SUFFOLK COUNTY WATER AUTHORITY

Financial Statements and
Required Supplementary Information

May 31, 2013 and 2012

(With Independent Auditors' Report
and Report on Internal Control and Compliance Thereon)

SUFFOLK COUNTY WATER AUTHORITY

Table of Contents

	Page
Independent Auditors’ Report	1
Management’s Discussion and Analysis (Unaudited)	3
Financial Statements:	
Statements of Net Position	15
Statements of Revenues, Expenses, and Changes in Net Position	16
Statements of Cash Flows	17
Notes to Financial Statements	18
Required Supplementary Information – Schedule of Funding Progress for the Retiree Healthcare Plan (Unaudited)	41
Independent Auditors’ Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*	42

KPMG LLP
Suite 200
1305 Walt Whitman Road
Melville, NY 11747-4302

Independent Auditors' Report

The Members
Suffolk County Water Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of the Suffolk County Water Authority (the Authority), which comprise of the statements of net position as of May 31, 2013 and 2012, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the Authority as of May 31, 2013 and 2012, and the changes in its net position and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis and the Schedule of Funding Progress, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 26, 2013 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 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 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

August 26, 2013

Suffolk County Water Authority (the Authority) is a public benefit corporation, 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) and the obligations to the Authority's creditors (liabilities), with the difference between the two 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. The statements account for all of the years' revenues and expenses, measure the financial results of the Authority's operations for the years, 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 (MD&A) of the Authority's financial activities and financial statements. This overview is provided for the fiscal years ended May 31, 2013 and 2012. The reader should use the information contained in this analysis in conjunction with the information contained in the audited financial statements, of which the 2013 and 2012 financial statements follow this narrative on the subsequent pages.

Summary of Revenues, Expenses, and Changes in Net Position

		Year ended May 31	
	2013	**2012**	**2011**
		(In thousands)	
Operating revenues:			
Water service	$ 135,563	131,293	131,860
Other	20,358	18,953	16,800
Total operating revenues	155,921	150,246	148,660
Operating expenses:			
Operations and maintenance	113,092	113,288	102,974
Depreciation and amortization	39,041	39,237	38,413
Total operating expenses	152,133	152,525	141,387
Operating income (loss)	3,788	(2,279)	7,273
Nonoperating revenues and expenses:			
Interest expense, net	(26,445)	(24,619)	(26,981)
Amortization and loss on bond refunding	(909)	(579)	(5,773)
Income from investments	783	2,067	2,906
Costs to be recovered from future revenues	12,170	14,629	12,984
Capital reimbursement fees	7,143	10,270	6,169
Total nonoperating revenues and expenses	(7,258)	1,768	(10,695)
Change in net position	(3,470)	(511)	(3,422)
Net position, beginning of year	636,451	636,962	640,384
Net position, end of year	$ 632,981	636,451	636,962

Operating Revenues

Water service revenues increased $4.3 million or 3.3% from $131.3 million in 2012 to $135.6 million in 2013. This was the result of a 4.2% rate increase, off-set by a 2.5 billion gallon reduction in pumpage, as compared to the fiscal year ending May 2012.

Water service revenues decreased $0.6 million or 0.4% from $131.9 million in 2011 to $131.3 million in 2012. The decrease was a result of reduced water demand 71.0 billion and 74.0 billion gallons for fiscal years ended May 31, 2012 and 2011, respectively. The effects of reduced pumpage were mitigated by an increase in water rates by an average of 4.0% effective March 1, 2011 and April 1, 2012.

Other operating revenues increased $1.4 million or 7.4% from $19.0 million in 2012 to $20.4 million in 2013. The increase is primarily attributable to a $1.2 million refund from previously defeased Series 1988 Water Revenue Bonds, and a $0.6 million increase in antennae leases. The net change in other revenue items was a decrease of $0.4 million.

Other operating revenues increased $2.1 million or 12.8% from $16.8 million in 2011 to $19.0 million in 2012. The increase is attributable to the following: 1) a net increase in managed water district revenue of $1.1 million, primarily from the first full year of managing the East Farmingdale Water District, 2) Grant Money of $0.6 million from Greater Long Island Clean Cities Coalition, for the conversion to, and purchase of natural gas vehicles, and 3) net increase of various miscellaneous fee totaling $0.5 million.

Operating Expenses

Operations and maintenance expense decreased $0.2 million or 0.2% from $113.3 million in 2012 to $113.1 million in 2013. The $0.2 million decrease was mainly attributable to decreases in maintenance of wells and pumping equipment ($1.2 million), treatment expense ($1.1 million), maintenance of services ($0.3 million), administrative ($0.9 million) and deferred "OPEB" postretirement benefits other than pension ($1.8 million) offset by increases in maintenance of mains and hydrants ($1.0 million), medical insurance ($2 million), NYS retirement ($1.8 million), other benefit costs ($0.5 million), and consultant and legal services ($0.2 million).

Operations and maintenance expense increased $10.3 million or 10.0% from $103 million in 2011 to $113.3 million in 2012. The $10.3 million increase was mainly attributable to increases in maintenance of mains, services, and hydrants ($3.2 million), laboratory and chemical treatment costs ($1.4 million) and other treatment related costs ($0.7 million), increase in postretirement benefits other than pension "OPEB"($2.6 million) maintenance of wells and pumping facilities ($1.2 million), and accounting, collecting, legal, and benefit costs ($1.2 million).

Depreciation and amortization expenses were $39.0 million in 2013 as compared to $39.2 million in 2012, a decrease of 0.2 million or 0.5%. The decrease is attributable to a $1.4 million increase in capital depreciation expense, offset by an increase in amortization of debt discount and expense of $1.2 million, reduced by an increase in the amortization of debt premium of $2.8 million.

Depreciation and amortization expenses were $39.2 million in 2012 as compared to $38.4 million in 2011, an increase of $0.8 million or 2.2%. The increase is attributable to additional capital costs placed in service during fiscal 2012 along with goodwill-related amortization.

Nonoperating Revenues and Expenses

Interest expense was $26.4 million in 2013 as compared to $24.6 million in 2012, an increase of $1.8 million. The increase is a result of a $0.8 million interest increase on long-term debt, and a $1.0 million interest increase on notes payable.

Interest expense was $24.6 million in 2012 as compared to $27.0 million in 2011, a decrease of $2.4 million. The decrease is a result of the refinancing of $16.6 million of long-term EFC Water System Revenue Bonds and the advance refunding of certain long-term Suffolk County Water Authority Water System Revenue bonds in the amount of $83.1 million, and reduced by annual payments of principal of $3.0 million (see Long-Term Debt section). In 2011, the Authority advance refunded and or defeased certain bonds with a face value of approximately $109.2 million. The difference between the face amount of the bonds outstanding, net of accumulated premiums and discounts, and the amounts required to be deposited with the Trustee for the refunding of these bonds of approximately $5.8 million has been recognized as a loss on bond refunding in the accompanying statement of revenues, expenses, and changes in net position.

Income from investment was $0.8 million in 2013 as compared to $2.1 million in 2012, a decrease of $1.3 million. The change in investment earnings was a result of a continued low interest rate environment.

Income from investment was $2.1 million in 2012 as compared to $2.9 million in 2011, a decrease of $0.8 million. The change in investment earnings was a result of a decrease in principal invested and a continued low interest rate environment.

Costs to be recovered from future revenues of $12.2 million represent the difference between the Authority's annual required contributions for postemployment benefits other than pensions as required by Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* (GASB No. 45), and the amount paid out or accrued for such benefits by the Authority during fiscal 2013. In accordance with GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in the Pre-November 30, 1989 FASB and AICPA Pronouncements*, the Authority has deferred the excess of the annual other postemployment benefits (OPEB) costs over the amount paid or accrued during the fiscal year. The deferred costs will be recovered through future revenues.

Capital reimbursement fees were $7.1 million in 2013 as compared to $10.3 million in 2012, a decrease of $3.2 million or 30.4% during the current year. The decrease is a result of reduced number of projects placed in service and the timing of projects completed.

Capital reimbursement fees were $10.3 million in 2012 as compared to $6.1 million in 2011, an increase of $4.2 million or 66.5% during the current year. The increase is a result of the timing of projects completed and placed into service.

The Authority sustained minimal damage during the weather event known as Superstorm Sandy. As such, there was no material impact to the Authority. Refer to the accompanying notes to the financial statement, note 10 commitments and contingencies, for further discussion.

Statement of Net Position Summary

	May 31 2013	2012 (In thousands)	2011
Assets:			
Capital assets (water plant), net	$ 1,067,021	1,057,463	1,053,271
Current assets	278,511	242,856	193,146
Other noncurrent assets	220,070	186,900	232,042
Total assets	$ 1,565,602	1,487,219	1,478,459
Liabilities:			
Current liabilities	$ 96,727	162,908	93,506
Other long-term liabilities	83,386	66,195	53,576
Long-term debt, net of current portion	752,508	621,665	694,415
Total liabilities	932,621	850,768	841,497
Net position:			
Net investment in capital assets	312,565	349,384	384,929
Restricted for debt service	87,055	80,059	90,497
Unrestricted	233,361	207,008	161,536
Total net position	632,981	636,451	636,962
Total liabilities and net position	$ 1,565,602	1,487,219	1,478,459

Capital Assets (Water Plant), Net

	May 31, 2012	Additions/ reclassifications (In thousands)	Deletions/ reclassifications	May 31, 2013
Water plant in service	$ 1,418,951	58,924	(8,392)	1,469,483
Less accumulated depreciation	(500,514)	(40,649)	8,392	(532,771)
Net water plant in service	918,437	18,275	—	936,712
Construction in progress	139,026	50,207	(58,924)	130,309
Water plant	$ 1,057,463	68,482	(58,924)	1,067,021

	May 31, 2011	Additions/ reclassifications	Deletions/ reclassifications	May 31, 2012
		(In thousands)		
Water plant in service	$ 1,361,149	65,623	(7,821)	1,418,951
Less accumulated depreciation	(468,371)	(39,964)	7,821	(500,514)
Net water plant in service	892,778	25,659	—	918,437
Construction in progress	160,493	44,155	(65,622)	139,026
Water plant	$ 1,053,271	69,814	(65,622)	1,057,463

There was a net increase in water plant in fiscal 2013 of $9.6 million comprising an increase of $41.8 million in gross water plant (including construction in progress) reduced by an increase on accumulated depreciation of $32.3 million.

There was a net increase in water plant in fiscal 2012 of $4.2 million comprising an increase of $36.3 million in gross water plant (including construction in progress) reduced by an increase on accumulated depreciation of $32.1 million.

Current Assets

	May 31	
	2013	2012
	(In thousands)	
Increases (decreases):		
Cash and cash equivalents	$ 49,215	62,762
Investments	(14,817)	(17,757)
Accounts receivable, net	1,949	458
Accrued water services and fire protection revenues	(232)	3,627
Interest and other receivables	(114)	(38)
Materials and supplies	144	527
Prepayments and other current assets	(490)	131
Net increase in current assets	$ 35,655	49,710

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 sponsored entity securities, and repurchase agreements backed by such obligations. Authority investments are reported at fair value.

The Authority's investments, including cash and cash equivalents, increased $34.4 million or 17% from $202.3 million as of May 31, 2012 to $236.7 million as of May 31, 2013. The increase is attributable to funds generated from excess revenues after paying and or accruing operating and maintenance costs, water system capital improvements, and debt.

The Authority's investments, including cash and cash equivalents, increased $45.0 million or 28.6% from $157.3 million as of May 31, 2011 to $202.3 million as of May 31, 2012. The increase is attributable to funds generated from excess revenues after paying for and or accruing operating and maintenance costs, water system capital improvements, and debt.

Accrued water services and fire protection revenues reflect revenue corresponding to water consumption, which has not been billed as of May 31, 2013. Water pumped in April and May 2013 was approximately 11.0 billion gallons, a 1.3 billion gallon decrease from 2012.

Accrued water services and fire protection revenues reflect revenue corresponding to water consumption, which has not been billed as of May 31, 2012. Water pumped in April and May 2012 was approximately 33% higher than 2011, which results in an increase of approximately $3.6 million.

Materials and supplies at May 31, 2013 are valued at $9.4 million, an increase of $0.1 million from May 31, 2012. Analysis of the slow moving stock items and the resulting sale and or salvage value resulted in a reduction of stock materials of $0.2 million. This was offset by an increase in overhead and nonstock materials stored in the warehouse of $0.3 million. This resulted in an increase of $0.1 million in the value of inventory over May 31, 2012.

Materials and supplies at May 31, 2012 are valued at $9.2 million, an increase of $0.5 million from May 31, 2011. The increase is resulting from an increase in Meter inventory necessary to support the ongoing Automatic Meter Reading Project.

The decrease in prepayments and other current assets from May 31, 2012 to 2013 in the amount of $0.5 million is due to decreased in premium in cost of insurance.

The increase in prepayments and other current assets from May 31, 2011 to 2012 in the amount of $0.1 million is due to increased premium in cost of insurance.

Other Noncurrent Assets

Other noncurrent assets increased by $33.2 million from a balance of $186.9 million as of May 31, 2012 to $220.1 million as of May 31, 2013. This was the result of an increase in restricted investments of $20.9 million and a $12.2 million increase in costs to be recovered from future revenues.

Other noncurrent assets decreased by $45.1 million from a balance of $232.0 million as of May 31, 2011 to $186.9 million as of May 31, 2012. This was the result of a decrease in restricted investments of $58.8 million and the amortization of goodwill and other assets of $0.9 million, offset by a $14.6 million increase in costs to be recovered from future revenues.

(Continued)

Liabilities

Current Liabilities

		May 31	
		2013	**2012**
		(In thousands)	
Increase (decrease):			
Current maturities of bonds payable	$	(48)	(236)
Current maturities of bond anticipation notes payable		(70,000)	70,000
Accounts payable		1,954	441
Accrued interest		2,199	(359)
Accrued employee welfare costs		258	801
Accrued NYS Retirement		155	(1,057)
Other accrued liabilities		(699)	(188)
Net change in current liabilities	$	(66,181)	69,402

Current Liabilities

In fiscal year 2013, $70 million of the 2008 Bond Anticipation Notes were retired with $80 million issued from the Suffolk County Water Authority Water System Revenue Bond, Series 2012A. In addition, $100 million of Bond Anticipation Notes 2013A and 2013B were issued, which $50 million are due in fiscal year 2015 and $50 million are due in fiscal year 2016.

In fiscal year 2012, $50 million of Bond Anticipation Renewal Notes 2012A were issued, which were due in fiscal year 2013.

The $2.0 million increase experienced in accounts payable from 2012 to 2013 is attributable principally to the invoice amounts associated with the capital and operating and maintenance expenses completed and not paid as of May 31, 2013.

The $0.4 million increase experienced in accounts payable from 2011 to 2012 is attributable principally to the invoice amounts associated with the capital and operating and maintenance expenses completed and not paid as of May 31, 2012.

The increase in accrued interest of $2.2 million from 2012 to 2013 is attributable to the defeasance of certain long-term debt off-set by the issuance of Bond Anticipation Notes and Water System Revenue Refunding Bonds (see Long-Term Debt section).

The decrease in accrued interest of $0.4 million from 2011 to 2012 is attributable to the defeasance of certain long-term debt negated by the issuance of Bond Anticipation Notes and Water System Revenue Refunding Bonds (see Long-Term Debt section).

Accrued employee welfare represents the expected value of all vacation, sick leave, and other payroll-related benefits earned by employees to date. The increase in accrued employee welfare at May 31, 2013 from 2012 is $0.3 million and is principally attributable to additional sick and vacation leave earned.

(Continued)

The increase in accrued employee welfare at May 31, 2012 from 2011 is $0.8 million and is principally attributable to additional sick and vacation leave earned.

Accrued NYS retirement contributions increased by $0.1 million to an amount of $1.8 million as of May 31, 2013 as compared to $1.7 million as of May 31, 2012. This is the result of the Authority's stable workforce mitigating the slight increase in New York State Retirement rates.

Accrued NYS retirement contributions decreased by $1.0 million to an amount of $1.7 million as of May 31, 2012 as compared to $2.7 million as of May 31, 2011. The decrease is attributable to the costs of the 2010 New York State Retirement Incentive Program, which was accrued in the prior fiscal year. The cost to the Authority was approximately $1.8 million. The Authority, required to recoup the costs over a two-year period was able to recover the cost in less than twelve months. The Authority, based on the rates set by the New York State Retirement System, has been advised the regular pension costs for the period April 1, 2011 through March 31, 2012 are estimated to be an average of 16% of payroll.

Other accrued liabilities decreased by $0.7 million between May 31, 2012 and 2013. This is principally the result of a decrease in antennae deposits of $0.7 million.

Other accrued liabilities decreased by $0.2 million between May 31, 2011 and 2012. This is principally the result of a decrease in workers' compensation costs of $0.14 million.

Other Long-Term Liabilities

Other long-term liabilities increased by $17.2 million from $66.2 million at May 31, 2012 to a balance of $83.4 million at May 31, 2013. This is a result of the increase in additional OPEB costs of approximately $14.2 million, in addition to approximately $3 million increase in advances for construction.

GASB No. 45 establishes guidance for the financial reporting of OPEB cost over a period that approximates employees' years of service. Under GASB No. 45, based on an actuarial valuation, an annual required contribution (ARC) is determined by the Authority. The ARC is the sum of (a) the normal cost for the year (the present value of future benefits being earned by current employees) plus (b) amortization of the unfunded accrued liability (benefits already earned by current and former employees but not yet provided for), using an amortization period of not more than 30 years. To the extent that the Authority contributes an amount less than the ARC, a net incremental OPEB obligation will result, which is required to be recorded as a liability on its financial statements.

GASB No. 45 does not require that the unfunded liability actually be funded, only that the Authority account for the unfunded accrued liability. However, beginning in 2012, in an effort to mitigate possible future rate impacts related to any expected legal legislation, the Authority has established an undedicated reserve for this purpose. As of May 31, 2013, the undedicated reserve is $3.0 million. During the fiscal year ending May 31, 2013 and 2012, the Authority expensed $2 million and $1 million, respectively, as a contribution to this reserve.

The financial statements at May 31, 2013 and 2012 include a liability for postemployment benefits other than pension in the amount of $79.5 million and $65.3 million, respectively.

(Continued)

Long-Term Debt

The Authority's long-term debt (including current maturities, excluding unamortized discounts and deferred amounts) increased from fiscal 2012 to 2013 by $77.3 million.

Water System Revenue and
Environmental Facilities Corporation Revenue Bonds

		May 31	
	2013	**2012**	**2011**
		(In thousands)	
Balance, beginning	$ 572,973	581,318	661,440
New issues:			
SCWA 2011 Refunding	—	—	24,930
SCWA 2012 Refunding	—	83,635	—
SCWA 2012A	80,000	—	—
SCWA 2013 Refunding	62,380	—	—
EFC 2010C Refunding	—	—	2,903
EFC 2011A Refunding	—	—	7,384
EFC 2011C Refunding	—	10,947	—
EFC 2012B Refunding	4,523	—	—
	146,903	94,582	35,217
Maturities, retirements, and defeasances:			
SCWA	(60,000)	(83,150)	(95,250)
EFC	(9,588)	(19,777)	(20,089)
	(69,588)	(102,927)	(115,339)
Net changes in long-term debt	77,315	(8,345)	(80,122)
Balance, ending	$ 650,288	572,973	581,318

Investment ratings on debt issued by the Authority by Standard and Poor's Ratings Services (S&P) and Fitch Ratings (Fitch) were reaffirmed and are as follows at May 31, 2013:

	Investment ratings	
	S&P	**Fitch**
Long-term debt	AA+	AAA

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 (EFC) administers the financial aspects of the DWSRF. The Authority has participated in this program since 1998. The Authority has determined it advisable and financially advantageous to continue to participate in this program. During fiscal years ended

May 31, 2013, and 2012, the Authority participated in the New York State Environmental Facilities Corporation (EFC) refinancing of outstanding bonds by refunding existing DWSRF bonds with new DWSRF bonds issued at lower current-market interest rates, thus passing the interest savings onto the Authority. Of the NYS EFC Series 2010C Revenue Bonds, the Authority refinanced \$3.2 million of 1999A Suffolk County Water Authority (EFC Series) Senior Lien Revenue Bonds. Of the NYS EFC Series 2011A Revenue Bonds, the Authority refinanced \$2.8 million of 1998B Suffolk County Water (EFC Series) Revenue Bonds, \$0.5 million of 2000A Suffolk county Water (EFC Series) Revenue Bonds, \$3.4 million of 2000B Suffolk County Water (EFC Series) Revenue Bonds, and \$6.8 million of 2001A Suffolk County Water (EFC Series) Revenue Bonds. Of the NYS EFC Series 2011C Revenue Bonds, the Authority participated in the EFC refinancing of \$10.9 million of 2001B Suffolk County Water (EFC Series) Revenue Bonds, and \$5.7 million of 2002G Suffolk County Water (EFC Series) Revenue Bonds.

During fiscal year ended May 31, 2013, the NYS EFC issued Series 2012B in the amount of \$4.5 million and along with unspent proceeds and debt service reserve funds in the amount of \$1.9 million refinanced \$6.4 million of 2002A Suffolk County Water Authority (EFC Series) Revenue Bonds.

During fiscal year ended May 31, 2012, the NYS EFC issued Series 2011C in the amount of 10.9 million and along with unspent proceeds and debt service reserve funds in the amount of \$5.7 million refinanced \$10.9 million of 2001B Suffolk County Water Authority (EFC Series) Revenue Bonds and \$5.7 million of 2002G Suffolk County Water (EFC Series) Revenue Bonds.

During the fiscal year ended May 31, 2013, the Authority issued \$80 million "Suffolk County Water System Revenue Bonds Series 2012A" for the purpose of retiring \$70 million of the Authority's Variable Rate Bond Anticipation Notes, Series 2008. The Authority also issued \$62.4 million "Suffolk County Water System Revenue Bonds Refunding, Series 2013 for the purpose of advance refunding \$60 million 2005C "Suffolk County Water System Revenue Bonds."

During the fiscal year ended May 31, 2012, the Authority issued \$83.6 million "Suffolk County Water System Revenue Refunding Bonds," for the purpose of refunding \$10.7 million 2001A Suffolk County Water Senior Lien Revenue Bonds, and \$72.5 million 2003C Suffolk County Water Senior Lien Revenue Bonds.

Short-Term Debt

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

In January 2013, the Authority issued a total of \$100 million Suffolk County Water Authority Bond Anticipation Notes consisting of \$50 million Suffolk County Water Authority Bond Anticipation Renewal Notes 2013A (Fixed Rate) for the purpose of renewing the Authority's 2012A Bond Anticipation Notes and \$50 million Suffolk County Water Authority Bond Anticipation Notes 2013B (Fixed Rate) to fund the cost of acquisition and construction of improvements to the water system.

In March 2012, the Authority issued a total of \$50 million Suffolk County Water Authority Bond Anticipation Renewal Notes 2012A (Fixed Rate) for the purpose of renewing the Authority's 2011A Bond Anticipation Notes that were due April 1, 2012.

Net Position – Net Investment in Capital Assets

Net investment in capital represents the Authority's total investment in capital assets net of related long-term debt. The decrease of $36.8 million over the May 31, 2012 balance is the result of an increase in water plant expenditures and funds available for construction offset by the net increase in debt balances.

Net investment in capital represents the Authority's total investment in capital assets net of related long-term debt. The decrease of $35.5 million over the May 31, 2011 balance is the result of an increase in water plant expenditures and funds available for construction offset by the net increase 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 bond holders on the next prescribed payment date.

The increase of $7.0 million from $80.1 million at May 31, 2012 to $87.1 million at May 31, 2013 is the result of additional reserve funds deposited with the Bond Trustees from the issuance of the Series 2012A and Series 2013 Refunding less the release of the reserve funds from the refunding of Series 2005C.

The decrease of $10.4 million from $90.5 million at May 31, 2011 to $80.1 million at May 31, 2012 is the result of the net refunding of Series 2001A, 2003C, EFC 2001B, EFC 2002G and the release of related restricted bond funds.

Net position – Unrestricted

In 2013, net position – unrestricted, increased over the May 31, 2012 balance in the amount of $26.4 million as a result of operations, net of those changes that impact net investment in capital assets and net position restricted for debt service.

In 2012, net position – unrestricted, increased over the May 31, 2011 balance in the amount of $45.5 million as a result of operations, net of those changes that impact net investment 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

Statement of Net Position

May 31, 2013 and 2012

Assets		**2013**	**2012**
		(In thousands)	
Current assets:			
Cash and cash equivalents	$	164,438	115,223
Investments		72,293	87,110
Accounts receivable, less allowance for doubtful accounts of $1,497 and $1,468 in 2013 and 2012, respectively		12,491	10,542
Accrued water services and fire protection revenues		17,933	18,165
Interest and other receivables		209	323
Materials and supplies, at average cost		9,372	9,228
Prepayments and other current assets		1,775	2,265
Total current assets		278,511	242,856
Restricted investments		131,631	110,716
Goodwill		3,180	3,331
Costs to be recovered from future revenues		76,485	64,315
Deferred charges and other assets		8,774	8,538
Capital assets, net		1,067,021	1,057,463
Total noncurrent assets		1,287,091	1,244,363
Total assets	$	1,565,602	1,487,219
Liabilities and Net Position			
Current liabilities:			
Current maturities of bonds payable	$	3,206	3,254
Current maturities of bond anticipation notes payable		50,000	120,000
Accounts payable		10,129	8,175
Accrued interest		14,702	12,503
Accrued employee welfare costs		6,976	6,718
Accrued NYS retirement contributions		1,823	1,668
Other accrued liabilities		9,891	10,590
Total current liabilities		96,727	162,908
Bond anticipation notes payable		100,000	50,000
Bonds payable, less current portion and unamortized discounts		652,508	571,665
Postemployment benefits other than pension		79,485	65,315
Advances for construction		3,901	880
Total noncurrent liabilities		835,894	687,860
Total liabilities		932,621	850,768
Commitments and contingencies			
Net position:			
Net investment in capital assets		312,565	349,384
Restricted for debt service		87,055	80,059
Unrestricted		233,361	207,008
Total net position		632,981	636,451
Total liabilities and net position	$	1,565,602	1,487,219

See accompanying notes to financial statements.

SUFFOLK COUNTY WATER AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Position

Years ended May 31, 2013 and 2012

		2013	2012
		(In thousands)	
Operating revenues:			
Water service	$	135,563	131,293
Other		20,358	18,953
Total operating revenues		155,921	150,246
Operating expenses:			
Operations		87,235	89,754
Maintenance		25,857	23,534
Depreciation and amortization		39,041	39,237
Total operating expenses		152,133	152,525
Operating income (loss)		3,788	(2,279)
Nonoperating revenues and expenses:			
Interest expense, net		(26,445)	(24,619)
Amortization		(909)	(579)
Income from investments		783	2,067
Costs to be recovered from future revenues		12,170	14,629
Capital reimbursement fees		7,143	10,270
Total nonoperating revenues and expenses		(7,258)	1,768
Change in net position		(3,470)	(511)
Net position:			
Beginning of year		636,451	636,962
End of year	$	632,981	636,451

See accompanying notes to financial statements.

SUFFOLK COUNTY WATER AUTHORITY

Statements of Cash Flows

Years ended May 31, 2013 and 2012

		2013	2012
		(In thousands)	
Cash flows from operating activities:			
Cash receipts from customers	$	133,610	128,071
Other operating cash receipts		19,659	18,765
Cash payments to suppliers of goods and services		(40,584)	(41,878)
Cash payments to employees for services and benefits		(55,473)	(56,104)
Net cash provided by operating activities		57,212	48,854
Cash flows from capital and related financing activities:			
Additions to water plant, net of retirements		(48,599)	(43,429)
Proceeds from issuance of notes payable		100,000	50,000
Proceeds from issuance of long-term debt		146,903	100,747
Repayment of notes payable		(120,000)	(50,000)
Repayment of current maturities of bonds payable		(69,588)	(102,927)
Interest paid		(20,767)	(25,784)
Amortization		(909)	(579)
Proceeds from advances for construction, net of refunds		10,164	7,260
Net cash used in capital and related financing activities		(2,796)	(64,712)
Cash flows from investing activities:			
Purchase of investments		(246,843)	(337,753)
Proceeds from sales and maturities of investments		239,912	413,789
Interest received		1,730	2,584
Net cash (used in) provided by investing activities		(5,201)	78,620
Net increase in cash and cash equivalents		49,215	62,762
Cash and cash equivalents at beginning of year		115,223	52,461
Cash and cash equivalents at end of year	$	164,438	115,223
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	$	3,788	(2,279)
Depreciation and amortization expense		39,192	39,387
(Increase) decrease in operating assets:			
Accounts receivable		(1,949)	(458)
Accrued water services and fire protection revenues		232	(3,627)
Materials and supplies and prepayments		346	(658)
Deferred charges and other assets		(236)	863
Increase (decrease) in operating liabilities:			
Accounts payable		1,954	441
Accrued employee welfare costs		258	801
Accrued NYS retirement contributions		155	(1,057)
Postemployment benefits other than pension		14,170	15,629
Other accrued liabilities		(698)	(188)
Net cash provided by operating activities	$	57,212	48,854
Noncash investing activities:			
Change in the fair value of investments	$	(833)	(479)

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

Suffolk County Water Authority (the Authority) is a public benefit corporation 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 construction period interest, 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.

Property and equipment represent land, leasehold improvement, office equipment, furniture, and fixtures of the Authority.

(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 in order to determine the appropriateness of this depreciation rate. The Authority determined that the depreciation rate of 2.84% remained appropriate at May 31, 2013 and 2012.

(d) Capitalized Interest

The Authority capitalizes interest on constructed assets during the period of construction. Interest cost capitalized during the years ended May 31, 2013 and 2012 was approximately $1.2 million in both years.

(Continued)

(e) 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 investment agreements and certificates of deposit. Investment agreements, which can take the form of open time deposits or fixed repurchase agreements, are reported at an amount equal to principal and accrued interest. Certificates of deposit are valued at cost, which approximates fair value.

(f) 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 and U.S. government sponsored entity securities.

(g) 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.

(h) 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.

(i) 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.

(j) Managed Water Districts

The Towns of Islip, Babylon, Brookhaven, and Southampton (collectively the Towns), on behalf of the Brentwood, East Farmingdale, Stony Brook, and Riverside Water Districts, respectively, have entered into 40-year lease agreements with the Authority, whereby the Authority agrees to operate, construct, maintain, and repair, at its own expense, the entire operating plant in exchange for an agreed upon fee. The Towns, on behalf of the respective districts, agree to lease all of the rights, title, and interest to the entire operations, plant, hydrants, and distribution system, real property, of the districts, and all extensions thereto. These leases expire between 2040 and 2050.

(k) Water District Contracts

The Authority has entered into a number of contracts 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 agree 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, 2013, the Authority had 14 active contracts where the credit did not equal the gross amount due. Annual gross payments for these contracts range from $1,800 to $377,000 with final maturity dates between 2012 and 2030. The cumulative gross payments due for all of these water district contracts through their respective maturity dates at May 31, 2013 and 2012 amount to approximately $11.2 million and $12.5 million, respectively. The Authority has determined that as the asset and liability created from these contracts have the right of offset, these amounts are not reflected on the statements of net position as of May 31, 2013 and 2012.

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

(l) Debt Issuance Costs, Bond Discount and Premiums, and Other Bond-Related Costs

Debt issuance costs and bond discount and premium are amortized over the life of the related bond issues. Deferred bond refunding costs are amortized to expense over the shorter of the life of the refunding bonds or the refunded bonds. Debt issuance costs are reported as deferred charges of $6.7 million and $6.2 million at May 31, 2013 and 2012, respectively, in the accompanying statements of net position.

(m) Customer Deposits

As security for the payment of bills, the Authority generally requires a deposit from commercial customers and high volume water users. No interest is paid on such deposits.

(n) 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 accordance with GASB Statement No. 16, *Accounting for Compensated Absences*. As of May 31, 2013 and 2012, the amounts of accrued employee welfare costs are \$7.0 million and \$6.7 million, respectively.

(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) Costs to Be Recovered from Future Revenues

The Authority's cost recovery rate model used to establish rates, fees, and charges includes an amount for postemployment benefits other than pensions that are expected to be paid out during the fiscal year, but not for the amount of the annual required contribution as calculated under GASB Statement No. 45 (GASB No. 45), *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. In accordance with GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in the Pre-November 30, 1989 FASB and AICPA Pronouncements*, the Authority has deferred the excess of current annual required contribution over the amount paid, beginning in fiscal year 2010. The deferred costs will be recovered through future revenues in accordance with the Authority's rate model. The deferred amount as of and for the years ended May 31, 2013 and 2012 was \$76.5 million and \$64.3 million, respectively.

(q) 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) to be used for any lawful purpose of the Authority, including use by the construction fund. The payment of capital expenditures is generally paid for by restricted bond proceeds, other restricted resources, and by funds previously transferred to the general fund.

(Continued)

(r) Income Taxes

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

(s) 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, allowances for doubtful accounts and inventory, the valuation of financial instruments other than cash, accrued water services and fire protection revenues, accrued employee welfare costs, workers' compensation and postemployment benefits, and other uncertainties and other contingencies. The current economic environment has increased the degree of uncertainty inherent in those estimates and assumptions.

(t) Recent Accounting Pronouncements

In December 2009, GASB issued Statement No. 57 (GASB No. 57), *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. GASB No. 57 addresses issues related to the use of alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer OPEB plans. The statement amends previous GASB statements on OPEB plans, and will improve the consistency of reporting for OPEB plans. This statement became effective in fiscal 2013, and did not have a material impact on its financial statements.

In June 2010, GASB issued Statement No. 59 (GASB No. 59), *Financial Instruments Omnibus*. GASB No. 59 addresses topics relating to the reporting and disclosure of certain financial instruments and external investment pools, and includes some clarifications to GASB No. 53. This statement became effective in fiscal 2012, and did not have a material impact on its financial statements.

In December 2010, GASB issued Statement No. 62 (GASB No. 62), *Codification of Accounting and Financial Reporting Guidance Contained in the Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB No. 62 incorporates into GASB's authoritative literature certain accounting and financial reporting guidance issued on or before November 30, 1989 included in: FASB Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the AICPA Committee on Accounting Procedure that do not conflict with or contradict GASB pronouncements. The statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Fund and Other Governmental Entities That Use Proprietary Fund Accounting*, which eliminates the election for business-type activities to apply post November 30, 1989 FASB Statements and Interpretations that do not conflict with GASB pronouncements. This statement became effective fiscal 2013, and did not have a material impact on its financial statements.

(Continued)

In June 2011, GASB issued Statement No. 63 (GASB No. 63), *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB No. 63 required that deferred outflows of resources be reported in the balance sheet in a separate section following assets and deferred inflows of resources be reported in a separate section following liabilities. GASB 63 became effective fiscal 2013, and did not have a material impact on its financial statements.

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB No. 65 reclassifies and recognizes certain items currently reported as assets and liabilities as one of four financial statement elements: (i) deferred outflows of resources, (ii) outflows of resources, (iii) deferred inflows of resources, and (iv) inflows of resources. The provisions of this statement become effective for periods beginning after December 15, 2012. The Authority is currently assessing impact of this statement on its financial statements.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans-an amendment of GASB Statement* No. 25 and Statement No. 68, *Financial Reporting for Pension Plans-an amendment of GASB Statement No. 27*. GASB No. 67 and No. 68 changes how governments calculate and report the costs and obligations associated with pensions and improve the decision usefulness of reported pension information and increase the transparency, consistency, and comparability of pension information. Statement No. 67 will take effect for periods beginning after June 15, 2013. Statement No. 68 will take effect for periods beginning after June 15, 2014. The Authority is currently assessing impact of this statement on its financial statements.

(2) Capital Assets, Net

		May 31, 2012	Additions/ reclassifications	Deletions/ reclassifications	May 31, 2013
			(In thousands)		
Land and land rights	$	23,878	125	—	24,003
Distribution systems		861,465	23,665	(1,104)	884,026
Wells, reservoirs, and structures		251,067	14,540	(186)	265,421
Pumping and purification equipment		118,157	10,309	(430)	128,036
Meters		71,750	7,936	(6,384)	73,302
Compressors/Backhoes		4,345	150	—	4,495
Computer equipment		22,390	342	—	22,732
Equipment		25,112	261	—	25,373
Hydrants		40,787	1,596	(288)	42,095
Water plant in service		1,418,951	58,924	(8,392)	1,469,483
Less accumulated depreciation		(500,514)	(40,649)	8,392	(532,771)
Net water plant in service		918,437	18,275	—	936,712
Construction in progress		139,026	50,207	(58,924)	130,309
Water plant	$	1,057,463	68,482	(58,924)	1,067,021

		May 31, 2011	Additions/ reclassifications	Deletions/ reclassifications	May 31, 2012
			(In thousands)		
Land and land rights	$	23,032	846	—	23,878
Distribution systems		834,248	28,618	(1,401)	861,465
Wells, reservoirs, and structures		233,551	17,872	(356)	251,067
Pumping and purification equipment		110,801	7,452	(96)	118,157
Meters		69,004	8,482	(5,736)	71,750
Compressors/Backhoes		4,149	196	—	4,345
Computer equipment		21,927	463	—	22,390
Equipment		24,784	328	—	25,112
Hydrants		39,653	1,366	(232)	40,787
Water plant in service		1,361,149	65,623	(7,821)	1,418,951
Less accumulated depreciation		(468,371)	(39,964)	7,821	(500,514)
Net water plant in service		892,778	25,659	—	918,437
Construction in progress		160,493	44,155	(65,622)	139,026
Water plant	$	1,053,271	69,814	(65,622)	1,057,463

Depreciation expense amounted to approximately $40.8 million and $39.2 million for the years ended May 31, 2013 and 2012, respectively, based on a composite annual rate of percentage.

(3) Cash and Cash Equivalents and Investments

(a) Cash and Cash Equivalents

Cash consists of insured (FDIC) or collateralized deposits that have carrying values of approximately $164.4 million and $115.2 million and bank balances of approximately $166.8 million and $116.7 million at May 31, 2013 and 2012, 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, 2013 and 2012 consist of the following:

	2013 Fair Value	Investment maturities at May 31, 2013 (In years) Less than 1	1 to 5	Greater than 5
	(In thousands)			
U.S. Treasury notes (1)	$ 2,863	1,001	1,253	609
U.S. Treasury bonds (1)	2,906	—	—	2,906
FNMAs (1)	40,718	810	34,909	4,999
FHLB notes (1)	52,923	40,033	3,020	9,870
FHLMC notes	14,992	—	14,992	—
FDIC – insured notes	—	—	—	—
FFCB notes (1)	45,525	—	45,525	—
Money market (1)	43,765	43,765	—	—
Guaranteed investment contracts (1)	232	232	—	—
Total investments	$ 203,924	85,841	99,699	18,384

(1) Includes approximately $87.9 million of investments held by Fiscal Agent in the Authority's name at May 31, 2013.

	2012 Fair Value	Investment maturities at May 31, 2012 (In years) Less than 1	1 to 5	Greater than 5
U.S. Treasury notes (1)	$ 2,865	501	1,511	853
U.S. Treasury bonds (1)	3,541	—	—	3,541
FNMAs (1)	46,640	—	33,615	13,025
FHLB notes (1)	96,024	18,017	70,602	7,405
FHLMC notes	11,047	—	11,047	—
FDIC – insured notes	5,004	5,004	—	—
FFCB notes (1)	3,496	—	3,496	—
Money market (1)	28,554	28,554	—	—
Guaranteed investment contracts (1)	655	655	—	—
Total investments	$ 197,826	52,731	120,271	24,824

(1) Includes approximately $82.2 million of investments held by Fiscal Agent in the Authority's name at May 31, 2012.

		2013	2012
		(In thousands)	
Investment breakdown:			
Restricted for:			
Debt service	$	87,055	80,059
Construction		44,576	30,657
Unrestricted		72,293	87,110
Total investments	$	203,924	197,826

Accrued interest on investments other than investment agreements is included in interest and other receivables on the statements of net position. Investments bear interest rates that range from 0.01% to 4.60%.

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.

Investments include U.S. Treasury obligations, U.S. government sponsored entity, guaranteed investment contracts, and repurchase agreements backed by such obligations. Investments are reported at fair value, except for investment agreements and certificates of deposit. Investment agreements, which can take the form of open time deposits or fixed repurchase agreements, are reported at an amount equal to principal and accrued interest. Certificates of deposit are valued at cost.

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, 2013, the Authority's investments in Federal National Mortgage Association, Federal Home Loan Bank, FDIC Guaranteed Bonds, Federal Farm Credit Bank Notes, and the Federal Home Loan Mortgage Corporation were rated Aaa by Moody's Investors Service and AAA by Standard & Poor's Ratings Services and Fitch Ratings. There were no investments in obligations of any state of the United States of America or any political subdivision.

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 Federal National Mortgage Association, Federal Home Loan Bank, Federal Home Loan Mortgage Corp., Federal Farm Credit Bank, and Money Market Accounts. These investments are 20%: $(40.7 million), 26%: $(52.9 million), 7%: $(15.0 million), 22%: $(45.5 million), and 21%: $(43.8 million), respectively, of the Authority's total investments.

(Continued)

(4) Bonds Payable

Outstanding bonds are summarized as follows:

Series	Interest rate	Final maturity date	May 31, 2012	Issued	Matured/ refunded	May 31, 2013	Due within one year
					(In thousands)		
Water System Revenue Bonds:							
1994 Subordinate Lien	4.13 – 6.00	2015	$ 695	—	—	695	—
2003 Senior Lien	2.00 – 4.50	2017	7,000	—	—	7,000	—
2005 C Senior Lien	4.50 – 5.00	2029	60,000	—	(60,000)	—	—
2005 Subordinate Lien	4.37 – 4.55	2027	71,905	—	—	71,905	—
2006 A Senior Lien	3.59 – 4.95	2031	70,000	—	—	70,000	—
2007 A Senior Lien	4.00 – 4.50	2032	45,000	—	—	45,000	—
2009 Senior Lien	2.00 – 5.00	2022	10,635	—	—	10,635	—
2009 A Senior Lien	4.00 – 5.00	2035	57,740	—	—	57,740	—
2009 B Senior Lien	5.50	2035	100,000	—	—	100,000	—
2011 Senior Lien	4.75 – 5.00	2040	24,930	—	—	24,930	—
2012 Senior Lien	3.00 – 5.00	2026	83,635	—	—	83,635	—
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	—
Environmental Facilities Corporation Revenue Bonds:							
2002 A	1.36 – 5.00	2022	6,450	—	(6,450)	—	—
2003 B	0.72 – 4.50	2023	5,800	—	(395)	5,405	390
2004 A	1.20 – 4.96	2024	4,805	—	(290)	4,515	290
2005 B	2.08 – 4.02	2026	5,240	—	(290)	4,950	300
2010 C	0.85 – 3.16	2019	2,385	—	(270)	2,115	280
2011 A	0.79 – 3.99	2021	6,598	—	(709)	5,889	735
2011 C	0.54 – 3.57	2022	10,155	—	(820)	9,335	847
2012 B	4.13 – 5.00	2022	—	4,523	(364)	4,159	364
Total bonds outstanding			572,973	146,903	(69,588)	650,288	$ 3,206
				Additions	Amortization/ payments		
Less:							
Unamortized discount (premium)			(9,379)	(11,445)	2,709	(18,115)	
Deferred amount			7,433	6,166	(910)	12,689	
Current maturities payable			3,254	3,206	(3,254)	3,206	
			$ 571,665	148,976	(68,133)	652,508	

Series	Interest rate	Final maturity date	May 31, 2011	Issued	Matured/ refunded	May 31, 2012	Due within one year
					(In thousands)		
Water System Revenue Bonds:							
1994 Subordinate Lien	4.13 – 6.00	2015	$ 695	—		695	—
2001 A Senior Lien	5.00 – 5.25	2026	10,650	—	(10,650)	—	—
2003 Senior Lien	2.00 – 4.50	2017	7,000	—		7,000	—
2003 C Senior Lien	4.00 – 4.50	2026	72,500	—	(72,500)	—	—
2005 C Senior Lien	4.50 – 5.00	2029	60,000	—	—	60,000	—
2005 Subordinate Lien	4.37 – 4.55	2027	71,905	—	—	71,905	—
2006 A Senior Lien	3.59 – 4.95	2031	70,000	—	—	70,000	—
2007 A Senior Lien	4.00 – 4.50	2032	45,000	—	—	45,000	—
2009 Senior Lien	2.00 – 5.00	2022	10,635	—	—	10,635	—
2009 A Senior Lien	4.00 – 5.00	2035	57,740	—	—	57,740	—
2009 B Senior Lien	5.50	2035	100,000	—	—	100,000	—
2011 Senior Lien	4.75 – 5.00	2040	24,930	—	—	24,930	—
2012 Senior Lien	3.00 – 5.00	2026	—	83,635		83,635	—
Environmental Facilities Corporation Revenue Bonds:							
2001 B	2.62 – 5.15	2021	10,900	—	(10,900)	—	
2002 A	1.36 – 5.00	2022	6,915	—	(465)	6,450	480
2002 B	1.33 – 5.12	2022	5,735	—	(5,735)	—	—
2003 B	0.72 – 4.50	2023	6,180	—	(380)	5,800	395
2004 A	1.20 – 4.96	2024	5,070	—	(265)	4,805	290
2005 B	2.08 – 4.02	2026	5,525	—	(285)	5,240	290
2010 C	0.85 – 3.16	2019	2,648	—	(263)	2,385	270
2011 A	0.79 – 3.99	2021	7,290	—	(692)	6,598	709
2011 C	0.54 – 3.57	2022	—	10,947	(792)	10,155	820
Total bonds outstanding			581,318	94,582	(102,927)	572,973	$ 3,254
				Additions	Amortization/ payments		
Less:							
Unamortized discount (premium)			398	(10,703)	926	(9,379)	
Deferred amount			3,015	4,997	(579)	7,433	
Current maturities payable			3,490	3,254	(3,490)	3,254	
			$ 574,415	97,034	(99,784)	571,665	

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 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 (2) 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 (2) highest ratings, then within twelve (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 (2) 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 year 2012, the Authority, at its own discretion, has elected to fund the reserve accounts in the amount of $41.2 million from bond proceeds and $26.8 million from unrestricted funds. For the fiscal year 2013, the Authority, at its own discretion, has elected to fund the reserve accounts in the amount of $46.9 million from bond proceeds and $26.8 million from unrestricted funds.

(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 fiscal year ended May 31, 2013, the Authority entered into the following bond transactions:

In October 2012, the Authority issued $80 million Senior Lien Water System Revenue Bonds, Series 2012A for the purpose of retiring $70 million of its Variable Rate Bond Anticipation Notes, Series 2008 with a maturity date of January 15, 2013.

In March 2013, the Authority issued $62.4 million Senior Lien Water System Revenue Bonds, Series 2013 (Refunding) to provide for the advanced refunding of $60 million Suffolk County Water Authority Senior Lien Water System Revenue Bond Series 2005C. The Series 2013 Refunding Bonds bear interest rates ranging from 3.00% to 4.00% and have a final maturity date of June 1, 2029. The proceeds from the Series 2013 Refunding Bonds including existing reserve funds were used to fund the escrow accounts for $66.6 million, to pay bond issuance costs of $0.4 million, to fund the Reserve account for $6.6 million and to pay interest on the Series 2013 Refunding Bonds for $0.2 million. This refunding resulted in a net present value savings from cash flow of an approximate total of $11.7 million.

During fiscal year ended May 31, 2012, the Authority entered into the following bond transactions:

In January 2012, the Authority issued $83.6 million Senior Lien Water System Revenue Bonds, Series 2012 (Refunding) to provide for the current refunding of $10.7 million Suffolk County Water Authority Senior Lien Water System Revenue Bond Series 2001A and for the advanced refunding of $72.5 million Suffolk County Water Authority Senior Lien Water System Revenue Bond Series 2003C. The Series 2012 Refunding Bonds bear interest rates ranging from 3.00% to 5.00% and have a final maturity date of June 1, 2026. The proceeds from the Series 2012 Refunding Bonds including existing reserve funds were used to fund the escrow accounts for 88.2 million, to pay bond issuance costs of $0.5 million and to fund the Reserve account for $9.3 million..

(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. EFC is responsible for administering the Revolving Fund and providing financial assistance from the Revolving Fund. The Corporation 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 EFC Refunding Program initiated by the New York State Environmental Facilities Corporation 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 EFC refunded certain Suffolk County Water Authority EFC Bond Series with new bonds issued at lower current-market interest rates, thus passing the interest savings net of EFC financing costs along to the Authority in the form of reduced Debt Service bills.

During the fiscal year ended May 31, 2013, the Authority entered into the following EFC bond transactions:

In June 2012, the Authority participated in the EFC Series 2012B, which refinanced along with unspent proceeds and debt service reserve funds in the amount of $2.4 million, $6.5 million Suffolk County Water Authority Water System Revenue Bond EFC Series 2002A. The 2012B EFC Series bear interest rates ranging from 4.132% to 5.002% with a final maturity date of October 15, 2022. This refunding resulted in a net present value savings from cash flow of an approximate total of $1.4 million.

Subsequent to year-end, in August 2013, the Authority participated in the EFC Series 2013B refunding $5.4 million of Suffolk County Water Authority Water System Revenue Bond EFC Series 2003B.

During the fiscal year ended May 31, 2012, the Authority entered into the following EFC bond transactions:

In July 2011, the Authority participated in the EFC Series 2011C, which refinanced along with unspent proceeds and debt service reserve funds in the amount of $5.7 million, $10.9 million Suffolk County Water Authority Water System Revenue Bond EFC Series 2001B, and $5.7 million Suffolk County Water Authority Water System Revenue Bond EFC Series 2002G. The 2011C EFC Series bear interest rates ranging from 0.540% to 3.566% with a final maturity date of October 15, 2022. This refunding resulted in a net present value savings from cash flow of an approximate total of $1.4 million.

In prior years, the Authority 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, 2013, the amount of defeased debt obligation outstanding was approximately $133.5 million.

Interest expense on the bonds was $26.5 million and $24.6 million for the years ended May 31, 2013 and 2012, respectively.

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

		Principal	Interest	Total
			(In thousands)	
Fiscal year ending:				
2014	$	3,206	28,170	31,376
2015		5,518	27,990	33,508
2016		6,135	27,763	33,898
2017		7,694	27,471	35,165
2018		10,876	27,028	37,904
2019 through 2023		86,315	124,688	211,003
2024 through 2028		130,450	100,496	230,946
2029 through 2033		174,810	68,776	243,586
2034 through 2038		188,220	20,877	209,097
2039 through 2041		37,064	494	37,558
	$	650,288	453,753	1,104,041

(5) Debt Service Requirements

As prescribed in the Authority’s 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) 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 in order to satisfy the Reserve Account requirements. The Authority elected to maintain a minimum debt service balance of 10% of the proceeds on all outstanding issues. At May 31, 2013, the debt service reserve funds were approximately $73.7 million.

Revenue before interest expense and depreciation and amortization was equivalent to 2.12 times (2.27 in 2012) the debt service requirement on all outstanding debt. The minimum debt service requirement on all bonds is 1.10.

(Continued)

(6) Notes Payable

Outstanding bond anticipation notes payable are summarized as follows:

Series	Final maturity date	Balance at May 31, 2012	Issued	Redeemed	Balance at May 31, 2013	Due within one year
				(In thousands)		
2008	January 15, 2013	$ 70,000	—	(70,000)	—	—
2011 B	April 1, 2014	50,000	—	—	50,000	50,000
2012 A	January 15, 2013	50,000	—	(50,000)	—	—
2013 A	January 15, 2016	—	50,000	—	50,000	—
2013 B	January 15, 2015	—	50,000	—	50,000	—
Total notes outstanding		$ 170,000	100,000	(120,000)	150,000	50,000

Series	Final maturity date	Balance at May 31, 2011	Issued	Redeemed	Balance at May 31, 2012	Due within one year
			(In thousands)			
2008	January 15, 2013	$ 70,000	—	—	70,000	70,000
2011 A	April 1, 2012	50,000	—	(50,000)	—	—
2011 B	April 1, 2014	50,000	—	—	50,000	—
2012 A	January 15, 2013	—	50,000	—	50,000	50,000
Total notes outstanding		$ 170,000	50,000	(50,000)	170,000	120,000

These notes are issued in anticipation of the issuance of long-term revenue bonds, the proceeds of which will be used to repay the notes payable. The notes were issued to fund construction activities.

During the fiscal year ended May 31, 2013, the Authority entered into the following Bond Anticipation Note transactions:

In January 2013, the Authority issued $100 million Suffolk County Water Authority Bond Anticipation Notes, consisting of $50 million Bond Anticipation Renewal Notes Series 2013A and $50 million Bond Anticipation Notes 2013B. The Bond Anticipation Renewal Notes Series 2013A were issued to renew the Bond Anticipation Notes Series 2012A, which matured January 15, 2013. The 2013A Renewal Note bears interest at a fixed rate of 4.00% and matures January 15, 2016. The 2013B Notes bear interest at a fixed rate of 3.00% and mature on January 15, 2015.

During the fiscal year ended May 31, 2012, the Authority entered into the following Bond Anticipation Note transactions:

In March 2012, the Authority issued $50 million Suffolk County Water Authority Bond Anticipation Renewal Notes, 2012A in renewal of the 2011A Notes, which matured on April 1, 2012 with a fixed rate of 1.50%. The 2012A Renewal Note bears interest at a fixed rate of 2.00% and matured on January 15, 2013.

(7) Pension Plan

The Authority's employees are eligible to participate in the New York State and Local Employees' Retirement System, which is a cost sharing, multiemployer, public employee retirement system. The benefits provided to members of this retirement system are established by New York State law and may be amended only by the State Legislature. The New York State and Local Employees' Retirement System issues a publicly available financial report. The report may be obtained from the New York State and Local Retirement System, Governor Smith State Office Building, Albany, New York 12244. Benefit provisions vary as follows:

The Employees' Retirement System is subdivided into the following six classes:

Tier I	Members who last joined prior to July 1, 1973
Tier II	Members who last joined on or after July 1, 1973 and prior to July 27, 1976
Tier III	Members who last joined on or after July 27, 1976 and prior to September 1, 1983
Tier IV	Members who joined on or after September 1, 1983 and prior to January 1, 2010
Tier V	Members who last joined on or after January 1, 2010
Tier VI	Members who joined on or after April 1, 2012

Tier I members are eligible for retirement at age 55. If members retire with 20 or more years of total service, the service retirement benefit is 2.00% for each year of service of the average salary for the highest consecutive 36 month period. If members retire with less than 20 years of total service, the service retirement benefit is 1.66% of the final average salary for each year of service.

Tier II members are eligible to retire with full benefits at age 62, and with reduced benefits for retirement between ages 55 and 62. Retirement benefits are equivalent to Tier I members.

Tier III members with five or more years of credited service after July 1, 1973 are eligible to retire with full benefits at age 62 or at age 55 with 30 years of service and with reduced benefits for retirement between ages 55 and 62 with less than 30 years of service. If members retire at age 62 and have 20 or more years of credited service, the service retirement benefit will be 2.00% of service (not to exceed 30 years), plus 1.50% for each year of additional service over 30 years. If members retire at age 62 with fewer than 20 years of credited service, the service retirement benefit will be 1.66% of the final average salary for each year of service.

Tier IV members with five or more years of credited service are eligible to retire with full benefits at age 62 or at age 55 with 30 years of service and with reduced benefits for retirement between ages 55 and 62 with less than 30 years of service. Benefits are equivalent to Tier III members.

Retirement benefits vest after five years of credited service and are payable at age 55 or greater. The Employees' Retirement System also provides death and disability benefits.

Tier V members must have 10 years of service credit to be vested and eligible for retirement benefits. Tier V members are eligible to retire with full benefits at age 62 with 10 years of service credit, and with reduced benefits for retirement between ages 55 and 62 (even if they have 30 years of service credit). Members must contribute 3% of their salary to the Employees' Retirement System for all their years of service (maximum 30 years). Overtime pay in excess of an annual cap is not included in the definition of wages. This overtime cap for 2013 is $16,390.

Tier VI members must have 10 years of service credit to be vested and eligible for retirement benefits. Tier VI members are eligible to retire with full benefits at age 63 with 10 years of service credit, and with reduced benefits for retirement between 55 and 63. Tier VI members contribute 3% of their gross salary toward their retirement benefits. Beginning April 1, 2013, the contribution rate will be based on the employee's annual wage as follows:

$45,000 or less	3% contribution rate
$45,000.01 to $55,000	3.5% contribution rate
$55,000.01 to $75,000	4.5% contribution rate
$75,000.01 to $100,000	5.75% contribution rate
$100,000.01 or more	6.0% contribution rate

The overtime cap for Tier VI is $15,261.

Tier I and II members are eligible to receive one-month service credit for each year of service at retirement, with a maximum of 24 months.

Tier II, III, and IV members will be able to purchase previous service credit (continuous service rules no longer apply), with member having at least two years of service to have previous service creditable.

Tier III and IV members are required by law to contribute 3% of their annual salary to the Employees' Retirement System (3% contribution ceases after ten years of membership or ten years of credited service), and eligible Tier I and II members may make contributions under certain conditions. The Authority is required by the same statute to contribute the remaining amounts necessary to pay benefits when due.

After five years in the retirement system, veterans will be able to purchase up to three years of military service credit, at a cost of 3% of their last year's salary, for each year of credit acquired.

Pension costs contractually required by New York State and recorded in the Authority's financial books and records were $7.6 million, $6.3 million, and $6.0 million for the years ended May 31, 2013, 2012, and 2011, respectively, which is equal to 100% of its annual required contribution. The Authority has recorded, as part of its operating expenses $6.1 million, $4.4 million, and $4.6 million for the years ended May 31, 2013, 2012, and 2011, respectively. The Authority has capitalized to water plant, a portion of these retirement costs in connection with employees related to construction work in progress. The Authority capitalized $1.5 million, $1.9 million, and $1.4 million for the years ended May 31, 2013, 2012, and 2011, respectively.

(8) Deferred Compensation

All Authority employees may participate in a deferred compensation program designated as an Internal Revenue Code Section 457 plan. This program enables employees to contribute a portion of their salary, on a tax-deferred basis, 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 $39 million, and $34 million at May 31, 2013 and 2012, respectively.

(9) Postemployment Benefits Other than Pensions

The Authority's employees participate in the New York State Health Insurance Plan, an agent multi-employer healthcare plan that provides postemployment medical and dental benefits for eligible retirees and their spouses. The Authority sponsors a single-employer dental and optical plan and provides dental and optical benefits for eligible retirees and their spouses. Substantially all of the Authority's employees may become eligible for these benefits if they reach normal retirement age while working for the Authority. The Authority does not issue a publicly available financial report for the plan.

Benefit provisions for the plan are established and amended through the Authority's Board of Directors, and there is no statutory requirement for the Authority to continue this plan for future Authority employees. The health, dental, and optical plans are 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 year 2013, there were 924 participants (565 active and 359 inactive) that were eligible to receive benefits.

GASB No. 45 establishes guidance for the financial reporting of 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.

In accordance with this standard, the Authority's annual OPEB cost for the plan is calculated based on the Annual Required Contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB No. 45. GASB No. 45 does not require that the employer actually fund its ARC, but allows for the financing of these benefits on a pay-as-you-go basis. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The following table shows the components of the Authority's annual OPEB cost for the year, the amount contributed to the plan, and changes in the Authority's net OPEB obligation for the years ended May 31, 2013 and 2012:

		2013	2012
		(In thousands)	
Annual OPEB cost:			
Annual required contribution (ARC):			
Normal cost	$	8,382	8,718
Amortization payment		11,527	11,857
Interest to the end of the year		796	823
Total		20,705	21,398
Interest on net OPEB obligation		2,613	1,987
Net OPEB obligation amortization adjustments to the ARC		(3,777)	(2,874)
Annual OPEB cost (expense)		19,541	20,511
Contributions made		(5,371)	(4,882)
Increase in net OPEB obligation		14,170	15,629
Net OPEB obligation, beginning of year		65,315	49,686
Net OPEB obligation, end of year	$	79,485	65,315

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows (dollars in thousands):

Fiscal year ended		Annual OPEB Cost	Percentage of annual OPEB cost Contributed		Net OPEB Obligation
May 31, 2013	$	19,541	27.5%	$	79,485
May 31, 2012		20,511	23.8		65,315
May 31, 2011		17,089	24.0		49,686

As of June 1, 2013 and 2012, the actuarial accrued liability for benefits was $207.3 million and $213.2 million, respectively. Whereas, no legislation has been enacted to establish a dedicated trust for these funds, the aforementioned accrued liability remains unfunded. However, during 2012, in an effort 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, 2013, the undedicated reserve is $3 million.

As of June 1, 2013 and 2012, the covered payroll (annual payroll of active employees covered by the plan) was $40.3 million and $39.6 million, respectively, and the ratio of unfunded actuarial liability to covered payroll 515% and 538% for each respective year.

(Continued)

The actuarial valuations involves estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the ARCs of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplemental information provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the Authority and the plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

For the June 1, 2012 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.0% discount rate for the unfunded portion, and an annual healthcare cost trend rate of 9.5% grading down to 5.0% for medical, dental 4.8% grading down to 4.0%, and optical 3.0%. The unfunded actuarial accrued liability is being amortized over 30 years as a level percentage of projected payrolls on an open basis.

(10) Commitments and Contingencies

(a) Wireless Cell Rental Income

Assorted wireless cell carriers desire to use the Authority owned premises for the construction, installation, maintenance, and operation of radio transmitting and receiving equipment and other associated equipment as approved by the Authority in connection with its wireless communications business. The Authority receives in the form of monthly payments a fee for providing such use. Rental fees range from $3,000 to $6,360 per month and have terms ranging from five (5) to fifteen (15) years, multiple five-year renewals, and 3.0% to 3.5% annual rental increases. The Authority currently has 204 lease agreements with 7 different wireless carriers. Annual lease income from these agreements for the next five years is expected to be the following:

2014	$	11.3 million
2015		11.7 million
2016		12.0 million
2017		12.4 million
2018		12.8 million

Annual lease income that is included in other operating revenue for the fiscal years ended May 31, 2013 and 2012 was $11.0 million and $10.5 million, respectively.

(b) Legal

The Authority is involved in various litigations resulting from the ordinary course of business. In the opinion of management, and based on advice of legal counsel, the ultimate liability, if any, to the

Authority will not have a material effect on the Authority's financial position and changes in net position.

(c) Risk Management

The Authority is exposed to various risks of loss related to automobiles and general liability. The Authority is partially self-insured in the amount of approximately $500,000 for each general liability claim and $500,000 for each automobile claim subject to a stop-loss aggregate of $1.25 million. The Authority purchases commercial insurance for claims in excess of this self-insured retention limit to cover various other risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. The Authority maintains workers' compensation insurance through Liberty Mutual's guaranteed cost policy. Effective April 1, 2013, the Authority maintains workers compensation insurance through New York State Insurance. The Authority has recorded a liability related to workers' compensation for the period of time when the Authority purchased loss sensitive insurance policies. A loss sensitive policy requires the insured to pay that portion of the premium that is in excess of a minimum premium. It is also subject to a maximum premium.

The Authority has established a liability based on actuarial estimates of the amounts needed to pay prior year and current year claims and to establish a reserve for catastrophic losses. That liability, which is for workers' compensation, general, and automobile claims was approximately $1.8 million and $1.9 million at May 31, 2013 and 2012, respectively, and is based on the requirements of GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, which 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.

Changes in the Authority's workers' compensation claims liability amount in fiscal 2013 and 2012 were as follows:

		Year ended May 31	
		2013	**2012**
		(In thousands)	
Unpaid claims, beginning of fiscal year	$	200	340
Changes in the estimate for claims of all years		58	(61)
Retro adjustments		(96)	(79)
Unpaid claims, end of fiscal year	$	162	200

Changes in the Authority's general and automobile claims liability amount in fiscal 2013 and 2012 were as follows:

		Year ended May 31	
		2013	**2012**
		(In thousands)	
Unpaid claims, beginning of fiscal year	$	1,732	1,928
Changes in the estimate for claims of all years		667	161
Claim payments		(797)	(357)
Unpaid claims, end of fiscal year	$	1,602	1,732

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

(d) Storm Restoration

The Authority sustained minimal damage during the weather event known as Superstorm Sandy. The system remained fully operational throughout this period with the exception of a small component within our system located on Fire Island. Costs incurred were primarily in the area of run time on generators and overtime required to ensure the system remain operational. The Authority's operational and maintenance budget was not materially impacted by the nonreimbursable portion of the FEMA/SEMO submissions.

(11) Net position

The Authority's net position represents the excess of assets over liabilities 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.
- *Restricted Net position* is the net position that have been restricted as in 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 Authority policy and/or Board directives. Designated assets include funds and assets committed to working capital.

The changes in net position are as follows:

		Invested in capital assets	Restricted	Unrestricted	Total
			(In thousands)		
Net position at May 31, 2011	$	384,929	90,497	161,536	636,962
Loss		—	—	(511)	(511)
Transfers		(35,545)	(10,438)	45,983	—
Net position at May 31, 2012		349,384	80,059	207,008	636,451
Loss		—	—	(3,470)	(3,470)
Transfers		(36,819)	6,996	29,823	—
Net position at May 31, 2013	$	312,565	87,055	233,361	632,981

(12) Subsequent Events

The Authority has evaluated subsequent events through August 26, 2013, the date the financial statements were available to be issued, and identified the following additional disclosure:

In July 2013, the Town of Babylon and the Suffolk County Water Authority entered into an agreement whereby the Authority will install approximately 4,300 feet of water main and related appurtenances within the Town's designated water improvement area. The Town agrees to pay the actual cost of the installation, with interest over a period of thirty-eight (38) years. 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.

SUFFOLK COUNTY WATER AUTHORITY

Required Supplementary Information – Schedule of Funding Progress for the Retiree Healthcare Plan (Unaudited)

May 31, 2013, 2012, and 2011

(In thousands)

Actuarial valuation date		Actuarial value of assets (a)	Actuarial accrued liability (AAL) – Level dollar (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll (b-a)/c	
June 1, 2012	$	—	207,301	207,301	—	40,294	515	%
June 1, 2011		—	213,235	213,235	—	39,620	538	
June 1, 2010		—	180,049	180,049	—	40,266	447	

See accompanying independent auditors' report.

KPMG LLP
Suite 200
1305 Walt Whitman Road
Melville, NY 11747-4302

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

The Members
Suffolk County Water Authority:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Suffolk County Water Authority (the Authority), which comprise the statement of net position as of May 31, 2013, 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 26, 2013.

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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

KPMG

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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

August 26, 2013