SUFFOLK COUNTY WATER AUTHORITY

Financial Statements and
Required Supplementary Information

May 31, 2023 and 2022

(With Independent Auditors' Reports Thereon
in Accordance with *Government Auditing Standards*)

SUFFOLK COUNTY WATER AUTHORITY

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KPMG LLP
345 Park Avenue
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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, 2023 and 2022, 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, 2023 and 2022, 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.

Emphasis of Matter

As discussed in note 2(v) to the basic financial statements, in 2023, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*. Our opinion is not modified with respect to this matter.

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 *Governmental 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 GASB 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 GAAS, 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 August 29, 2023 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
August 29, 2023

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, 2023 and 2022 with comparative information for the fiscal year ended May 31, 2021. 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, 2023 and 2022 follow this narrative on the subsequent pages.

GASB Statement No. 87, *Leases* (GASB 87) was implemented in fiscal year 2023, effective June 1, 2021. Under GASB 87, a lessee is required to recognize a lease liability and an intangible right-of-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The implementation of

(Continued)

GASB 87 impacts all three financial statements and resulted in a restatement of fiscal year 2022. The amounts reported for fiscal year 2021 have not been restated for the implementation of GASB 87.

Summary of Revenues, Expenses, and Changes in Net Position

		Year ended May 31		
		2023	**2022**	**2021**
			(In thousands)	
Operating revenues:				
Water service	$	243,650	215,524	224,724
Lease revenues		11,578	11,174	—
Other		14,946	12,563	22,962
Total operating revenues		270,174	239,261	247,686
Operating expenses:				
Operations and maintenance		139,133	119,984	135,618
Depreciation and amortization		58,924	56,938	54,393
Total operating expenses		198,057	176,922	190,011
Operating income		72,117	62,339	57,675
Nonoperating revenues and expenses:				
Interest expense, net		(29,643)	(30,750)	(31,506)
Interest revenues, as lessor		5,025	5,094	—
Amortization of deferred amounts on refinancing		(1,428)	(2,794)	(1,657)
Income from investments		6,146	(5,515)	1,347
Capital reimbursement fees and other		16,106	12,407	11,014
Capital contributions		2,975	—	—
Total nonoperating revenues and expenses, net		(819)	(21,558)	(20,802)
Change in net position	$	71,298	40,781	36,873

Operating Revenues

Water service revenues increased $28.1 million, or 13.1% in 2023. This increase is the result of an increase in pumping of approximately 8.5%, combined with a 4.8% rate increase on June 1, 2022.

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

Lease revenues increased $0.4 million in 2023. This increase is attributable to changes in the recognition of straight-line amounts of the deferred inflows of resources into operating lease revenues as a result of GASB 87.

Lease revenues increased $11.2 million in 2022. This increase is attributable to a change in lease revenue accounting as a result of GASB 87.

Other operating revenues increased $2.4 million in 2023. This increase is primarily attributable to a $1.0 million increase in lease revenue as a result of new lease agreements, a $1.2 million increase in other fees, and $0.2 million increase in water district revenue as the result of a rate increase.

Other operating revenues decreased $10.4 million in 2022. This decrease is primarily attributable to a $11.9 million adjustment as a result of changes in lease revenue accounting related to GASB 87. This increase is offset by 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 lease revenue as a result of new lease agreements, and a $0.6 million increase in other fees.

Operating Expenses

Operations and maintenance expense increased $19.1 million in 2023. The increase is attributable to a $9.0 million increase due to a GASB 68 adjustment to pension expense based on an actuarial valuation, a $2.4 million increase in workers' compensation expense due to an increase in claims and expenses based on the GASB 10 actuarial valuation, a $2.6 million increase in wages as a result of standard annual wage increases, a $1.3 million increase in energy costs due to increased pumping throughout the year, a $0.7 million increase in maintenance costs, a $1.6 million increase in treatment costs, a $0.3 million increase in transportation related costs, a $1.4 million increase in other operating costs, and a $2.5 million increase in benefits costs due to contractual changes in plan premiums. This increase is offset by a $2.7 million decrease in postemployment benefit other than pension (OPEB) expense based on the GASB 75 actuarial valuation.

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 is 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.

Depreciation and amortization expenses were $58.9 million in 2023, an increase of $2.0 million or 3.5% from 2023. The increase is attributable to a 2.9% increase in water plant less asset retirements.

Depreciation and amortization expenses were $56.9 million in 2022, an increase of $2.5 million or 4.7% from 2021. The increase is attributable to a 3.1% increase in water plant less asset retirements.

Nonoperating Revenues and Expenses

Interest expense and other bond expense is $29.6 million in 2023, a net decrease of $1.1 million from 2022. The decrease is attributable to a decrease of $0.2 million in amortization of debt premium and a net decrease of $1.3 million in interest paid net of subsidy on bonds payable.

Interest expense and other bond expense is $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.

Interest revenues as lessor decreased by $0.1 million in 2023. The decrease is attributable to decreasing interest components of lease payments versus principal amounts in accordance with GASB 87.

Interest revenues as lessor increased by $5.1 million in 2022. This increase is the result of a change in lease revenue accounting in accordance with GASB 87.

Amortization of deferred amounts on refinancing is $1.4 million in 2023, a decrease of $1.4 million from 2022. The decrease is attributable to the absence of a $1.1 million extraordinary loss on bond defeasance recognized in 2022 and a decrease of $0.3 million in amortization of deferred losses on refunding.

Amortization of deferred amounts on refinancing is $2.8 million in 2022, a decrease of $1.1 million from 2022. The increase is attributable to a $1.1 million extraordinary loss on bond defeasance recognized in 2022.

Income from investments is $6.1 million in 2023, an increase of $11.6 million from 2022. The change is the result of an increase in market value of investments of $5.7 million and an increase of interest revenues of $5.9 million.

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

Capital reimbursement fees were $16.1 million in 2023, an increase of $3.7 million from 2022. The increase in 2023 is primarily due to a $1.5 million increase in tapping fee revenues due to tap fee increases and a $2.8 million increase in construction revenues. These increases were offset by a $0.6 million decrease in surcharge fee revenues.

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 contributions were $3.0 million in 2023, an increase of $3.0 million from 2022. The increase is attributable to $0.4 million in COVID response related grant revenues received from the Federal Emergency

Management Agency ("FEMA") and $2.6 million in grant revenues related to water treatment infrastructure grant revenues received from the New York State Environmental Facilities Corporation ("EFC").

Statement of Net Position Summary

	May 31		
	2023	**2022**	**2021**
		(In thousands)	
Assets:			
Capital assets (water plant), net	$ 1,259,971	1,223,641	1,203,123
Current assets	470,992	433,320	424,778
Other noncurrent assets	309,673	285,254	155,896
Total assets	2,040,636	1,942,215	1,783,797
Deferred outflows of resources	86,265	91,727	116,112
Liabilities:			
Current liabilities	62,268	74,981	63,923
Other long-term liabilities	325,238	278,250	367,676
Long-term debt, net of current portion	918,927	921,358	983,246
Total liabilities	1,306,433	1,274,589	1,414,845
Deferred inflows of resources	312,941	323,124	89,616
Net position:			
Net investment in capital assets	350,005	300,279	274,944
Restricted for debt service	98,076	111,885	107,175
Unrestricted	59,446	24,065	13,329
Total net position	$ 507,527	436,229	395,448

Capital Assets (Water Plant), Net

	May 31, 2022	**Additions/ reclassifications**	**Deletions/ reclassifications**	**May 31, 2023**
		(In thousands)		
Water plant in service	$ 2,080,248	57,272	(1,909)	2,135,611
Less accumulated depreciation	(900,186)	(58,774)	1,909	(957,051)
Net water plant in service	1,180,062	(1,502)	—	1,178,560
Construction in progress	43,579	95,104	(57,272)	81,411
Water plant	$ 1,223,641	93,602	(57,272)	1,259,971

(Continued)

		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

There is a net increase in water plant in fiscal year 2023 of $36.3 million, the result of $95.0 million in new construction, reduced by an increase in accumulated depreciation of $58.7 million.

There is 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.

Current Assets

		May 31		
		2023	2022	2021
			(In thousands)	
Increases (decreases):				
Cash and cash equivalents	$	(101,511)	(22,038)	73,783
Investments		119,903	25,524	2,804
Accounts receivables, net		8,033	5,610	(7,284)
Lease receivable, current		528	6,133	—
Accrued water services and fire protection revenues		3,720	(8,086)	(271)
Interest and other receivables		608	(652)	(318)
Materials and supplies		5,766	1,705	(1,434)
Prepayments and other current assets		625	346	53
Net change in current assets	$	37,672	8,542	67,333

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 $101.5 million at May 31, 2023, from May 31, 2022. The decrease is primarily attributable to net investment purchases of $108.9 million and fluctuations in cash from the timing of

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unrestricted investment sales and purchases of $0.9 million. This decrease is offset by interest revenues received of $8.3 million.

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 is completed in May 2022. This decrease is offset by fluctuations in cash from the timing of unrestricted investment sales and purchases.

The Authority's investments increased by $119.9 million at May 31, 2023, from May 31, 2022. The increase is attributable to unrestricted investment purchases exceeding redemptions and maturities throughout 2023.

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.

Accounts receivable, net of allowance for doubtful accounts increased by $8.0 million at May 31, 2023 from May 31, 2022. This increase is attributable to a $2.6 million increase in grant revenue receivables, a $2.8 million increase in construction revenue receivables, a $0.9 increase in miscellaneous receivables, and a $1.7 million increase in lien receivables.

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.

Lease receivable, current increased $0.5 million at May 31, 2023 from May 31, 2022. This increase is attributable to the current portion of new antennae leases entered into during fiscal year 2023, offset by amortization of principal payments on existing leases from 2022.

Lease receivable, current increased $6.1 million at May 31, 2022 from May 31, 2021. This increase is attributable to the adoption of GASB 87 and the retrospective application of the adoption back to 2022.

Accrued water services and fire protection revenues increased $3.7 million at May 31, 2023 from May 31, 2022. This increase is primarily attributable to the year-end revenue accrual due to increased consumption in May 2023 of 26.3%.

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%.

Materials and supplies increased by $5.7 million at May 31, 2023. This increase is attributable to rising costs of materials.

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.

Other Noncurrent Assets

Other noncurrent assets increased by $24.4 million as of May 31, 2023. This increase is due to a $51.9 million increase in the noncurrent portion of the GASB 87 related lease receivables. This increase is offset by a $13.8 million decrease in debt service reserves utilized for bond principal payments made throughout the year,

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$0.1 million in amortization of goodwill, and a $13.6 million decrease as a result of a GASB 68 adjustment to pension expense based on an actuarial valuation.

Other noncurrent assets increased by $129.4 million as of May 31, 2022. This increase is due to recording of the noncurrent portion of the GASB 87 related lease receivable of $157.2 million beginning in 2022, 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. This increase is offset by the expenditure of $46.1 million of bond proceeds classified as restricted investments.

Liabilities

Current Liabilities

		May 31		
		2023	2022	2021
			(In thousands)	
Increases (decreases):				
Current maturities of bonds payable	$	(12,393)	8,008	(1,142)
Current maturities of bond anticipation notes payable		—	—	—
Accounts payable		(580)	2,439	1,575
Accrued interest		(610)	(59)	(210)
Accrued employee welfare costs		(467)	(419)	(288)
Other accrued liabilities		1,337	813	(162)
Net change in current liabilities	$	(12,713)	10,782	(227)

Current Liabilities

The $12.4 million decrease in current maturities of bonds payable in 2023 from 2022 is attributable to maturities of $13.4 million in the current year, offset by a $1.0 million increase in the Authority's bonds payable maturing in less than one year.

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 $0.6 million decrease and $2.4 million increase in accounts payable in 2023 and 2022, respectively, is attributable to the timing of processing invoices for work performed, completed, and paid for, subsequent to May 31, 2023 and 2022.

The $0.6 million decrease in accrued interest in 2023 from 2022 is attributable to a defeasance that was completed at the end of 2022 that effectively reduced interest expense in 2023.

The $1.3 million increase in other accrued liabilities in 2023 from 2022 is attributable to a $1.0 million increase in various reimbursable customer deposits and a $0.3 million increase related to workers' compensation accrued liabilities.

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 is 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 increased by $46.9 million at May 31, 2023 as a result of an increase in postemployment benefits other than pension (OPEB) of $7.1 million based on the actuarial valuation required under GASB Statement No. 75, an increase in the net pension liability as provided by New York State & Local Retirement System of $34.4 million, and a $5.4 million increase in advances for construction.

Other long-term liabilities decreased by $89.4 million at May 31, 2022 as a result of a 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.

In accordance with GASB 75, the financial statements at May 31, 2023 and 2022 include a liability for postemployment benefits other than pension in the amount of $277.4 million and $270.4 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, 2023 and 2022, the non-trusted reserve is $111.5 million and $103.0 million, respectively. During both the fiscal years ended May 31, 2023 and 2022 the Authority contributed $8.5 million and $14.2 million to this reserve, respectively. Beginning in fiscal year 2023, the Authority began investing these funds in U.S. Treasury Notes.

Long-Term Debt

The Authority's long-term debt, net of current portion and including unamortized discounts and deferred amounts, decreased in fiscal year 2023 by $2.4 million. This decrease is due to a net decrease of $1.4 million in amortization of long-term debt premium and discount and a reclassification of $1.0 million of long-term debt as current and maturing in less than one year.

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 is 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 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		
		2023	2022	2021
			(In thousands)	
Balance, beginning	$	916,361	966,706	974,593
New issues:				
SCWA 2020 (Tx) Refunding		—	—	88,280
		—	—	88,280
Maturities, retirements, and defeasances:				
SCWA		(10,390)	(48,155)	(91,580)
EFC		(3,073)	(2,190)	(4,587)
		(13,463)	(50,345)	(96,167)
Net changes in long-term debt		(13,463)	(50,345)	(7,887)
Balance, ending	$	902,898	916,361	966,706

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 March 2023, Fitch Ratings completed a review and took no action regarding the Authority's Water System Revenue Bonds AAA rating. As of May 2023, 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.

During the fiscal year ended May 31, 2023, the Authority has not engaged in any bond transactions.

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.

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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.

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, 2023 and 2022, 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 $1.4 million at May 31, 2023 from May 31, 2022. The decrease is due to $1.4 million annual amortization of the deferred loss on refunding bonds. The loss on the Suffolk County Water Authority's refunding are due to the 2013 Refunding, 2015 Refunding, 2016 Refunding, and the 2020 Refunding.

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 are due to the 2013 Refunding, 2015 Refunding, 2016 Refunding, and the 2020 Refunding.

In 2023 and 2022, 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. Further, changes in the deferred inflows of resources are due to recognition of the total lease receivable adjustments in accordance with GASB 87.

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 2023, the increase of $49.7 million from May 31, 2022 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 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.

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 decrease of $13.8 million at May 31, 2023 is the result of a $10.8 million decrease in the Senior Lien Bond Fund to fund debt service in June 2023 and a decrease in the Reserve Funds of $3.0 million. The $3.0 million reserve fund decrease is attributable to the decreased market valuation of reserve funds of $1.7 million and $1.3 million decrease in EFC reserve funds due to matured bonds.

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 decreased market valuation of reserve funds of $3.3 million and $0.6 million increase in reserve fund cash balances due to interest income.

Net Position – Unrestricted

In 2023, net position – unrestricted increased $35.4 million from May 31, 2022 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, 2023 and 2022

(In thousands)

Assets		2023	2022 (As restated)
Current assets:			
Cash and cash equivalents	$	187,266	288,777
Investments		200,768	80,865
Accounts receivable, less allowance for doubtful accounts of $0 and $54, respectively		40,409	32,376
Lease receivable, current		6,661	6,133
Accrued water services and fire protection revenues		17,866	14,146
Interest and other receivables		820	212
Materials and supplies, at average cost		13,772	8,006
Prepayments and other current assets		3,430	2,805
Total current assets		470,992	433,320
Restricted investments		98,076	111,886
Goodwill		1,671	1,820
Net pension asset		—	13,621
Lease receivable, less current portion		209,042	157,169
Other assets		884	758
Capital assets, net		1,259,971	1,223,641
Total noncurrent assets		1,569,644	1,508,895
Total assets		2,040,636	1,942,215
Deferred Outflows of Resources			
Deferred outflows of resources:			
Pension related		22,235	26,154
Other postemployment benefits related		53,999	54,114
Deferred amounts due to bond refunding		10,031	11,459
Total deferred outflows of resources		86,265	91,727
Liabilities			
Current liabilities:			
Current maturities of bonds payable		1,070	13,463
Accounts payable		13,833	14,413
Accrued interest		16,420	17,030
Accrued employee welfare costs		7,670	8,137
Other accrued liabilities		23,275	21,938
Total current liabilities		62,268	74,981
Bonds payable, less current portion and unamortized discounts		918,927	921,358
Net pension liability		34,455	—
Postemployment benefits other than pension		277,437	270,358
Advances for construction		13,346	7,892
Total liabilities		1,306,433	1,274,589
Deferred Inflows of Resources			
Deferred inflows of resources:			
Pension related		1,816	46,792
Other postemployment benefits related		104,096	117,414
Lease related		207,029	158,918
Total deferred inflows of resources		312,941	323,124
Net Position			
Net position:			
Net investment in capital assets		350,005	300,279
Restricted for debt service		98,076	111,885
Unrestricted		59,446	24,065
Total net position	$	507,527	436,229

See accompanying notes to financial statements.

SUFFOLK COUNTY WATER AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Position

Years ended May 31, 2023 and 2022

(In thousands)

		2023	2022 (As restated)
Operating revenues:			
Water service	$	243,650	215,524
Lease revenues		11,578	11,174
Other		14,946	12,563
Total operating revenues		270,174	239,261
Operating expenses:			
Operations		99,164	82,473
Maintenance		39,969	37,511
Depreciation and amortization		58,924	56,938
Total operating expenses		198,057	176,922
Operating income		72,117	62,339
Nonoperating revenues and expenses:			
Interest and other bond expense, net		(29,643)	(30,750)
Interest revenues, as lessor		5,025	5,094
Amortization of deferred amounts on refinancing		(1,428)	(2,794)
Income (loss) from investments, net		6,146	(5,515)
Capital reimbursement fees		16,106	12,407
Capital contributions		2,975	—
Total nonoperating revenues and expenses, net		(819)	(21,558)
Change in net position		71,298	40,781
Net position:			
Beginning of year, as restated (note 1(v))		436,229	395,448
End of year	$	507,527	436,229

See accompanying notes to financial statements.

SUFFOLK COUNTY WATER AUTHORITY

Statements of Cash Flows

Years ended May 31, 2023 and 2022

(In thousands)

		2023	2022 (As restated)
Cash flows from operating activities:			
Cash receipts from customers	$	237,110	218,315
Other operating cash receipts		28,062	25,635
Cash payments to employees for services, including benefits		(75,063)	(73,133)
Cash payments to suppliers of goods and services		(70,594)	(58,988)
Net cash provided by operating activities		119,515	111,829
Cash flows from capital and related financing activities:			
Additions to water plant		(95,323)	(76,430)
Repayment of current maturities of bonds payable		(13,463)	(5,455)
Debt defeasance		—	(46,617)
Loss on defeasance		—	687
Interest paid		(31,615)	(32,459)
Proceeds from advances for construction and other capital, net of refunds		19,194	15,361
Interest revenues, as lessor		5,025	5,094
Amortization of lease receivable, as lessor		(4,292)	(4,384)
Net cash used in capital and related financing activities		(120,474)	(144,203)
Cash flows from investing activities:			
Purchase of investments		(239,727)	(258,560)
Proceeds from sales and maturities of investments		130,844	265,478
Interest received		8,331	3,418
Net cash (used in) provided by investing activities		(100,552)	10,336
Net decrease in cash and cash equivalents		(101,511)	(22,038)
Cash and cash equivalents at beginning of year		288,777	310,815
Cash and cash equivalents at end of year	$	187,266	288,777
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	72,117	62,339
Depreciation and amortization expense		58,924	56,938
Decrease (increase) in operating assets:			
Accounts receivable		(2,694)	(5,224)
Accrued water services and fire protection revenues		(3,720)	8,086
Materials and supplies and prepayments		(6,391)	(2,051)
Other assets		(126)	(70)
Increase (decrease) in operating liabilities:			
Accounts payable		(361)	1,553
Accrued employee welfare costs		(467)	(143)
Postemployment benefits other than pension, net of deferred amounts		(6,125)	(3,310)
Other accrued liabilities		1,337	812
Net pension liability, net of deferred amounts		7,021	(7,101)
Net cash provided by operating activities	$	119,515	111,829
Noncash investing activities:			
Change in the fair value of investments and discount/premium expense	$	(2,789)	(8,468)
Amortization of deferred amounts on refinancing		1,428	2,794
Noncash financing activities:			
New leases entered into during year	$	53,502	—

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, 2023 and 2022.

(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

(Continued)

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) Leases

(i) Lessor

The Authority is a lessor for noncancelable leases of 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 their wireless communications businesses. For leases with a maximum possible term of 12 months or less at commencement, the Authority recognizes lease revenue based on the provisions of the lease contract. For all other leases that are longer than 12 months, the Authority recognizes a lease receivable and an offsetting deferred inflow of resources. At lease commencement, the Authority initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is measured at the value of the lease receivable plus any payments received at or before the commencement of the lease term that relate to future periods. The Authority recognizes interest income on the lease receivable and lease revenue from the deferred inflows of resources in a systematic and rational manner over the term of the lease.

Key estimates and judgments include how the Authority determines the (1) discount rate it uses to calculate the present value of the expected lease payments to be received, (2) lease term, and (3) lease payments to be received.

(1) The Authority generally uses its estimated incremental borrowing rate as the discount rate, which was 3.08% for 2023 and 2022, respectively, for leases unless the actual interest rate is known. The Authority's incremental borrowing rate for leases is based on calculating the average rate of interest on long-term bond obligations to borrow an amount equal to the lease, under similar terms at the commencement or remeasurement date.

(2) The lease term includes the noncancelable period of the lease plus any additional periods covered by either an Authority or lessee unilateral option to (1) extend for which it is reasonably certain to be exercised, or (2) terminate for which it is reasonably certain not to be exercised. Periods in which both the Authority and the lessee have an option to terminate are excluded from the lease term.

(3) Lease payments to be received are evaluated by the Authority to determine if they should be included in the measurement of the lease receivable, including those payments that require a determination of whether they are reasonably certain of being received.

(ii) 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 related to water service delivery to the Towns and Village of Dering Harbor residents. 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 to the Authority, however, the Authority is not required to make any form of payments to the Towns or Village of Dering Harbor as part of the terms of the respective leases. 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, 2023, 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, 2023 and 2022 amount to approximately $1.8 million and $2.2 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, 2023 and 2022.

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, 2023 and 2022, the accrued employee welfare costs are $7.9 million and $8.1 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 employee welfare costs, workers' compensation and postemployment benefits, discount rates on leases, 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) Adoption of Accounting Pronouncements

In June 2017, the GASB issued Statement No. 87, *Leases*. This Statement improves the accounting and financial reporting for leases by governments. This Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021 (fiscal year 2023).

The adoption is reported retroactively, effective June 1, 2021 for comparative purposes. Lease receivables and deferred inflows of resources as of June 1, 2021 of $165,541 were recognized, as well as a restatement of net position as of May 31, 2022 of $4,384 related to the lease activity recognized during fiscal year 2022, comprised of the following:

		May 31, 2022, as originally reported	GASB 87 impact	May 31, 2022, as restated
Statement of net position:				
Lease receivable, current	$	—	6,133	6,133
Lease receivable, less current portion		—	157,169	157,169
Deferred inflows of resources – lease related		—	158,918	158,918
Net position		431,845	4,384	436,229
Statement of revenues, expenses and changes in net position:				
Operating revenues – lease revenues	$	—	11,174	11,174
Operating revenues – other		24,447	(11,884)	12,563
Operating income		63,049	(710)	62,339
Nonoperating revenues – Interest revenues, as lessor		—	5,094	5,094
Change in net position		36,397	4,384	40,781
Statement of cash flows:				
Cash flows from operating activities – other operating cash receipts	$	26,345	(710)	25,635
Net cash provided by operating activities		112,539	(710)	111,829
Cash flows from capital and related financing activities:				
Interest revenues, as lessor	$	—	5,093	5,093
Amortization of lease receivable, as lessor		—	(4,383)	(4,383)
Net cash used in capital and related financing activities		(144,913)	710	(144,203)

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

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, 2022	Additions/ reclassifications	Deletions/ reclassifications	May 31, 2023
			(In thousands)		
Land and land rights (non-depreciable)	$	27,028	—	—	27,028
Distribution systems		1,244,605	41,067	(889)	1,284,783
Wells, reservoirs, and structures		401,425	6,704	(113)	408,016
Pumping and purification equipment		182,556	2,551	(3)	185,104
Meters		91,123	1,112	(660)	91,575
Compressors/backhoes		5,053	—	—	5,053
Computer equipment		35,818	2,059	—	37,877
Equipment		38,170	1,536	—	39,706
Hydrants		54,470	2,243	(244)	56,469
Water plant in service		2,080,248	57,272	(1,909)	2,135,611
Less accumulated depreciation		(900,186)	(58,774)	1,909	(957,051)
Net water plant in service		1,180,062	(1,502)	—	1,178,560
Construction in progress		43,579	95,104	(57,272)	81,411
Water plant	$	1,223,641	93,602	(57,272)	1,259,971

In 2023, the additions to construction in progress of $95.1 million are comprised of the following: construction projects of $57.8 million, hydrants $1.6 million, water main connections $8.2 million, wells $6.6 million, tanks $2.5 million, treatment facilities $11.4 million, pump stations $1.6 million, meters

$1.3 million, emerging contaminant treatment systems $0.9 million, fleet $1.5 million, equipment $1.1 million, technological advancements $1.7 million, less other miscellaneous adjustments of $1.1 million.

		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 $77.3 million are comprised of the following: construction projects of $41.3 million, hydrants $1.1 million, water main connections $5.7 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 $2.0 million.

Depreciation and amortization expenses amounted to approximately $58.9 million and $56.8 million for the years ended May 31, 2023 and 2022, 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 $187.3 million and $288.8 million and bank balances of approximately $192.1 million and $292.5 million at May 31, 2023 and 2022, 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, 2023 and 2022, consist of the following (dollars in thousands):

	May 31, 2023			
		Investment maturities (in years)		
	Total	Less than 1	1 to 5	Greater than 5
Certificates of deposit *	$ 245	245	—	—
U.S. Treasury notes (1)	110,210	3,916	106,294	—
U.S. Treasury bonds (1)	80,553	41,987	38,566	—
FNMA notes (1)	8,347	—	8,347	—
FHLB notes (1)	61,074	20,535	40,539	—
FHLMC notes (1)	11,295	3,907	7,388	—
FFCB notes (1)	5,753	1,960	3,793	—
NYS municipal bonds	20,489	5,099	15,390	—
Guaranteed investment contracts (1) *	878	878	—	—
Total investments	$ 298,844	78,527	220,317	—

* Reported at amortized cost

(1) Includes approximately $98.1 million of investments, including cash, held by a fiscal agent in the Authority’s name at May 31, 2023

	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

		2023	2022
Investment breakdown:			
Restricted for:			
Debt service	$	98,076	111,886
Construction		—	—
Unrestricted		200,768	80,865
Total investments	$	298,844	192,751

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 5.50%.

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 reported at fair value 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, 2023, 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 ($110.2 million or 36.8% of investments), NYS Municipal Bonds ($20.5 million or 6.8% of investments), Federal Home Loan Bank ($61.1 million or 20.4% of investments), and U.S. Treasury Bonds ($80.5 million or 26.9% of investments) at May 31, 2023. As of May 31, 2022, the Authority invested more than 5% 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).

(4) Bonds Payable

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

Series	Interest rate(s)	Final maturity date	May 31, 2022	Issued	Matured/ refunded	May 31, 2023	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	31,910	—	—	31,910	—
2014 B Senior Lien	3.50–5.25%	2040	50,000	—	—	50,000	—
2015 Senior Lien	3.00–5.00%	2032	112,180	—	—	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	45,250	—	(1,610)	43,640	—
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	0.91-2.43%	2040	60,255	—	(8,780)	51,475	—
Environmental Facilities Corporation Revenue Bonds:							
2011 C	3.566%	2022	621	—	(621)	—	—
2012 B	5.002%	2022	570	—	(570)	—	—
2013 B	4.500%	2023	793	—	(793)	—	—
2014 B	4.940-4.964%	2024	1,263	—	(340)	923	305
2015 D	3.955-4.015%	2025	1,639	—	(370)	1,269	385
2020 A	0.00%	2046	9,115	—	(379)	8,736	380
Total bonds outstanding			916,361	—	(13,463)	902,898	$ 1,070
				Additions	Amortization/ payments		
Unamortized premium (discount), net			18,460	—	(1,361)	17,099	
Current maturities payable			(13,463)	(1,070)	13,463	(1,070)	
			$ 921,358	(1,070)	(1,361)	918,927	

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	0.91-2.43%	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	— %	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	

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 2023 and 2022, the Authority, at its own discretion, has elected to fund the reserve accounts in the amount of $81.1 million and $84.1 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.

During the fiscal year ended May 31, 2023, the Authority has not engaged in any bond transactions.

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.

(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 2023 and 2022, the Authority has not participated in any new NYS EFC bond issues.

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, 2023, the amount of defeased debt obligation outstanding is approximately $44.9 million, a decrease from $6.7 million from May 31, 2022. This decrease is attributable to $6.7 million of defeased debt fully redeemed after May 31, 2022.

Interest expense, net of debt discount and premium and costs of issuance on the bonds, is $29.6 million for the year ended May 31, 2023 and $30.8 million in 2022. The decrease of $1.2 million is attributable to a decrease in interest expense net of subsidy of $1.3 million and offset by a decrease of $0.1 million in net bond discount and premium 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:			
2024	$ 1,070	32,894	33,964
2025	1,313	32,852	34,165
2026	27,154	32,209	59,363
2027	18,175	31,666	49,841
2028	31,895	30,425	62,320
2029–2033	180,604	133,059	313,663
2034–2038	228,569	88,892	317,461
2039–2043	270,979	40,747	311,726
2044–2048	143,139	3,915	147,054
	$ 902,898	426,659	1,329,557

(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, 2023, the debt service reserve funds were approximately $81.4 million. In addition, there is $16.6 million in the Bond Funds.

Revenue before interest expense and depreciation and amortization is equivalent to 3.63 times (3.36 in 2022) 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):

2021	$	6,718
2022		7,745
2023		5,365

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

At May 31, 2023 and 2022, the Authority reported a liability of $34.5 million and an asset of $13.1 million for its proportionate share of the System's net pension liability (asset), respectively. The net pension liability (asset) reported by the Authority at May 31, 2023 and 2022 is measured as of March 31, 2023 and 2022, respectively, and the total pension liability (asset) used to calculate the net pension liability (asset) is determined by actuarial valuations as of April 1, 2022 and April 1, 2021, respectively. The Authority's proportion of the System's net pension liability (asset) is 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, 2023 and 2022, the Authority's proportion is 0.160675% and 0.1666300%, respectively. For the years ended May 31, 2023 and 2022, the Authority recognized pension expense of $12.1 million and $0.1 million, respectively.

At May 31, 2023 and 2022, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

		2023	
		Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$	3,670	968
Changes of assumptions		16,734	185
Net difference between projected and actual investment earnings on pension plan investments		—	202
Changes in proportion and differences between employer contributions and proportionate share of contributions		937	461
Contributions made subsequent to the measurement date		894	—
Total	$	22,235	1,816

		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

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:		
2024	$	4,661
2025		(1.691)
2026		7,208
2027		9,347
2028		—

(c) Actuarial Assumptions

The total pension (asset) liability at March 31, 2022 and 2021 is 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, 2022 valuation were as follows:

Investment rate of return	5.9%
Salary scale	4.4%
Inflation rate	2.9%
Cost of living adjustments	1.5% 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-2021

Significant actuarial assumptions used in the April 1, 2021 valuation 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 is determined by 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, 2023 and 2022 are summarized as follows:

	2023	
Asset class	Target allocation	Long-term expected real rate
Domestic equity	32 %	4.30 %
International equity	15	6.85
Private equity	10	7.50
Real estate	9	4.60
Opportunistic/ARS portfolio	3	5.38
Credit	4	5.43
Real assets	3	5.84
Fixed income	23	1.50
Cash	1	—
	100 %	

	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 %	

(d) *Discount Rate*

The discount rate used to measure the total pension liability as of March 31, 2023 and 2022 is 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 is 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 is applied to all periods of projected benefit payments to determine the total pension liability (asset).

(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, 2023 and 2022 calculated using the discount rate assumptions of 5.9%, for the March 31, 2023 and March 31, 2022 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):

		2023		
		1% Decrease 4.9%	**Current assumption 5.9%**	**1% Increase 6.9%**
Authority's proportionate share of the net pension (asset) liability	$	83,263	34,455	(6,330)

		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)

(f) *Pension Plan Fiduciary Net Position*

The components of the current-year net pension (asset) liability of the System as of March 31, 2023 and 2022, were as follows (dollars in thousands):

		2023	**2022**
Employer's total pension liability	$	232,627,259	223,874,888
System's fiduciary net position		211,183,223	232,049,473
Employer's net pension (asset) liability	$	21,444,036	(8,174,585)
System fiduciary net position as percentage of total pension liability		90.78 %	103.65 %

(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 $78.3 million and $78.1 million at May 31, 2023 and 2022, 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 2023 and 2022, there were 1,019 participants (543 active and 476 inactive) and 1,025 participants (551 active and 474 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, 2023 and 2022, the undedicated reserve is $111.5 million and $103.0 million, respectively and is recorded in cash and cash equivalents and investments on the statement of net position.

(a) Total OPEB Liability

The Authority's total OPEB liability of $277.4 million and $270.4 million is measured as of May 31, 2023 and 2022, respectively, and is 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, 2023 and 2022 (dollars in thousands):

		2023	2022
Total OPEB liability:			
Service cost	$	8,045	14,194
Interest		10,126	5,928
Change of benefit terms		333	—
Changes in assumptions		(19,709)	(99,851)
Differences between expected and actual experience		17,802	(4,238)
Benefit payments		(9,518)	(8,639)
Net changes		7,079	(92,606)
Total OPEB liability, beginning of year		270,358	362,964
Total OPEB liability, end of year	$	277,437	270,358

There were no changes to benefit terms in 2022.

(b) *Actuarial Assumptions and Other Inputs*

The total OPEB liability at May 31, 2023 and 2022 is determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.5%
Payroll growth	Ranged from 9.4% to 3.0%, based on years of service
Discount rate	4.24% as of May 31, 2023 and 3.70% as of May 31, 2022.
Retiree contributions	Assumed to increase according to health care trend rates.

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

May 31, 2023 Mortality rates were based on Pub-2010 General Employee Total Dataset, Headcount Weighted Mortality Table fully generational using Scale MP-2021 for healthy retirees. Mortality rates were based on Pub-2010 Non-Safety Disabled, Headcount Weighted Mortality Table for disabled retirees.

May 31, 2022 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, 2023 actuarial valuation, the Entry Age Normal Level Percentage of Salary method is used. The actuarial assumptions included a 4.24% discount rate, and annual cost trend rates, as listed in the table below.

	Healthcare annual cost trend rates		
Fiscal year ended	**Pre-65 Medical/Rx**	**Dental**	**Medicare Part B**
2024	7.50 %	4.00 %	5.50 %
2025	7.00	4.00	5.25
2026	6.50	4.00	5.00
2027	6.00	4.00	4.75
2028	5.50	4.00	4.50
2029	5.00	4.00	4.50
2030	4.50	4.00	4.50
2031	4.50	4.00	4.50
2032+	4.50	4.00	4.50

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

	Healthcare annual cost trend rates		
Fiscal year ended	**Post-65 Medical/Rx**	**Dental**	**Medicare Part B**
2024	6.50 %	4.00 %	5.50 %
2025	6.25	4.00	5.25
2026	6.00	4.00	5.00
2027	5.75	4.00	4.75
2028	5.50	4.00	4.50
2029	5.25	4.00	4.50
2030	5.00	4.00	4.50
2031	4.75	4.00	4.50
2032+	4.50	4.00	4.50

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

For the May 31, 2022 actuarial valuation, the Entry Age Normal Level Percentage of Salary method is 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.

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

The actuarial assumptions used in the May 31, 2023 and May 31, 2022 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, 2023 and 2022, calculated using the discount rate assumed (4.24% and 3.70%, 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**
2023 Total OPEB liability	$	317,182	277,437	244,954
2022 Total OPEB liability		311,930	270,358	236,661

(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, 2023 and 2022, using the health care trend rates assumed (7.50% decreasing to 4.50% and 7.50% 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
2023 Total OPEB liability	$	243,371	277,437	319,891
2022 Total OPEB liability		232,732	270,358	318,012

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

For the year ended May 31, 2023 and 2022, the Authority recognized OPEB expense of $3.4 million and $5.3 million, respectively. At May 31, 2023 and 2022, the Authority reported deferred outflows and inflows of resources related to OPEB from the following sources (dollar in thousands):

		2023	2022
Deferred outflows of resources:			
Differences between expected and actual experience	$	14,835	—
Changes of assumptions		39,164	54,114
Total	$	53,999	54,114
Deferred inflows of resources:			
Differences between expected and actual experience	$	(19,073)	(29,442)
Changes of assumptions		(85,023)	(87,972)
Total	$	(104,096)	(117,414)

The balances as of May 31, 2023 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):

		2023
Year ended May 31:		
2024	$	(14,411)
2025		(7,807)
2026		(9,894)
2027		(17,666)
2028		(319)

(9) Leases

As discussed in note 1(i), the Authority is a lessor for 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 leases have terms between one and 25 years, with payments required monthly.

Future minimum lease payments to be received under noncancelable leases, are as follows (dollars in thousands):

Year ended May 31,		Principal	Interest	Total
2024	$	6,661	6,637	13,298
2025		6,536	6,432	12,968
2026		6,794	6,231	13,025
2027		6,925	6,022	12,947
2028		6,350	5,809	12,159
2029-2033		35,555	26,054	61,609
2034-2038		48,667	19,755	68,422
Thereafter		98,215	14,749	112,964
Total	$	215,703	91,689	307,392

(10) Commitments and Contingencies

(a) 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.

(b) 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, is approximately $10.1 million and $9.3 million at May 31, 2023 and 2022.

Changes in the Authority's workers' compensation claims liability amount in fiscal years 2023 and 2022 were as follows (dollars in thousands):

		2023	2022
Unpaid claims, beginning of fiscal year	$	7,741	8,837
Changes in the estimate for claims of all years		5,425	2,779
Claim payments		(5,069)	(3,875)
Unpaid claims, end of fiscal year	$	8,097	7,741

Changes in the Authority's general and automobile claims liability amount in fiscal years 2023 and 2022 were as follows (dollars in thousands):

		2023	2022
Unpaid claims, beginning of fiscal year	$	1,525	1,156
Changes in the estimate for claims of all years		716	704
Claim payments		(217)	(335)
Unpaid claims, end of fiscal year	$	2,024	1,525

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

(11) Grants

In fiscal year 2023, the Authority recognized $3.0 million in grant revenues; FEMA reimbursed SCWA for $0.4 million in COVID related expenditures and $2.6 million in reimbursement requests were submitted to the New York State Environmental Facilities Corporation ("EFC") for Advanced Oxidation Process System ("AOP") related work.

The Authority has submitted and been awarded various other grants through different State and Federal programs:

In fiscal year 2023, the New York State Dormitory Authority (“DASNY”) awarded grant funding through the New York Economic Development Program (“NYEDP”) not to exceed $500,000 for the replacement of two wells and electrical upgrades in the West Neck Water District. Construction has not yet begun on these projects and a grant agreement has not yet been executed as of May 31, 2023.

In fiscal year 2023, the EFC awarded grant funding through the Water Infrastructure Improvement Act grant program (“WIIA”) not to exceed $4.5 million for three AOP systems to address emerging contaminants in Suffolk County related to 1,4 dioxane. Construction has not yet begun on these projects and a grant agreement has not yet been executed as of May 31, 2023.

In fiscal year 2023, the EFC awarded grant funding through the Water Infrastructure Improvement Act grant program (“WIIA”) not to exceed $1.5 million for a water main extension program in the Westhampton area. Construction has not yet begun on these projects and a grant agreement has not yet been executed as of May 31, 2023.

In fiscal year 2023, the Authority has been awarded grant funding from multiple sources to fund a water main extension project in the Calverton area to provide clean drinking water to properties with private wells that are contaminated, or potentially contaminated, with pollutants in concentrations greater than recommended by drinking water guidelines. Federal Congressional Directed Spending funds in the amount of $5 million have been awarded, the EFC has awarded $1.85 through the Bi-Partisan Infrastructure Law (“BIL”) program, and the Town of Brookhaven has awarded $1.8 million under the American Rescue Plan Act (“ARPA”). Construction has not yet begun and a grant agreement has not yet been executed as of May 31, 2023.

In fiscal year 2022, the EFC awarded grant funding through the WIIA program not to exceed $16.2 million for 18 AOP systems to address emerging contaminants in Suffolk County related to 1,4 dioxane. Construction has not yet begun and a grant agreement has not yet been executed as of May 31, 2023.

In fiscal year 2022, the Authority has been awarded grant funding from multiple sources to fund a water main extension project in the Manorville area to provide clean drinking water to properties with private wells that are contaminated, or potentially contaminated, with pollutants in concentrations greater than recommended by drinking water guidelines. The NYS Intermunicipal Water Infrastructure Grant program (“IMG”) has awarded $1.6 million, Federal Congressional Directed Spending funds in the amount of $3.5 million have been awarded, and the Town of Brookhaven has awarded $2.0 million under the American Rescue Plan Act (“ARPA”). Construction has not yet begun. Grant agreements with the EFC and Town of Brookhaven have been executed. However, no agreement has been executed for the funds awarded from the Federal Congressional Directed Spending as of May 31, 2023.

In fiscal year 2020, The EFC has awarded grant funding through the WIIA program not to exceed $12.6 million for 9 AOP systems to address emerging contaminants in Suffolk County related to 1,4 dioxane. Construction of these AOP systems began in fiscal year 2022. As of May 31, 2023, $2.2 million in grant revenues have been recognized and $10.4 million is still outstanding.

(12) Subsequent Events

The Authority has evaluated subsequent events through August 29, 2023, the date the financial statements were available to be issued.

In June 2023, the Authority completed a bond defeasance of $24.7 million Water System Revenue Bonds from its General Fund. The bonds defeased are comprised of $24.1 million of the Water System Revenue Bonds Series 2020 (Refunding),Taxable and $0.6 million of related interest payments. The Authority funded a 2023 bond defeasance escrow account with $22.4 million with the remaining $2.3 million funded with escrow receipts for the defeased bonds that mature on June 1, 2026 and June 1, 2027.

SUFFOLK COUNTY WATER AUTHORITY

Required Supplementary Information (Unaudited)

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

May 31, 2023

(Dollars in thousands)

		2023	2022	2021	2020	2019	2018	2017	2016
Contractually required contribution	$	5,365	7,745	6,718	6,548	6,624	6,902	6,325	7,161
Contributions in relation to the contractually required contribution		5,365	7,745	6,718	6,548	6,624	6,902	6,325	7,161
Contribution deficiency (excess)	$	—	—	—	—	—	—	—	—
Authority covered-employee payroll (Authority year end)	$	51,365	48,133	47,604	46,548	45,492	45,119	46,952	40,686
Contributions as a percentage of covered-employee payroll		10.44 %	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, 2023

(Dollars in thousands)

	2023	2022	2021	2020	2019	2018	2017	2016
Authority's share of the net pension (asset) liability	0.1606751 %	0.1666300 %	0.1582059 %	0.1620929 %	0.1645388 %	0.1776255 %	0.1651319 %	0.1703727 %
Authority's proportionate share of the net pension (asset) liability	$ 34,455	(13,621)	158	42,923	11,658	5,733	15,516	27,345
Authority's covered-employee payroll (measurement date as of March 31)	49,994	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	68.92 %	(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	90.78 %	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, 2023

(Dollars in thousands)

		2023	2022	2021	2020	2019	2018
Total OPEB liability:							
Service cost	$	8,045	14,194	10,581	8,949	12,319	12,157
Interest		10,126	5,928	8,214	10,229	11,878	11,167
Change of benefit terms		333	—	—	—	—	—
Changes in assumptions		(19,709)	(99,851)	55,592	34,104	(12,186)	(4,201)
Differences between expected and actual experience		17,802	(4,239)	(8,960)	(21,580)	(27,441)	—
Benefit payments		(9,518)	(8,638)	(8,385)	(8,232)	(8,014)	(7,332)
Net change in OPEB liability		7,079	(92,606)	57,042	23,470	(23,444)	11,791
Total OPEB liability, beginning of year		270,358	362,964	305,922	282,452	305,896	294,105
Total OPEB liability, end of year	$	277,437	270,358	362,964	305,922	282,452	305,896
Covered-employee payroll	$	48,341	47,809	46,643	46,958	45,591	43,978
Total OPEB liability as a percentage of covered-employee payroll		573.92 %	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	N/A
Changes of assumptions:							
Discount rate		4.24 %	3.70 %	1.59 %	2.63 %	3.56 %	3.78 %
Undedicated reserve (see note 8 to the financial statements)	$	111,500	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 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, 2023, and the related statements 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 August 29, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on 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 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*.

KPMG LLP
345 Park Avenue
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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

New York, New York
August 29, 2023