pricing or quoted prices for identical securities in markets not considered active.

Interest Rate Risk: The Authority's investment policy does not include limits on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk: It is part of the Authority's investment policy to safeguard the principal of its investments while obtaining the highest interest rate possible that is consistent with this and other components of its policy. Toward that end, permitted investments include but are not limited to federally backed securities or obligations of any state of the United States of America or any political subdivision rated by at least two nationally recognized bond-rating agencies. As of May 31, 2022, the Authority's investments in Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank Notes, and the Federal Home Loan Mortgage Corporation were rated Aaa by Moody's Investors Service and AA+ by Standard & Poor's Ratings Services and Fitch Ratings. The Authority's investments in NYS Municipal Bonds were rated AA1 by Moody's Investors Service and AAA to AA+ by Standard & Poor's Ratings Services and Fitch Ratings.

Concentration of Credit Risk: The Authority places no limit on the amount the Authority may invest in any one issuer. More than 5% of the Authority's investments are in U.S. Treasury Notes ($73.2 million or 37.9% of investments), NYS Municipal Bonds ($20.7 million or 10.7% of investments), Federal Home Loan Bank ($46.9 million or 24.3% of investments), and Federal Home Loan Mortgage Corporation ($11.4 million or 5.9% of investments) at May 31, 2022. As of May 31, 2021, the Authority invested more than 5% in U.S. Treasury Notes ($66.5 million or 31.9% of investments), NYS Municipal Bonds ($18.1 million or 8.7% of investments), Federal Home Loan Bank ($21.4 million or 10.3% of investments), Federal National Mortgage Association ($18.7 million or 9.0% of Investments), and Federal Home Loan Mortgage Corporation ($11.9 million or 5.7% of investments).

(4) Bonds Payable

Outstanding bonds are summarized as follows (dollars in thousands):

Series	Interest rate(s)	Final maturity date	May 31, 2021	Issued	Matured/ refunded	May 31, 2022	Due within one year
Water System Revenue Bonds:							
2009 B Senior Lien	5.50%	2035	$ 100,000	—	—	100,000	—
2012 A Senior Lien	3.00–3.75%	2038	80,000	—	—	80,000	—
2013 Senior Lien	3.00–4.00%	2029	62,380	—	—	62,380	—
2014 A Senior Lien	3.13–5.00%	2040	45,065	—	(13,155)	31,910	—
2014 B Senior Lien	3.50–5.25%	2040	50,000	—	—	50,000	—
2015 Senior Lien	3.00–5.00%	2032	113,470	—	(1,290)	112,180	—
2015 A Senior Lien	4.00–5.25%	2040	49,105	—	—	49,105	—
2016 A Senior Lien	3.00–5.00%	2042	84,280	—	—	84,280	—
2016 B Senior Lien	3.25%	2042	40,000	—	—	40,000	—
2016 Senior Lien	3.00–5.00%	2035	50,935	—	(5,685)	45,250	1,610
2018A Senior Lien	3.25-5.00%	2043	100,000	—	—	100,000	—
2020B Senior Lien	3.00%	2045	87,000	—	—	87,000	—
2020 Senior Lien	.91-2.43%	2040	88,280	—	(28,025)	60,255	8,780
Environmental Facilities Corporation Revenue Bonds:							
2011 C	3.566%	2022	1,032	—	(411)	621	621
2012 B	5.002%	2022	824	—	(254)	570	569
2013 B	4.500%	2023	1,193	—	(400)	793	793
2014 B	4.878-4.964%	2024	1,633	—	(370)	1,263	340
2015 D	3.915-4.020%	2025	2,014	—	(375)	1,639	370
2020 A	0.00%	2046	9,495	—	(380)	9,115	380
Total bonds outstanding			966,706	—	(50,345)	916,361	$ 13,463
				Additions	Amortization/ payments		
Unamortized premium (discount), net			21,994	—	(3,534)	18,460	
Current maturities payable			(5,455)	(13,463)	5,455	(13,463)	
			$ 983,245	(13,463)	(48,424)	921,358	

Series	Interest rate(s)	Final maturity date	May 31, 2020	Issued	Matured/ refunded	May 31, 2021	Due within one year
Water System Revenue Bonds:							
2009 B Senior Lien	5.50%	2035	$ 100,000	—	—	100,000	—
2011 Senior Lien	4.75–5.00%	2040	24,930	—	(24,930)	—	—
2012 Senior Lien	3.00–5.00%	2026	64,640	—	(64,640)	—	—
2012 A Senior Lien	3.00–3.75%	2038	80,000	—	—	80,000	—
2013 Senior Lien	3.00–4.00%	2029	62,380	—	—	62,380	—
2014 A Senior Lien	3.13–5.00%	2040	45,065	—	—	45,065	—
2014 B Senior Lien	3.50–5.25%	2040	50,000	—	—	50,000	—
2015 Senior Lien	3.00–5.00%	2032	114,000	—	(530)	113,470	—
2015 A Senior Lien	4.00–5.25%	2040	49,105	—	—	49,105	—
2016 A Senior Lien	3.00–5.00%	2042	84,280	—	—	84,280	—
2016 B Senior Lien	3.25%	2042	40,000	—	—	40,000	—
2016 Senior Lien	3.00–5.00%	2035	52,415	—	(1,480)	50,935	1,545
2018A Senior Lien	3.25-5.00%	2043	100,000	—	—	100,000	—
2020B Senior Lien	3.00%	2045	87,000	—	—	87,000	—
2020 Senior Lien	.39-2.43%	2040	—	88,280	—	88,280	1,720
Environmental Facilities Corporation Revenue Bonds:							
2011 A	3.815–3.989%	2021	868	—	(868)	—	—
2011 C	3.165–3.566%	2022	2,790	—	(1,758)	1,032	411
2012 B	4.982–5.000%	2022	1,282	—	(458)	824	254
2013 B	4.454–4.500%	2023	1,586	—	(393)	1,193	400
2014 B	4.813-4.960%	2024	1,998		(365)	1,633	370
2015 D	3.875-4.020%	2025	2,379		(365)	2,014	375
2020 A	0.00%	2046	9,875	—	(380)	9,495	380
Total bonds outstanding			974,593	88,280	(96,167)	966,706	$ 5,455
				Additions	Amortization/ payments		
Unamortized premium (discount), net			26,753	—	(4,758)	21,995	
Current maturities payable			(6,597)	(5,455)	6,597	(5,455)	
			$ 994,749	82,825	(94,328)	983,246	

In accordance with bond covenants, the Authority is required to guarantee the payment of principal and interest by establishing a reserve fund for each bond issue and funding the reserve account with a portion of the proceeds from the respective bond issue or from the Authority's unrestricted funds.

In satisfaction of the reserve account requirements of each Water System Revenue Bond Issue, the Authority may provide a letter of credit, surety agreement, insurance agreement, or other type of agreement with any entity whose obligations are rated in one of the two highest rating categories by Standard & Poor's Ratings Services or Moody's Investors Service. If, at any time, the rating issued by Standard & Poor's Ratings Services or Moody's Investors Service falls below such two highest ratings, then within 12 months thereafter, the Authority shall use its best efforts to either, at its option, replace such a credit agreement with an entity whose obligations are rated with such two highest ratings or deposit into the reserve account sufficient moneys in accordance with the respective bond resolution to replace such credit agreement.

For the fiscal years 2022 and 2021, the Authority, at its own discretion, has elected to fund the reserve accounts in the amount of $83.2 million and $86.6 million from bond proceeds, respectively.

(a) Water System Revenue Bonds

The Water System Revenue Bonds are issued to finance the cost of acquisition and construction of improvements and additions to the water system. The Senior Lien Water System Revenue Bonds are payable solely from net revenues of the Authority's water system. The Water System Subordinate Revenue Bonds are payable solely from net revenues available after payment of debt service on Senior Lien Revenue Bonds issued by the Authority.

In May 2022, the Authority completed a bond defeasance of $44.9 million Water System Revenue Bonds from its General Fund. The bonds defeased are comprised of $13.2 million of the Water System Revenue Bonds, Series 2014A, $1.3 million of the Water System Revenue Bonds, Series 2015 (Refunding), $4.1 million of the Water System Revenue Bonds, Series 2016 (Refunding), and $26.3 million of the Water System Revenue Bonds Series 2020 (Refunding),Taxable. The Authority funded a 2022 bond defeasance escrow account for a total of $46.6 million which includes $1.7 million for interest due on the defeased bonds that mature on June 1, 2023 and June 1, 2024.

In June 2020, the Authority issued $88.3 million of Suffolk County Water Authority Water System Revenue Bond Taxable Series 2020 (Refunding Bonds) to provide for the advanced refunding of $24.9 million of Series 2011 (Refunding Bonds) and $64.6 million of Series 2012 (Refunding Bonds). The $88.3 million proceeds of the Series 2020 (Refunding Bonds) were used to fund the escrow account for $94.2 million, to fund the 2020 Refunding Reserve of $5.0 million, to pay cost of issuance of $0.4 million, and to fund the 2020 Refunding Bond Fund of $0.8 million. These costs were offset by the $12.1 million release of debt service reserve funds related to the Series 2011 refunding and Series 2012 refunding. This refunding resulted in a net present value savings of approximately $12.9 million and a cash savings of approximately $13.3 million. The Series 2020 (Refunding Bonds) bear interest rates ranging from 0.39% to 2.43% and have a final maturity date of June 1, 2040.

(b) Environmental Facilities Corporation Revenue Bonds (EFC Revenue Bonds)

The State of New York has established a State Drinking Water Program, which includes a state drinking water revolving fund (the Revolving Fund) to be used for purposes of the Safe Drinking Water Act. The New York State Environmental Facilities Corporation (NYS EFC) is responsible for administering the Revolving Fund and providing financial assistance from the Revolving Fund. NYS EFC issues bonds, the proceeds of which are used to fund the Revolving Fund, which then provides loans to the private water companies, political subdivisions, and public benefit corporations of the State of New York. The Authority has been issued a portion of the total bond proceeds in the amounts stated in the table above to finance safe drinking water projects.

Since June 2010, the Authority has participated in the NYS EFC Refunding Program initiated by the NYS EFC on behalf of the municipalities that initially financed projects through the State Clean Water and Drinking Water Revolving Funds as more fully described below. The NYS EFC refunded certain Suffolk County Water Authority NYS EFC Bond Series with new bonds issued at lower current-market interest rates, thus passing the interest savings net of NYS EFC financing costs along to the Authority in the form of reduced debt service bills.

In fiscal years 2022 and 2021, the Authority has not participated in any new NYS EFC bond issues, with the exception of the 2021B refinancing of the Series 2011C Bonds initiated by the NYS Environmental Corporation in December 2021. This refinance initiative reduced the Authority's future debt service payments on an outstanding principal balance of $0.6 million while the remaining principal and interest due on the bonds remain unchanged.

Throughout its history, the Authority has defeased certain debt obligations by placing the proceeds of new bonds and its own funds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Authority's financial statements. At May 31, 2022, the amount of defeased debt obligation outstanding was approximately $51.6 million, a decrease from $108.5 million from May 31, 2021. This decrease is attributable to $101.8 million of defeased debt fully redeemed after May 31, 2021 and the addition of the 2022 $44.9 million bond defeasance of the Suffolk County Water Authority Revenue Bond Series 2014A, 2015 (Refunding), 2016 (Refunding and the 2020 Taxable (Refunding)that mature on June 1, 2023 and June 1, 2024.

Interest expense, net of debt discount and premium and costs of issuance on the bonds, was $30.8 million for the year ended May 31, 2022 and $31.5 million in 2021. The decrease of $0.7 million is attributable to a decrease in interest expense net of subsidy of $0.3 million and a decrease of $0.4 million in cost of issuance from the 2020 Taxable Refunding bond issue in FY 2021 net of amortization expense.

Bond maturities payable, including mandatory sinking fund redemptions, over the next five fiscal years and thereafter are as follows (dollars in thousands):

	Principal	Interest	Total
Fiscal years ending:			
2023	13,463	32,967	46,430
2024	1,070	32,894	33,964
2025	1,313	32,851	34,164
2026	27,154	32,209	59,363
2027	18,175	31,666	49,841
2028–2032	171,904	139,522	311,426
2033–2037	218,784	99,032	317,816
2038–2042	265,524	50,173	315,697
2043–2047	198,974	8,312	207,286
	$ 916,361	459,626	1,375,987

(5) Debt Service Requirements

As prescribed in the Authority's Bond Resolution, the Authority is required to maintain a reserve account for each Series of Bonds to be held in the custody of the Bond Fund Trustee in an amount equal to the lesser of (1) 10% of the proceeds of the particular bond issue, (2) the maximum debt service due on the particular bond issue, or (3) up to 125% of the average of the annual installments of debt service with respect to all current and future years of the particular bond issue. The Resolution permits the Authority to deposit a letter of credit, surety agreement, insurance agreement, or other type of agreement or arrangement with an entity whose obligations are rated in one of the two highest rating categories by Standard and Poor's Ratings Services or Moody's Investors Service to satisfy the reserve account requirements. At May 31, 2022, the debt service reserve funds were approximately $84.5 million. In addition, there is $27.4 million in the Bond Funds.

Revenue before interest expense and depreciation and amortization was equivalent to 3.36 times (3.17 in 2021) the debt service requirement on all outstanding debt. The minimum debt service requirement on all bonds is 1.10.

(6) Pension Plan

The Authority participates in the New York State and Local Employees' Retirement System (the System), a cost-sharing multiple-employer retirement system. The System provides retirement benefits as well as death and disability benefits. The net position of the System is held in the New York State Common Retirement Fund (the Fund), which was established to hold all net assets and record changes in fiduciary net position allocated to the System. The Comptroller of the State of New York serves as the trustee of the Fund and is the administrative head of the System.

System benefits are established under the provisions of the New York State Retirement and Social Security Law (RSSL). Once a public employer elects to participate in the System, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute. The Authority also participates in the Public Employees' Group Life Insurance Plan (GLIP), which provides death benefits in the form of life insurance. The System issues their own financial statements. That report, including information regarding benefits provided, may be found at www.osc.state.ny.us/retire/about_us/financial_statements_index.php or obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, NY 12244.

(a) Contributions

The System is contributory, employees contribute 3% of their salary for the first 10 years of membership, and employees who joined on or after January 1, 2010 contribute throughout employment. Under the authority of the RSSL, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions based on salaries paid during the System's fiscal year ending March 31. The System offers a range of programs and benefits that vary based on the date of membership, years of credited service and final average salary, vesting of retirement benefits, disability benefits, and optional methods of benefit payments. Contributions for the current year and two preceding years were equal to 100% of the contributions required, and were as follows (dollars in thousands):

2020	$	6,548
2021		6,718
2022		7,745

(b) Pension (Assets) Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At May 31, 2022 and 2021, the Authority reported an asset of $13.6 million and a liability of $0.2 million for its proportionate share of the System's net pension (asset) liability, respectively. The net pension (asset) liability reported by the Authority at May 31, 2022 and 2021 was measured as of March 31, 2022 and 2021, respectively, and the total pension (asset) liability used to calculate the net pension (asset) liability was determined by actuarial valuations as of April 1, 2021 and April 1, 2020, respectively. The Authority's proportion of the System's net pension (asset) liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined.

At May 31, 2022 and 2021, the Authority's proportion was 0.1666300% and 0.1582059%, respectively. For the years ended May 31, 2022 and 2021, the Authority recognized pension expense of $0.1 million and $3.6 million, respectively.

At May 31, 2022 and 2021, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

	2022	
	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$ 1,031	1,338
Changes of assumptions	22,732	384
Net difference between projected and actual investment earnings on pension plan investments	—	44,604
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,100	466
Contributions made subsequent to the measurement date	1,291	—
Total	$ 26,154	46,792

	2021	
	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$ 1,924	—
Changes of assumptions	28,965	546
Net difference between projected and actual investment earnings on pension plan investments	—	45,252
Changes in proportion and differences between employer contributions and proportionate share of contributions	578	750
Contributions made subsequent to the measurement date	1,120	—
Total	$ 32,587	46,548

Deferred outflows of resources relating to contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability in the next fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (dollars in thousands):

Year ended May 31:	
2023	$ (3,382)
2024	(4,866)
2025	(11,454)
2026	(2,226)
2027	—

(c) Actuarial Assumptions

The total pension (asset) liability at March 31, 2022 and 2021 was determined by using an actuarial valuation as of April 1, 2021 and 2020, with update procedures used to roll forward the total pension (asset) liability to March 31, 2022 and 2021, respectively.

Significant actuarial assumptions used in the April 1, 2021 and 2020 valuations were as follows:

Investment rate of return	5.9%
Salary scale	4.4%
Inflation rate	2.7%
Cost of living adjustments	1.4% annually
Decrements	Developed from the System's 2015 experience study of the period April 1, 2015 through March 31, 2020
Mortality improvement	Society of Actuaries Scale MP-2020

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best-estimates of arithmetic real rates of return for each major asset class as of March 31, 2022 and 2021 are summarized as follows:

	2022	
Asset class	**Target allocation**	**Long-term expected real rate**
Domestic equity	32 %	3.30 %
International equity	15	5.85
Private equity	10	6.50
Real estate	9	5.00
Opportunistic/ARS portfolio	3	4.10
Credit	4	3.78
Real assets	3	5.80
Fixed Income	23	—
Cash	1	(1.00)
	100 %	

	2021	
Asset class	**Target allocation**	**Long-term expected real rate**
Domestic equity	32 %	4.05 %
International equity	15	6.30
Private equity	10	6.75
Real estate	9	4.95
Opportunistic/ARS portfolio	3	4.50
Credit	4	3.63
Real assets	3	5.95
Fixed Income	23	—
Cash	1	0.50
	100 %	

(d) Discount Rate

The discount rate used to measure the total pension liability as of March 31, 2022 and 2021 was 5.9%. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially. Based upon these assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension (asset) liability.

(e) Sensitivity of the Proportionate Share of the Net Pension (Asset)/Liability to the Discount Rate

The following presents the Authority's proportionate share of the net pension (asset) liability at May 31, 2022 and 2021 calculated using the discount rate assumptions of 5.9%, for the March 31, 2022 and March 31, 2021 measurements, as well as what the Authority's proportionate share of the net pension (asset) liability would be if it were calculated using a discount rate that is one-percentage point lower or one-percentage-point higher than the current rate (dollars in thousands):

		2022		
		1% Decrease 4.9%	**Current assumption 5.9%**	**1% Increase 6.9%**
Authority's proportionate share of the net pension (asset) liability	$	35,061	(13,621)	(54,342)

		2021		
		1% Decrease 4.9%	**Current assumption 5.9%**	**1% Increase 6.9%**
Authority's proportionate share of the net pension (asset) liability	$	43,725	158	(40,022)

(f) Pension Plan Fiduciary Net Positions

The components of the current-year net pension (asset) liability of the System as of March 31, 2022 and 2021, were as follows (dollars in thousands):

		2022	**2021**
Employer's total pension liability	$	223,874,888	220,680,157
System's fiduciary net position		232,049,473	220,580,583
Employer's net pension (asset) liability	$	(8,174,585)	99,574
System fiduciary net position as percentage of total pension liability		103.65 %	99.95 %

(7) Deferred Compensation

All Authority employees may participate in the New York State Deferred Compensation Plan ("NYSDCP") designated as an Internal Revenue Code Section 457 plan. This program enables employees to contribute a portion of their salary to group variable annuity contracts. The assets and related liabilities of the plan are recorded at the assets' market values and are excluded from the Authority's statements of net position. The Authority has no obligation to make contributions to the deferred compensation program. The Authority remits deferred compensation amounts withheld from employees' salaries to an outside fiduciary agent who administers the program and invests program assets as instructed by each of the participants. Assets in such program amounted to approximately $78.1 million and $81.3 million at May 31, 2022 and 2021, respectively.

(8) Postemployment Benefits Other than Pensions

The Authority sponsors a single-employer defined benefit health plan through the New York State Health Insurance Plan (NYSHIP). The State administers NYSHIP and has the authority under Article XI of Civil Service Law to establish and amend the benefit provisions offered. NYSHIP is considered a single employer defined benefit plan offered by the Authority to its participants. There is no statutory requirement for the Authority to continue in this plan for future Authority employees. The Authority sponsors a single-employer dental and optical plan and provides dental and optical benefits for eligible retirees and their spouses. Substantially all employees may become eligible for these benefits if they reach normal retirement age while working for the Authority. A publicly available financial report for the plan is not issued.

The health, dental, and optical plans for employees hired after January 1, 2017 contribute 15% through payroll deduction; for employees hired prior to January 1, 2017 the plan is noncontributory for active employees, with all payments for plan benefits being funded by the Authority. Upon retirement, the cost of the dental and optical plans is partially funded by the Authority and the balance by the retiree. During fiscal years 2022 and 2021, there were 1,025 participants (551 active and 474 inactive) and 996 participants (556 active and 440 inactive), respectively, that were eligible to receive benefits.

GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, establishes guidance for the financial reporting of other postemployment benefits (OPEB) cost over a period that approximates employees' years of service and providing information about actuarially calculated liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan.

Whereas no legislation has been enacted to establish a dedicated trust for these funds, the accrued liability remains unfunded. However, during 2012, to mitigate possible future rate impact related to any enacted legislation, the Authority has established an undedicated reserve for this purpose. As of May 31, 2022 and 2021, the undedicated reserve is $103.0 million and $88.8 million, respectively and is recorded in cash and cash equivalents on the statement of net position.

(a) Total OPEB Liability

The Authority's total OPEB liability of $270.4 million and $363.0 million was measured as of May 31, 2022 and 2021, respectively, and was determined by an actuarial valuation as of that date.

The following table shows the changes in the Authority's total OPEB obligation for the years ended May 31, 2022 and 2021 (dollars in thousands):

		2022	2021
Total OPEB Liability:			
Service cost	$	14,194	10,581
Interest		5,928	8,214
Changes in assumptions		(99,851)	55,592
Differences between expected and actual experience		(4,238)	(8,960)
Benefit payments		(8,639)	(8,385)
Net changes		(92,606)	57,042
Total OPEB Liability, beginning of year		362,964	305,922
Total OPEB Liability, end of year	$	270,358	362,964

There were no changes to benefit terms in 2022 and 2021.

(b) Actuarial Assumptions and Other Inputs

The total OPEB liability at May 31, 2022 and 2021 was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Payroll growth	Ranged from 3.0% to 9.4%, based on years of service
Discount rate	3.70% as of May 31, 2022 and 1.59% as of May 31, 2021.
Retiree contributions	Assumed to increase according to health care trend rates.

The discount rate was based on the S&P Municipal Bond 20 Year High Grade Rate Index.

Mortality rates were based on Pub-2010 General Employee Total Dataset, Headcount Weighted Mortality Table fully generational using Scale MP-2020 for healthy retirees. Mortality rates were based on Pub-2010 Non-Safety Disabled, Headcount Weighted Mortality Table for disabled retirees.

For the May 31, 2022 actuarial valuation, the Entry Age Normal Level Percentage of Salary method was used. The actuarial assumptions included a 3.70% discount rate, and annual cost trend rates, as listed in the table below.

	Healthcare annual cost trend rates		
Fiscal year ended	**Medical/Rx**	**Dental**	**Medicare Part B**
2023	7.50 %	4.50 %	4.50 %
2024	7.00	4.25	5.00
2025	6.50	4.00	5.00
2026	6.00	4.00	5.00
2027	5.50	4.00	5.00
2028	5.00	4.00	5.00
2029+	4.50	4.00	5.00

Vision trend rate is assumed to be 3% for all years.

For the May 31, 2021 actuarial valuation, the Entry Age Normal Level Percentage of Salary method was used. The actuarial assumptions included a 1.59% discount rate, and annual cost trend rates, as listed in the table below.

	Healthcare annual cost trend rates		
Fiscal year ended	**Medical/Rx**	**Dental**	**Medicare Part B**
2022	8.00 %	4.75 %	4.00 %
2023	7.50	4.50	4.50
2024	7.00	4.25	5.00
2025	6.50	4.00	5.00
2026	6.00	4.00	5.00
2027	5.50	4.00	5.00
2028	5.00	4.00	5.00
2029+	4.50	4.00	5.00

Vision trend rate is assumed to be 3% for all years.

The initial healthcare trend rate was based on a combination of employer history, national trend surveys, and professional judgment. The ultimate trend rate was selected based on historical medical CPI information.

The actuarial assumptions used in the May 31, 2022 and May 31, 2021 valuations were based on the results of an actuarial experience study for the period May 31, 2014 through May 31, 2019 for certain assumptions and for the period May 31, 2016 through May 31, 2018 for other assumptions.

(c) Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the Authority as of May 31, 2022 and 2021, calculated using the discount rate assumed (3.70% and 1.59%, respectively) and what it would be using a 1% lower and 1% higher discount rate (dollars in thousands):

		1% Decrease	Current discount rate	1% Increase
2022 Total OPEB Liability	$	311,930	270,358	236,661
2021 Total OPEB Liability		429,490	362,964	310,248

(d) Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB liability as of May 31, 2022 and 2021, using the health care trend rates assumed (7.50% decreasing to 4.50% and 8.00% decreasing to 4.50%, respectively) and what it would be using 1% lower and 1% higher health care trend rates (dollars in thousands):

		1% Decrease	Current discount rate	1% Increase
2022 Total OPEB Liability	$	232,732	270,358	318,012
2021 Total OPEB Liability		306,838	362,964	435,818

(e) OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended May 31, 2022 and 2021, the Authority recognized OPEB expense of $5.3 million and $21.4 million, respectively. At May 31, 2022 and 2021, the Authority reported deferred outflows and inflows of resources related to OPEB from the following sources (dollar in thousands):

		2022	2021
Deferred outflows of resources:			
Changes of assumptions	$	54,114	69,063
Total	$	54,114	69,063
Deferred inflows of resources:			
Differences between expected and actual experience	$	(29,442)	(35,574)
Changes of assumptions		(87,972)	(7,494)
Total	$	(117,414)	(43,068)

The balances as of May 31, 2022 of the deferred outflows and inflows of resources will be recognized in OPEB expense in the future fiscal years as noted below (dollars in thousands):

		2022
Year ended May 31:		
2023	$	(14,794)
2024		(14,093)
2025		(7,489)
2026		(9,576)
2027		(17,348)

(9) Commitments and Contingencies

(a) Wireless Cell Rental Income

Various wireless cell carriers desire to use the Authority owned premises for the construction, installation, maintenance, and operation of radio transmitting and receiving equipment and other associated equipment as approved by the Authority in connection with its wireless communications business. The Authority receives in the form of monthly payments a fee for providing such use. Rental fees range from $4,680 to $10,200 per month and have terms ranging from five to fifteen years, multiple five-year renewals, and 3.0% to 3.5% annual rental increases. The Authority currently has 148 lease agreements with three different wireless carriers. Annual lease income from these agreements for the next five years is expected to be the following:

2023	$	12.6 million
2024		12.9 million
2025		13.3 million
2026		13.7 million
2027		14.1 million
Thereafter		53.6 million

Annual lease income that is included in other operating revenue for the fiscal years ended May 31, 2022 and 2021 was $12.2 million and $11.7 million, respectively.

(b) Legal

The Authority is involved in various litigations resulting from the ordinary course of business. In the opinion of management, and based on advice of legal counsel, the ultimate liability, if any, to the Authority will not have a material effect on the Authority's financial position and changes in net position.

(Continued)

(c) Risk Management

Due to the nature of the Authority's operations, it is exposed to various risks of loss relating to property damage, property damage liability, bodily injury liability and employment practices. Where appropriate, claims are resolved through settlements. When it is the Authority's position that it is not liable for a claim, it will be denied. Any further action taken by a claimant will be resolved through the judicial system.

The Authority is self-insured for workers' compensation claims. Claims are administered through a third-party administrator. There is insurance in place that will limit the Authority's exposure of individual claims to $800,000.

For general liability and automobile claims, the Authority is insured to an aggregate limit of $38 million subject to a $100,000 deductible per occurrence.

For damage to Authority owned property, the Authority is insured to a limit of $75 million per occurrence subject to a $75,000 deductible. Various sub-limits and deductibles apply depending on the particular property that is damaged.

For Directors & Officers Liability and Employment Practices Liability claims, the Authority maintains insurance for both coverages with a shared limit of $5 million subject to a $50,000 self-insured retention for the entity coverage and $100,000 self-insured retention for employment practices liability coverage.

GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The Authority has established a liability based on actuarial estimates of the amounts needed to pay prior year and current year claims. That liability, which is for workers' compensation, general, and automobile claims, was approximately $9.3 million and $10.0 million at May 31, 2022 and 2021.

Changes in the Authority's workers' compensation claims liability amount in fiscal years 2022 and 2021 were as follows (dollars in thousands):

		2022	**2021**
Unpaid claims, beginning of fiscal year	$	8,837	9,620
Changes in the estimate for claims of all years		2,779	1,722
Claim payments		(3,875)	(2,505)
Unpaid claims, end of fiscal year	$	7,741	8,837

(Continued)

Changes in the Authority's general and automobile claims liability amount in fiscal years 2022 and 2021 were as follows (dollars in thousands):

		2022	2021
Unpaid claims, beginning of fiscal year	$	1,156	1,203
Changes in the estimate for claims of all years		704	390
Claim payments		(335)	(437)
Unpaid claims, end of fiscal year	$	1,525	1,156

The Authority has included the above amounts under the caption "Other accrued liabilities" in the statements of net position.

(10) Grants

In fiscal year 2022, the Authority did not recognize any grant revenues. However, in November 2021, to address emerging contaminants in Suffolk County related to 1,4 dioxane, the Authority submitted grant applications to the New York State Environmental Facilities Corporation's (EFC) under the 2021 Water Infrastructure Improvement Act ("WIIA") Grant program for the State's 2021 and 2022 fiscal years. In April 2022, the Authority was awarded grant money for 19 AOP systems in a total amount not to exceed $16.2 million. Construction of these AOP systems has not yet begun on these projects and a grant agreement has not yet been executed as of May 31, 2022. Additionally, the Authority submitted a grant application to the New York State Environmental Facilities Corporation's ("EFC") under the NYS Intermunicipal Water Infrastructure Grant ("IMG Program") for the state's fiscal years 2021 and 2022. This application seeks to obtain grant funding as part of an intermunicipal agreement between the Authority and the Town of Brookhaven for a water main extension project in the Manorville area to provide clean drinking water to certain identified properties with private wells that have become contaminated or may become contaminated with pollutants in concentrations greater than recommended by drinking water guidelines. In April 2022, the Authority was awarded up to $2.7 million in (IMG) grant money. Additional funding was also awarded funds from Federal Congressional Directed Spending in the amount of $3.5 million and from the State & Local Town of Brookhaven under the American Rescue Plan Act (ARPA) in the amount of $2.0 million. Construction has yet not begun during as of May 31, 2022.

In September 2019, to address emerging contaminants in Suffolk County specifically related to 1,4 dioxane, the Authority submitted grant applications to the New York State Environmental Facilities Corporation's 2019 Water Infrastructure Improvement Act Grant program to partially fund the installation of 12 Advanced Oxidation Process ("AOP") Systems to remove 1,4 dioxane from groundwater at various pump stations. In December 2019, the Authority was awarded grant money for nine of the 12 AOP systems, in a total amount not to exceed $12.6 million. Construction of these AOP systems began during the fiscal year ending May 31, 2022. The grant agreement was executed in December 2021; no revenues have been recognized to date related to this agreement as the eligibility requirements of these grants have not been met during the fiscal year.

(Continued)

In October 2017, the Authority was awarded $2.1 million in grants from the Environmental Facilities Corporation New York State Water Infrastructure Improvement Act (WIIA) Grant of which $0.7 million is still outstanding, related to the construction of an Advanced Oxidation Process system. Work on this system began in April 2020. No grant revenues have been recognized related to this agreement since fiscal year 2019.

(11) Subsequent Events

The Authority has evaluated subsequent events through September 1, 2022, the date the financial statements were available to be issued. No matters are required to be disclosed.

SUFFOLK COUNTY WATER AUTHORITY

Required Supplementary Information (Unaudited)

Schedule of Employer Contributions – New York State and Local Employees' Retirement System

May 31, 2022

(Dollars in thousands)

		2022	2021	2020	2019	2018	2017	2016
Contractually required contribution	$	7,745	6,718	6,548	6,624	6,902	6,325	7,161
Contributions in relation to the contractually required contribution		7,745	6,718	6,548	6,624	6,902	6,325	7,161
Contribution deficiency (excess)	$	—	—	—	—	—	—	—
Authority covered-employee payroll (Authority year end)	$	48,133	47,604	46,548	45,492	45,119	46,952	40,686
Contributions as a percentage of covered-employee payroll		16.09 %	14.11 %	14.07 %	14.56 %	15.30 %	13.47 %	17.60 %

Note: This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See accompanying independent auditors' report.

SUFFOLK COUNTY WATER AUTHORITY

Required Supplementary Information (Unaudited)

Schedule of Proportionate Share of the Net Pension (Asset) Liability –
New York State and Local Employees' Retirement System

May 31, 2022

(Dollars in thousands)

		2022	2021	2020	2019	2018	2017	2016
Authority's share of the net pension (asset) liability		0.1666300 %	0.1582059 %	0.1620929 %	0.1645388 %	0.1776255 %	0.1651319 %	0.1703727 %
Authority's proportionate share of the net pension (asset) liability	$	(13,621)	158	42,923	11,658	5,733	15,516	27,345
Authority's covered-employee payroll (measurement date as of March 31)		48,030	48,346	46,376	45,236	45,088	45,695	41,422
Authority's proportionate share of the net pension (asset) liability as a percentage of the covered-employee payroll		(28.36)%	0.33 %	92.55 %	25.77 %	12.72 %	33.96 %	66.02 %
Plan fiduciary net position as a percentage of the total pension liability		103.65 %	99.95 %	86.40 %	96.30 %	98.24 %	94.70 %	90.70 %

Note: This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See accompanying independent auditors' report.

SUFFOLK COUNTY WATER AUTHORITY

Required Supplementary Information (Unaudited)

Schedule of Changes in the Authority's Total OPEB Liability and Related Ratios

May 31, 2022

(Dollars in thousands)

		2022	2021	2020	2019	2018
Total OPEB Liability:						
Service cost	$	14,194	10,581	8,949	12,319	12,157
Interest		5,928	8,214	10,229	11,878	11,167
Changes in assumptions		(99,851)	55,592	34,104	(12,186)	(4,201)
Differences between expected and actual experience		(4,239)	(8,960)	(21,580)	(27,441)	—
Benefit payments		(8,638)	(8,385)	(8,232)	(8,014)	(7,332)
Net Change in OPEB Liability		(92,606)	57,042	23,470	(23,444)	11,791
Total OPEB Liability, beginning of year		362,964	305,922	282,452	305,896	294,105
Total OPEB Liability, end of year	$	270,358	362,964	305,922	282,452	305,896
Covered-employee payroll	$	47,809	46,643	46,958	45,591	43,978
Total OPEB Liability as a percentage of covered-employee payroll		565.50 %	778.17 %	651.48 %	619.53 %	695.57 %
Notes to schedule:						
Changes in benefit terms		N/A	N/A	N/A	N/A	N/A
Changes of assumptions:						
Discount rate		3.70%	1.59%	2.63%	3.56%	3.78%
Undedicated reserve (see note 8 to the financial statements)	$	103,000	88,800	71,600	54,200	35,200

Note: This schedule is required to present information for 10 years. Additional years will be presented as they become available.

See accompanying independent auditors' report.

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

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*

The Members
Suffolk County Water 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 Suffolk County Water Authority (the Authority), which comprise the statement of net position as of May 31, 2022 and the related statement of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated, September 1, 2022.

Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to as a basis for designing 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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 Authority's 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 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 Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

September 1, 2022