SUFFOLK COUNTY WATER AUTHORITY

Financial Statements and
Required Supplementary Information

May 31, 2018 and 2017

(With Independent Auditors' Reports Thereon)

SUFFOLK COUNTY WATER AUTHORITY

Table of Contents

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 the statements of net position as of May 31, 2018 and 2017, 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 audits 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 Suffolk County Water Authority as of May 31, 2018 and 2017, 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 Matter – Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 15 and the schedule of employer contributions – New York State and Local Employees' Retirement System, schedule of proportionate share of the net pension liability – New York State and Local Employees' Retirement System, and schedule of funding progress for the retiree healthcare plan as of May 31, 2018 on pages 45, 46, and 47, respectively, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audits of the 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 30, 2018 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 30, 2018

Suffolk County Water Authority (SCWA or 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), obligations to the Authority's creditors (liabilities) as well as the deferred outflows and inflows of resources, with the difference between these amounts reported as net position.

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

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

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

In 2017, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application.* GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The implementation of GASB 72 only impacted the notes to the financial statements.

Management provides the following discussion and analysis of the Authority's financial activities and financial statements. This overview is provided for the fiscal years ended May 31, 2018 and 2017 with comparative information for the year ended May 31, 2016. The reader should use the information contained in this analysis

(Continued)

in conjunction with the information contained in the audited financial statements. The financial statements as of and for the years ended May 31, 2018 and 2017 follow this narrative on the subsequent pages.

Summary of Revenues, Expenses, and Changes in Net Position

		Year ended May 31	
	2018	2017	2016
		(In thousands)	
Operating revenues:			
Water service	$ 157,612	164,425	155,479
Other	21,379	19,691	20,042
Total operating revenues	178,991	184,116	175,521
Operating expenses:			
Operations and maintenance	131,619	128,231	121,792
Depreciation and amortization	48,752	46,131	45,346
Total operating expenses	180,371	174,362	167,138
Operating (loss) income	(1,380)	9,754	8,383
Nonoperating revenues and expenses:			
Interest expense, net	(25,906)	(27,408)	(26,267)
Amortization of deferred amounts on refinancing	(1,462)	(4,001)	(1,153)
Income from investments	2,041	1,359	1,279
Costs to be recovered from future revenues	7,966	9,802	10,079
Capital reimbursement fees	12,695	9,533	9,394
Total nonoperating revenues and expenses, net	(4,666)	(10,715)	(6,668)
Change in net position	(6,046)	(961)	1,715
Net position, beginning of year	614,796	615,757	614,042
Net position, end of year	$ 608,750	614,796	615,757

Operating Revenues

Water service revenues decreased $6.8 million in 2018 as a result of a decrease in annual pumpage of 8.6% in 2018 due to higher rainfall, causing customers to use less water, mitigated by a rate increase of 3.75% effective April 1, 2018. In 2017, water service revenues increased by $8.9 million as a result of 4% rate increase effective April 1, 2017 and an increase of 1.6% in annual pumpage.

Other operating revenues increased $1.7 million in 2018. This increase is primarily attributable to $1.0 million more in Environmental Facilities Corporation (EFC) – Storm Mitigation Program grant money, a $0.5 million increase in antannae lease revenue, and a $0.3 million increase due to the sale of vehicle equipment. This was offset by a decrease of $0.1 million in late charge revenue, reduced pressure zone (RPZ) fee revenue, and wasted water credit revenue.

Other operating revenues decreased $0.4 million in 2017. This decrease is primarily attributable to a $0.5 million decrease in legal settlements, reimbursement of damages, minor upgrade surcharge revenue, and tampering fee revenue. This was offset by an increase of $0.1 million in antenna lease revenue, late charges, and reduced pressure zone (RPZ) fee revenue in 2017.

Operating Expenses

Operations and maintenance expense increased $3.3 million or 2.5% from $128.2 million in 2017 to $131.6 million in 2018. The increase is mainly attributable to increases in wells and pumping cost ($0.4 million), transmission and distribution cost ($0.9 million), administrative & special services cost ($1.9 million), benefits costs ($2.2 million) and workers' compensation ($1.0 million). These increases were partially offset by decreases in treatment expense ($0.3 million), accounting and collecting cost ($0.7 million), power purchase ($0.3 million) and deferred postretirement benefits other than pensions ($1.8 million).

Operations and maintenance expense increased $6.4 million or 5.3% from $121.8 million in 2016 to $128.2 million in 2017. The increase is mainly attributable to increases in wells and pumping cost ($0.5 million), treatment cost ($0.6 million), transmission and distribution cost ($1.5 million), power purchase ($1.8 million), benefits cost ($1.3 million) and workers' compensation ($1.7 million). These increases were partially offset by decreases in administrative costs ($0.2 million), accounting and collecting cost ($0.2 million), special services cost ($0.3 million) and deferred postretirement benefits other than pensions ($0.3 million).

Depreciation and amortization expenses were $48.8 million in 2018, an increase of $2.6 million or 5.7% from 2017. The increase is attributable to a 5.6% increase in water plant.

Depreciation and amortization expenses were $46.1 million in 2017, an increase of $0.8 million or 1.7% from 2016. The increase is attributable to a 2.0% increase in water plant.

Nonoperating Revenues and Expenses

Interest expense was $25.9 million in 2018, a decrease of $1.5 million from 2017. The decrease is mainly attributable to a $1.0 million decrease in interest paid net of subsidy on bonds and notes payable, a $1.7 million decrease in issuance cost expense offset by a $1.2 million net decrease in discount and premium expense.

Interest expense was $27.4 million in 2017, an increase of $1.1 million from 2016. The increase is mainly due to a $0.4 million decrease in interest paid on bond and notes payable, offset by $1.5 million in amortization of net debt discount/premium.

Income from investments was $2.0 million in 2018, an increase of $0.7 million from 2017. The change in investment earnings was a result of a slightly more favorable interest rate environment than the previous fiscal year.

Income from investments was $1.4 million in 2017, an increase of $0.1 million from 2016. The change in investment earnings was a result of a slightly more favorable interest rate environment than the previous fiscal year.

Costs to be recovered from future revenues of $8.0 million and $9.8 million for the years ended May 31, 2018 and 2017, respectively, represent the difference between the Authority's annual required contributions (ARCs) for postemployment benefits other than pensions (OPEB) as required by GASB 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 2018 and 2017. 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 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 $12.7 million in 2018, an increase of $3.2 million or 33.7% during the current year. The increase was primarily related to capital reimbursement fees related to a project to provide for the connections of individuals with private wells in West Hampton, funded by the New York State Department of Environmental Conservation (NYSDEC). Capital reimbursement fees were $9.5 million in 2017, an increase of $0.1 million or 1.0% as compared to 2016, due to an increase of projects placed in service.

Statement of Net Position Summary

		May 31		
		2018	**2017**	**2016**
			(In thousands)	
Assets:				
Capital assets (water plant), net	$	1,149,488	1,131,798	1,107,715
Current assets		261,183	219,145	237,438
Other noncurrent assets		238,248	288,755	291,536
Total assets	$	1,648,919	1,639,698	1,636,689
Deferred outflows of resources	$	25,341	29,196	41,999
Liabilities:				
Current liabilities	$	54,938	52,191	51,763
Other long-term liabilities		172,907	165,152	159,008
Long-term debt, net of current portion		827,188	833,484	848,078
Total liabilities	$	1,055,033	1,050,827	1,058,849
Deferred inflows of resources	$	10,477	3,271	4,082
Net position:				
Net investment in capital assets	$	341,949	371,607	345,323
Restricted for debt service		92,821	92,848	88,088
Unrestricted		173,980	150,341	182,346
Total net position	$	608,750	614,796	615,757

(Continued)

Capital Assets (Water Plant), Net

	May 31, 2017	Additions/ reclassifications	Deletions/ reclassifications	May 31, 2018
		(In thousands)		
Water plant in service	$ 1,665,618	105,504	(11,536)	1,759,586
Less accumulated depreciation	(673,858)	(48,264)	11,536	(710,586)
Net water plant in service	991,760	57,240	—	1,049,000
Construction in progress	140,038	65,954	(105,504)	100,488
Water plant	$ 1,131,798	123,194	(105,504)	1,149,488

	May 31, 2016	Additions/ reclassifications	Deletions/ reclassifications	May 31, 2017
		(In thousands)		
Water plant in service	$ 1,635,288	38,041	(7,711)	1,665,618
Less accumulated depreciation	(635,583)	(45,986)	7,711	(673,858)
Net water plant in service	999,705	(7,945)	—	991,760
Construction in progress	108,010	70,069	(38,041)	140,038
Water plant	$ 1,107,715	62,124	(38,041)	1,131,798

There was a net increase in water plant in fiscal year 2018 of $17.7 million comprising an increase of $54.4 million in gross water plant (including construction in progress) reduced by a net increase in accumulated depreciation of $36.7 million. The additions to construction in progress during 2018 comprised of the following: construction maintenance $32.4 million, engineering $14.8 million, production control $1.7 million, customer service $8.4 million, general services $0.1 million, EFC Storm Mitigation Program $6.3 million, and transportation/tech/equipment/other $2.3 million.

(Continued)

There was a net increase in water plant in fiscal year 2017 of $24.1 million comprising an increase of $62.4 million in gross water plant (including construction in progress) reduced by a net increase in accumulated depreciation of $38.3 million. The additions to construction in progress during 2017 comprised of the following: construction maintenance $31.7 million, engineering $14.4 million, production control $2.6 million, customer service $8.6 million, general services $0.5 million, EFC Storm Mitigation Program $4.6 million, and transportation/tech/equipment/other $7.7 million.

Current Assets

		May 31		
		2018	2017	2016
			(In thousands)	
Increases (decreases):				
Cash and cash equivalents	$	33,165	8,981	22,965
Investments		7,926	(29,580)	20,487
Accounts receivables, net		2,504	1,863	515
Accrued water services and fire protection revenues		(26)	(628)	(3,330)
Interest and other receivables		60	(71)	(86)
Materials and supplies		(1,701)	672	547
Prepayments and other current assets		110	470	(363)
Net change in current assets	$	42,038	(18,293)	40,735

Current Assets

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

The Authority's investments, including cash and cash equivalents, increased by $41.1 million at May 31, 2018, from May 31, 2017. The increase is primarily attributable to funds generated from excess revenues to pay for debt, accrued operating and maintenance costs and water system capital improvements.

The Authority's investments, including cash and cash equivalents, decreased by $20.6 million at May 31, 2017, from May 31, 2016. This decrease is primarily attributable to the use of available funds to defease debt, rather than reinvest matured investments.

Accrued water services and fire protection revenues reflect revenue corresponding to water consumption, which has not been billed as of May 31, 2018 and 2017. Water pumped in April and May 2018 was approximately 9.2 billion gallons, a 0.5 billion gallon decrease from 2017. Water pumped in April and May 2017 was approximately 9.7 billion gallons, a 0.7 billion gallon decrease from 2016.

Materials and supplies at May 31, 2018 are valued at $9.2 million. The $1.7 million decrease from May 31, 2017 is attributed to reduced purchases of meters and components in the amount of $0.6 million due to the deceleration of the meter installation program. There was also a $1.1 million reduction of the value of inventory on hand, including adjustments.

Materials and supplies at May 31, 2017 are valued at $10.9 million. The $0.7 million increase from May 31, 2016 is attributed primarily to the purchase of meters and encoder receiver transmitters in the amount of $1.1 million to support the acceleration in the rate of installations done internally offset by a $0.4 million reduction of the value of inventory on hand.

Other Noncurrent Assets

Other noncurrent assets decreased by $50.5 million as of May 31, 2018. This was the result of a decrease in restricted investments of $52.1 million due to spend down of bond proceeds for construction, a decrease in Bond Anticipation Note 2015A receivable of $6.1 million and a decrease in Goodwill and other assets of $0.3 million, offset by an increase in cost to be recovered from future revenues of $8.0 million.

Other noncurrent assets decreased by $2.8 million as of May 31, 2017. This was mainly the result of restricted investments decreasing by $10.0 million due to planned spending of 2016A, 2016B Bonds, 2015B Bond Anticipation Notes proceeds, a decrease in EFC 2015A Bond Anticipation Note receivable of $2.3 million and a $9.8 million increase in costs to be recovered from future revenues.

Liabilities

Current Liabilities

		May 31	
	2018	2017	2016
		(In thousands)	
Increases (decreases):			
Current maturities of bonds payable	$ (115)	(1,405)	(443)
Current maturities of bond anticipation notes payable	224	—	(50,000)
Accounts payable	(3,114)	2,099	(275)
Accrued interest	(315)	318	(125)
Accrued employee welfare costs	(826)	(2,168)	2,207
Rate stabilization reserve	2,760	—	—
Other accrued liabilities	4,133	1,584	(774)
Net change in current liabilities	$ 2,747	428	(49,410)

Current Liabilities

The increase in current maturities of bond anticipation notes payable of $0.2 million is due to the 2015A EFC Bond Anticipation Notes, current maturity required to be paid in May 2019 against the interest free loan portion of the Storm Mitigation Loan Program.

In fiscal year 2017, $75.0 million of the 2015B Bond Anticipation Notes, maturing November 1, 2017, were advanced refunded with the proceeds from the issuance of the Authority's Water Revenue Bond, Series 2016A.

The $3.1 million decrease and $2.1 million increase experienced in accounts payable in 2018 and 2017 is attributable principally to the timing of processing invoices for work performed, completed, and paid for subsequent to May 31, 2018 and 2017, respectively.

The decrease in accrued interest of $0.3 million in 2018 from 2017 is attributable to the October 2016 refunding and cash defeasance of various Revenue Bonds.

The increase in accrued interest of $0.3 million in 2017 from 2016 is attributable to the issuance of long-term debt offset by the refunding and cash defeasance of various Revenue Bonds and the advanced refunding of Bond Anticipation Notes.

Accrued employee welfare costs represent the expected value of all vacation, sick leave, and other payroll-related benefits earned by employees to date. The decrease in accrued employee welfare at May 31, 2018 of $0.8 million is attributed to the $0.2 million increase in the cost of benefits allocation, offset by the $1.0 million decrease in the GASB 68 pension adjustment.

The decrease in accrued employee welfare at May 31, 2017 of $2.2 million is attributed to the settlement of the collective bargaining agreement and offset of pension expense.

The increase in the rate stabilization reserve is $2.8 million in fiscal year 2018, represents monies to be used with the intention of stabilizing future water rates. The balance of $2.8 received is comprised of $0.5 million from the sale of properties no longer needed for water supply purposes and $2.3 million received from the settlement of antenna lease agreements due to a merger of cell phone companies.

The increase in other accrued liabilities of $4.1 million is attributable to a $3.3 million increase in workers' compensation due to the natural progression of outstanding claims under the self insured program, and the customer deposit account increased by $0.8 million.

Other Long-Term Liabilities

Other long-term liabilities increased by $7.8 million at May 31, 2018 as a result of a contribution increase for postemployment benefit other than pension (OPEB) costs of $18.0 million offset by the net pension liability decrease of $9.8 million and a $0.4 million decrease in advances for construction.

Other long-term liabilities increased by $6.1 million at May 31, 2017 as a result of a contribution increase for OPEB costs of $18.0 million offset by the net pension liability decrease of $11.9 million.

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 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, 2018 and 2017, the undedicated reserve is $35.2 million and $25.2 million, respectively. During the fiscal years ended May 31, 2018 and 2017 the Authority contributed $10.0 million and $8.2 million to this reserve, respectively.

The financial statements at May 31, 2018 and 2017 include a liability for postemployment benefits other than pension in the amount of $162.7 million and $144.7 million, respectively.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). GASB 75 addresses accounting and financial reporting for other postemployment benefits (OPEB) that are provided to the employees of state and local governmental employers. GASB 75 establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses related to OPEB in the financial statements. This will be effective for the Authority's fiscal year 2019 financial statements. The Authority is currently assessing the impact of GASB 75. However, the actuarial accrued liability at May 31, 2018 was $279.5 million, as compared to the amount reported as the liability for OPEB in the amount of $162.7 million.

Long-Term Debt

The Authority's long-term debt (including current maturities, excluding unamortized discounts and deferred amounts) decreased in fiscal year 2018 by $4.2 million, and increased in fiscal year 2017 by $66.3 million.

Water System Revenue and
Environmental Facilities Corporation Revenue Bonds

		May 31	
	2018	**2017**	**2016**
		(In thousands)	
Balance, beginning	$ 789,672	723,369	676,210
New issues:			
SCWA 2015A	—	—	49,105
SCWA 2015 Refunding	—	—	116,660
EFC 2015D Refunding	—	—	4,039
SCWA 2016A	—	84,280	—
SCWA 2016B	—	40,000	—
SCWA 2016 Refunding	—	53,825	—
	—	178,105	169,804

Water System Revenue and Environmental Facilities Corporation Revenue Bonds

		May 31		
		2018	2017	2016
			(In thousands)	
Maturities, retirements, and defeasances:				
SCWA	$	(620)	(108,295)	(114,925)
EFC		(3,592)	(3,507)	(7,720)
		(4,212)	(111,802)	(122,645)
Net changes in long-term debt		(4,212)	66,303	47,159
Balance, ending	$	785,460	789,672	723,369

Investment ratings on debt issued by the Authority by Standard and Poor's Ratings Services (S&P) were upgraded from AA+ at May 31, 2017 to AAA and at May 31, 2018 and Fitch Ratings (Fitch) of AAA were reaffirmed.

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

The Authority did not enter into any NYS EFC bond transactions during fiscal year ended May 31, 2017.

In July 2018, the Authority entered into an inter-municipal agreement with the Town of East Hampton to install new water mains at various sites in the town of Wainscott and new water service lines in East Hampton where private wells have been contaminated with perfluorinated compounds or PFCs. To address the situation, the Town of East Hampton decided to pursue the creation of a water supply district to pay for the cost of connecting to Suffolk County Water Authority water. To lessen the financial burden on local residents, the Authority and the town have decided to pursue joint inter-municipal state grant to secure funding from the previous year's $2.5 billion Water Infrastructure Improvement Act. In September, 2018, the Authority will take the lead in applying for Inter-municipal Grant funding from the Environmental Facilities Corporations NYS Inter-municipal Water Infrastructure Grant (IMG) Program.

In October 2017, the Authority was awarded $2.1 million in grants from the Environmental Facilities Corporation (NYSEFC) New York State Water Infrastructure Improvement Act (WIIA) Grant. Grants were awarded for two of the five proposed projects that the Authority applied for in June, 2017. The $2.1 million in grants is comprised of $1.4 million for the water main installation to improve service in East Farmingdale and $0.7 million for the construction of an Advanced Oxidation Process (AOP) System to treat 1,4-dioxane at the Authority's Smith Street, East Farmingdale well field site. Work on these projects are expected to begin during fiscal year 2019.

During fiscal year ended May 31, 2016, the NYS EFC issued Series 2015D in the amount of $4.0 million and along with a portion of debt service reserve funds in the amount of $0.3 million, refinanced $4.3 million of 2005B Suffolk County Water Authority (EFC Series) Revenue Bonds.

The Authority did not enter into any Suffolk County Water System Revenue bond transactions during fiscal year ended May 31, 2018.

In August 2018, the Authority issued $100.0 million in Series 2018A Senior Lien Water System Revenue Bonds. The Series 2018A Bonds were issued to finance the cost of acquisition and construction of improvements and additions to the water system, fund the reserve account and to pay cost of issuance. The Series 2018A bonds bear interest rates ranging from 3.25% to 5.00% and have a final maturity date of June 1, 2043.

During the fiscal year ended May 31, 2017, the Authority issued an aggregate of $178.1 million in Water System Senior Lien Revenue bonds consisting of $84.3 million Water System Revenue Bonds, Series 2016A; $40.0 million Water System Revenue Bonds, Series 2016B; and $53.8 million Water System Revenue Bonds, Series 2016 (Refunding). The Series 2016A bonds were issued for the purpose of retiring $75.0 million of the Authority's outstanding Bond Anticipation Notes, 2015B, and to fund a deposit to the 2016A reserve account and to pay cost of issuance. The Series 2016B Bonds were issued to finance the cost of acquisition and construction of improvements and additions to the Water System and to fund a deposit to the reserve account and pay costs of issuance for Series 2016B. The Series 2016 (Refunding) were issued to advance refund all of the Authority's outstanding $49.0 million 2009A Bonds and $6.6 million 2009 Bonds (Refunding) and to fund a deposit to the reserve account and pay costs of issuance.

During the fiscal year ended May 31, 2016, the Authority issued $165.8 million in Water System Revenue Bonds consisting of $49.1 million Water System Revenue Bonds, Series 2015A and $116.7 million Water System Revenue Bonds, Series 2015 (Refunding). The Series 2015A bonds were issued for the purpose of retiring $50.0 million of the Authority's outstanding Bond Anticipation Notes, 2013A. The Series 2015 Refunding were issued to refund all of the Authority's 2006A Bonds and a portion of its 2007A Bonds and to fund a deposit to the reserve account and pay costs of issuance.

Short-Term Debt

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

In July 2015, as part of the participation in the Storm Mitigation Loan Program through the NYS EFC, the Authority closed on its EFC Bond Anticipation Note, 2015A in the amount of $16.5 million. The eligible projects are related to main extensions and generators. The Storm Mitigation Loan Program consists of two components; 75% loan and 25% in grant monies of which the Authority is eligible to receive up to $5.5 million.

During the fiscal year ended May 31, 2018 and May 31, 2017, the Authority received $6.1 million and $2.3 million, respectively, in advances against its EFC Bond Anticipation Note, 2015A for eligible projects related to main extensions and generators under the Storm Mitigation Loan Program. As of May 31, 2018, total EFC advances against the $16.5 million 2015A Bond Anticipation Note amounted to $8.4 million. The total Storm Mitigation Loan program grants received was $1.0 million against the $5.5 million awarded. According to the terms of the EFC 2015A Bond Anticipation Note Financing Agreement which matures July 30, 2020, the

Authority is required to make an estimated principal payment of $0.2 million in May, 2019 which is based on a percentage of the amount drawn down to date.

In November 2016, the Authority advance refunded $75.0 million its Suffolk County Water Authority Bond Anticipation Notes, Series 2015B with the issuance of $84.3 million Water System Revenue Bonds, Series 2016A.

In November 2015, the Authority issued $75.0 million in Bond Anticipation Notes, Series 2015B of which the proceeds were deposited in a construction fund to finance the cost of acquisition and construction of improvements and additions to the Water System.

Deferred Outflows and Deferred Inflows of Resources

Deferred outflows related to bond refunding decreased $1.5 million at May 31, 2018 from May 31, 2017. The decrease is due to the annual amortization of the deferred loss on refunding.

Deferred outflows related to bond refunding increased $0.9 million at May 31, 2017 from May 31, 2016. The increase is due to the refunding of Suffolk County Water Authority Water System Revenue Bond Series 2009A and 2009 (Refunding) and the refunding of Suffolk County Water Authority Bond Anticipation Notes, 2015B of $3.5 million offset by $2.6 million annual amortization of the deferred loss on refunding.

In 2018, deferred outflows of resources related to pensions decreased $2.4 million and deferred inflows of resources related to pensions increased $7.2 million as a result of the recognition of the net pension liability adjustments in accordance with GASB 68.

In 2017, deferred outflows of resources related to pensions decreased $13.7 million and deferred inflows of resources related to pensions decreased $0.8 million as a result of the recognition of the net pension liability adjustments in accordance with GASB 68.

Net Position – Net Investment in Capital Assets

Net investment in capital assets represents the Authority's total investment in capital assets net of related long-term debt. The increase of $29.7 million from May 31, 2017 is the result of an increase in water plant expenditures, a decrease in funds available for construction offset by the net decrease in debt balances.

Net investment in capital assets represents the Authority's total investment in capital assets net of related long-term debt. The increase of $26.3 million from May 31, 2016 is the result of an increase in water plant expenditures, a decrease in funds available for construction offset by the net decrease in debt balances.

Net Position – Restricted for Debt Service

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

The decrease of $0.03 million at May 31, 2018, is the result of a decrease of $0.38 million in the Senior Lien Bond Fund and a net increase in the Reserve Funds of $0.35 million.

The increase of $4.8 million at May 31, 2017, is the result of the issuance of the Authority's Water System Revenue Bonds Series 2016A and 2016B, Water System Revenue Bonds Series 2016 Refunding offset by the release of reserve funds from the refunding of the Authority's Series 2009 Refunding, 2009A, and the release of reserve funds for the defeasance of Revenue Bond Series 2014A and 2007A.

Net Position – Unrestricted

In 2018, net position – unrestricted decreased $23.7 million from the balance of May 31, 2017 as a result of operations, net of those changes that impact investments in capital assets and net position restricted for debt service.

Contacting the Authority's Financial Management

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

SUFFOLK COUNTY WATER AUTHORITY

Statements of Net Position

May 31, 2018 and 2017

(In thousands)

Assets		**2018**	**2017**
Current assets:			
Cash and cash equivalents	$	174,647	141,482
Investments		38,384	30,458
Accounts receivable, less allowance for doubtful accounts of $1,184 and $1,689, respectively		18,793	16,289
Accrued water services and fire protection revenues		17,787	17,813
Interest and other receivables		157	97
Materials and supplies, at average cost		9,202	10,903
Prepayments and other current assets		2,213	2,103
Total current assets		261,183	219,145
Restricted investments		98,997	151,094
Bond anticipation note receivable		8,123	14,207
Goodwill		2,426	2,576
Costs to be recovered from future revenues		127,512	119,546
Other assets		1,190	1,332
Capital assets, net		1,149,488	1,131,798
Total noncurrent assets		1,387,736	1,420,553
Total assets	$	1,648,919	1,639,698
Deferred Outflows of Resources			
Deferred outflows of resources:			
Pension related	$	7,546	9,937
Deferred amounts due to bond refunding		17,795	19,259
Total deferred outflows of resources	$	25,341	29,196
Liabilities			
Current liabilities:			
Current maturities of bonds payable	$	4,097	4,212
Current maturities of bond anticipation notes payable		224	—
Accounts payable		6,554	9,667
Accrued interest		15,380	15,695
Accrued employee welfare costs		7,952	8,778
Rate stabilization reserve		2,760	—
Other accrued liabilities		17,971	13,839
Total current liabilities		54,938	52,191
Bond anticipation notes payable		16,314	16,539
Bonds payable, less current portion and unamortized discounts		810,874	816,945
Net pension liability		5,733	15,516
Postemployment benefits other than pension		162,712	144,746
Advances for construction		4,462	4,890
Total liabilities	$	1,055,033	1,050,827
Deferred Inflows of Resources			
Deferred inflows of resources:			
Pension related	$	10,460	3,253
Deferred amounts due to bond refunding		17	18
Total deferred inflows of resources	$	10,477	3,271
Net Position			
Net position:			
Net investment in capital assets	$	341,949	371,607
Restricted for debt service		92,821	92,848
Unrestricted		173,980	150,341
Total net position	$	608,750	614,796

See accompanying notes to financial statements.

SUFFOLK COUNTY WATER AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Position

Years ended May 31, 2018 and 2017

(In thousands)

		2018	2017
Operating revenues:			
Water service	$	157,612	164,425
Other		21,379	19,691
Total operating revenues		178,991	184,116
Operating expenses:			
Operations		100,485	98,411
Maintenance		31,134	29,820
Depreciation and amortization		48,752	46,131
Total operating expenses		180,371	174,362
Operating (loss) income		(1,380)	9,754
Nonoperating revenues and expenses:			
Interest and other bond expense, net		(25,906)	(27,408)
Amortization of deferred amounts on refinancing		(1,462)	(4,001)
Income from investments		2,041	1,359
Costs to be recovered from future revenues		7,966	9,802
Capital reimbursement fees		12,695	9,533
Total nonoperating revenues and expenses, net		(4,666)	(10,715)
Change in net position		(6,046)	(961)
Net position:			
Beginning of year		614,796	615,757
End of year	$	608,750	614,796

See accompanying notes to financial statements.

SUFFOLK COUNTY WATER AUTHORITY

Statements of Cash Flows

Years ended May 31, 2018 and 2017

(In thousands)

		2018	2017
Cash flows from operating activities:			
Cash receipts from customers	$	155,276	163,341
Other operating cash receipts		25,512	21,275
Cash payments to employees for services and benefits		(76,087)	(73,162)
Cash payments to suppliers of goods and services		(40,099)	(37,192)
Net cash provided by operating activities		64,602	74,262
Cash flows from capital and related financing activities:			
Additions to water plant		(67,318)	(70,069)
Proceeds from sale of land		2,760	—
Proceeds from bond anticipation note receivable		6,084	2,331
Proceeds from issuance of long-term debt		—	183,982
Repayment of bond anticipation notes payable		—	(75,000)
Repayment of current maturities of bonds payable		(4,212)	(5,617)
Cost of issuance		—	(1,729)
Debt defeasance		—	(121,112)
Interest paid		(28,195)	(28,528)
Grants received		1,025	—
Proceeds from advances for construction, net of refunds		12,267	9,504
Net cash used in capital and related financing activities		(77,589)	(106,238)
Cash flows from investing activities:			
Purchase of investments		(254,827)	(368,369)
Proceeds from sales and maturities of investments		298,766	407,927
Interest received		2,213	1,399
Net cash provided by investing activities		46,152	40,957
Net increase in cash and cash equivalents		33,165	8,981
Cash and cash equivalents at beginning of year		141,482	132,501
Cash and cash equivalents at end of year	$	174,647	141,482
Reconciliation of operating (loss) income to net cash provided by operating activities:			
Operating (loss) income	$	(1,380)	9,754
Depreciation and amortization expense		48,752	46,131
Decrease (increase) in operating assets:			
Accounts receivable		(2,504)	(1,863)
Accrued water services and fire protection revenues		26	628
Materials and supplies and prepayments		1,591	(1,142)
Other assets		142	151
Increase (decrease) in operating liabilities:			
Accounts payable		(3,114)	2,099
Accrued employee welfare costs		(826)	(2,168)
Postemployment benefits other than pension		17,966	18,002
Other accrued liabilities		4,133	1,584
Net pension liability, net of deferred amounts		(184)	1,086
Net cash provided by operating activities	$	64,602	74,262
Noncash investing activities:			
Change in the fair value of investments	$	(232)	31

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.

(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, 2018 and 2017.

(d) Capitalized Interest

The Authority capitalizes interest on constructed assets during the period of construction. Interest cost capitalized during the years ended May 31, 2018 and 2017 was approximately $1.3 million in both years.

(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.

(Continued)

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-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.

(Continued)

(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 agrees to provide a credit against the annual payment due equal to a percentage of the water revenues collected from customers within the designated water improvement area. The amount of the credit cannot exceed the gross payments due.

As of May 31, 2018, the Authority had 9 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 fiscal years 2018 and 2030. The cumulative gross payments due for all of these water district contracts through their respective maturity dates at May 31, 2018 and 2017 amount to approximately $6.1 million and $7.3 million, respectively. The Authority has determined that it has the right to offset the asset and liability created from these contracts and therefore, these amounts are not reflected on the statements of net position as of May 31, 2018 and 2017.

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

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

Unrestricted net position is the remaining net position, which can be further categorized as designated or undesignated. Designated assets are not governed by statute or contract but are committed for specific purposes pursuant to the Authority's policy and/or board directives. Designated assets include funds and assets committed to working capital. The Authority's designated assets include fixed assets – net and unspent bond proceeds used for the cost and acquisition of the water system.

(m) Bond Discounts and Premiums

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

(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, 2018 and 2017, the amounts of accrued employee welfare costs are $8.0 million and $8.8 million, respectively.

(o) Net Pension Liability and Related Pension Amounts

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

(p) 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.

(q) 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 (ARC) 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 ARC 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, 2018 and 2017 was $127.5 million and $119.5 million, respectively.

(r) Use of Resources

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

(s) Income Taxes

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

(t) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the useful lives of capital assets, the valuation of accounts receivable, inventory, financial instruments other than cash, accrued water services and fire protection revenues, accrued employee welfare costs, workers' compensation and postemployment benefits, pension benefits, and other uncertainties and other contingencies.

(u) Workers' Compensation

The Authority self-insured its workers' compensation coverage in accordance with New York statutory regulations effective April 1, 2016. Excess insurance was purchased to cover any liability that exceeds $650,000 per claim. Effective April 1, 2017, the retention per claim was increased to $750,000. A national third party claims administrator (TPA) was retained to administer claims.

(v) Fair Value Measurement

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

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

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

(w) New Accounting Standards Adopted

In 2017, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application* (GASB 72). The statement addresses accounting and financial reporting issues related to fair value measurements of assets and liabilities. GASB 72 identifies various approaches to measuring fair value and levels of inputs based on the objectivity of the data used to measure fair value. It provides additional fair value application guidance and requires enhanced disclosures about fair value measurements. The implementation of GASB 72 only impacted the notes to the financial statements.

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

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). The statement addresses accounting and financial reporting for other postemployment benefits (OPEB) that are provided to the employees of state and local governmental employers. GASB 75 establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses related to OPEB in the financial statements, in addition to requiring more extensive note disclosures and required supplementary information. GASB 75 will be effective for the Authority for the fiscal year ending May 31, 2019. The Authority is currently assessing the impact of GASB 75 on its financial statements. However, the actuarial accrued liability at May 31, 2018 was $279.5 million, as compared to the amount reported as the liability for OPEB in the amount of $162.7 million.

(2) Capital Assets, Net

	May 31, 2017	Additions/ reclassifications	Deletions/ reclassifications	May 31, 2018
		(In thousands)		
Land and land rights	$ 27,511	(496)	—	27,015
Distribution systems	980,394	57,090	(5,140)	1,032,344
Wells, reservoirs, and structures	310,910	28,366	(321)	338,955
Pumping and purification equipment	152,476	7,465	(124)	159,817
Meters	85,330	8,705	(5,601)	88,434
Compressors/backhoes	4,495	—	—	4,495
Computer equipment	26,491	1,013	—	27,504
Equipment	31,350	1,804	—	33,154
Hydrants	46,661	1,557	(350)	47,868
Water plant in service	1,665,618	105,504	(11,536)	1,759,586
Less accumulated depreciation	(673,858)	(48,264)	11,536	(710,586)
Net water plant in service	991,760	57,240	—	1,049,000
Construction in progress	140,038	65,954	(105,504)	100,488
Water plant	$ 1,131,798	123,194	(105,504)	1,149,488

In 2018, the additions to construction in progress during 2018 comprised of the following: construction maintenance $32.4 million, engineering $14.8 million, production control $1.7 million, customer service $8.4 million, general services $0.1 million, EFC Storm Mitigation Program $6.3 million, and transportation/tech/equipment/other $2.3 million.

		May 31, 2016	Additions/ reclassifications	Deletions/ reclassifications	May 31, 2017
			(In thousands)		
Land and land rights	$	27,510	—	—	27,510
Distribution systems		960,060	21,961	(1,645)	980,376
Wells, reservoirs, and structures		309,409	1,510	(10)	310,909
Pumping and purification equipment		149,694	2,795	(14)	152,475
Meters		82,817	8,377	(5,843)	85,351
Compressors/backhoes		4,495	—	—	4,495
Computer equipment		24,794	1,696	—	26,490
Equipment		30,343	1,008	—	31,351
Hydrants		46,166	694	(199)	46,661
Water plant in service		1,635,288	38,041	(7,711)	1,665,618
Less accumulated depreciation		(635,583)	(45,986)	7,711	(673,858)
Net water plant in service		999,705	(7,945)	—	991,760
Construction in progress		108,010	70,069	(38,041)	140,038
Water plant	$	1,107,715	62,124	(38,041)	1,131,798

In 2017, the additions to construction in progress comprise mainly of the following: construction maintenance $31.7 million, engineering $14.4 million, production control $2.6 million, customer service $8.6 million, General Services $0.5 million, EFC Storm Mitigation Program $4.6 million, and transportation/tech/equipment/other $7.7 million.

Depreciation and amortization expenses amounted to approximately $48.8 million and $46.1 million for the years ended May 31, 2018 and 2017, respectively.

(3) Cash and Cash Equivalents and Investments

(a) Cash and Cash Equivalents

Cash consists of deposits insured by the Federal Deposit Insurance Corporation (FDIC) or collateralized deposits that have carrying values of approximately $174.6 million and $141.5 million and bank balances of approximately $176.0 million and $143.1 million at May 31, 2018 and 2017, 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, 2018 and 2017, consist of the following (dollars in thousands):

	May 31, 2018			
		Investment maturities (in years)		
	Fair value	Less than 1	1 to 5	Greater than 5
U.S. Treasury notes (1)	$ 2,517	290	1,823	404
U.S. Treasury bonds (1)	1,023	—	628	395
FNMA notes (1)	5,970	5,970	—	—
FHLB notes (1)	76,264	66,838	9,426	—
FHLMC notes (1)	21,405	13,997	7,408	—
FFCB notes (1)	5,951	1,990	3,961	—
NYS municipal bonds	489	—	—	489
Money market	6,176	6,176	—	—
Guaranteed investment contracts (1)	17,586	17,586	—	—
Total investments	$ 137,381	112,847	23,246	1,288

(1) Includes approximately $92.8 million of investments, including cash, held by a fiscal agent in the Authority's name at May 31, 2018

	May 31, 2017			
		Investment maturities (in years)		
	Fair value	Less than 1	1 to 5	Greater than 5
U.S. Treasury notes (1)	$ 3,311	747	1,302	1,262
U.S. Treasury bonds (1)	976	—	129	847
FNMA notes (1)	1,989	—	1,989	—
FHLB notes (1)	71,058	45,738	25,320	—
FHLMC notes (1)	37,938	2,999	34,939	—
FFCB notes (1)	7,491	7,491	—	—
NYS municipal bonds	501	—	—	501
Money market	58,246	58,246	—	—
Guaranteed investment contracts (1)	42	42	—	—
Total investments	$ 181,552	115,263	63,679	2,610

(1) Includes approximately $92.8 million of investments, including cash, held by a fiscal agent in the Authority's name at May 31, 2017

		2018	2017
Investment breakdown:			
Restricted for:			
Debt service	$	92,821	92,848
Construction		6,176	58,246
Unrestricted		38,384	30,458
Total investments	$	137,381	181,552

Accrued interest on investments other than investment agreements is included in interest and other receivables on the statements of net position. Investments bear interest at rates that range from 0.01% to 2.98%.

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.

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

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

Credit Risk: It is part of the Authority's investment policy to safeguard the principal of its investments while obtaining the highest interest rate possible that is consistent with this and other components of its policy. Toward that end, permitted investments include but are not limited to federally backed securities or obligations of any state of the United States of America or any political subdivision rated by at least two nationally recognized bond-rating agencies. As of May 31, 2018, the Authority's investments in Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank Notes, and the Federal Home Loan Mortgage Corporation were rated AAA by Moody's Investors Service and AA+ by Standard & Poor's Ratings Services and Fitch Ratings.

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 Home Loan Bank ($76.3 million or 55.5% of investments), and Federal Home Loan Mortgage Corporation ($21.4 million or 15.6% of investments) at May 31, 2018. As of May 31, 2017, the Authority invested more than 5% in Federal Home Loan Bank ($71.1 million or 39.1% of investment) and Federal Home Loan Mortgage Corporation ($37.9 million or 20.9% of investments).

(4) Bonds Payable

Outstanding bonds are summarized as follows:

Series	Interest rate(s)	Final maturity date	May 31, 2017	Issued	Matured/ refunded	May 31, 2018	Due within one year
					(In thousands)		
Water System Revenue Bonds:							
2009 B Senior Lien	5.50%	2035	$ 100,000	—	—	100,000	—
2011 Senior Lien	4.75–5.00%	2040	24,930	—	—	24,930	—
2012 Senior Lien	3.00–5.00%	2026	64,640	—	—	64,640	—
2012 A Senior Lien	3.00–3.75%	2038	80,000	—	—	80,000	—
2013 Senior Lien	3.00–4.00%	2029	62,380	—	—	62,380	—
2014 A Senior Lien	3.13–5.00%	2040	45,065	—	—	45,065	—
2014 B Senior Lien	3.50–5.25%	2040	50,000	—	—	50,000	—
2015 Senior Lien	3.00–5.00%	2032	114,250	—	(250)	114,000	—
2015 A Senior Lien	4.00–5.25%	2040	49,105	—	—	49,105	—
2016 A Senior Lien	3.00–5.00%	2042	84,280	—	—	84,280	—
2016 B Senior Lien	3.25%	2042	40,000	—	—	40,000	—
2016 Senior Lien	3.00–5.00%	2035	53,825	—	(370)	53,455	510
Environmental Facilities Corporation Revenue Bonds:							
2010 C	3.155%	2019	935	—	(320)	615	615
2011 A	3.283–3.989%	2021	2,760	—	(849)	1,911	487
2011 C	2.424–3.570%	2022	5,793	—	(965)	4,828	1,002
2012 B	4.862–5.000%	2022	2,597	—	(432)	2,165	436
2013 B	4.196–4.500%	2023	2,715	—	(371)	2,344	377
2014 B	4.586-4.960%	2024	2,993	—	(325)	2,668	330
2015 D	3.755–4.020%	2025	3,404	—	(330)	3,074	340
Total bonds outstanding			789,672	—	(4,212)	785,460	$ 4,097
				Additions	Amortization/ payments		
Unamortized premium (discount), net			31,485	—	(1,974)	29,511	
Current maturities payable			(4,212)	(4,097)	4,212	(4,097)	
			$ 816,945	(4,097)	(1,974)	810,874	

Series	Interest rate(s)	Final maturity date	May 31, 2016	Issued	Matured/ refunded	May 31, 2017	Due within one year
					(In thousands)		
Water System Revenue Bonds:							
2007 A Senior Lien	4.00 %	2032	$ 1,380	—	(1,380)	—	—
2009 Senior Lien	2.50–5.00%	2022	10,595	—	(10,595)	—	—
2009 A Senior Lien	4.00–5.00%	2035	54,980	—	(54,980)	—	—
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	—	(18,995)	64,640	—
2012 A Senior Lien	3.00–3.75%	2038	80,000	—	—	80,000	—
2013 Senior Lien	3.00–4.00%	2029	62,380	—	—	62,380	—
2014 A Senior Lien	3.13–5.00%	2040	65,000	—	(19,935)	45,065	—
2014 B Senior Lien	3.50–5.25%	2040	50,000	—	—	50,000	—
2015 Senior Lien	3.00–5.00%	2032	116,660	—	(2,410)	114,250	250
2015 A Senior Lien	4.00–5.25%	2040	49,105	—	—	49,105	—
2016 A Senior Lien	3.00–5.00%	2042	—	84,280	—	84,280	—
2016 B Senior Lien	3.25 %	2042	—	40,000	—	40,000	—
2016 Senior Lien	3.00–5.00%	2035	—	53,825	—	53,825	370
Environmental Facilities Corporation Revenue Bonds:							
2010 C	2.974 %	2019	1,245	—	(310)	935	320
2011 A	2.974–3.990%	2021	3,589	—	(829)	2,760	849
2011 C	2.075–3.570%	2022	6,718	—	(925)	5,793	965
2012 B	4.712–5.000%	2022	3,022	—	(425)	2,597	432
2013 B	3.920–4.500%	2023	3,083	—	(368)	2,715	371
2014 B	4.493–4.960%	2024	3,318	—	(325)	2,993	325
2015 D	3.705–4.020%	2025	3,729	—	(325)	3,404	330
Total bonds outstanding			723,369	178,105	(111,802)	789,672	$ 4,212
				Additions	Amortization/ payments		
Unamortized premium (discount), net			38,787	5,876	(13,178)	31,485	
Current maturities payable			(5,617)	(4,212)	5,617	(4,212)	
			$ 756,539	179,769	(119,363)	816,945	

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

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

For the fiscal years 2018 and 2017, the Authority, at its own discretion, has elected to fund the reserve accounts in the amount of $77.0 million and $76.6 million from bond proceeds, respectively.

(a) Water System Revenue Bonds

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

During fiscal year ended May 31, 2018, the Authority did not enter into any bond transactions.

During fiscal year ended May 31, 2017, the Authority entered into the following bond transactions:

In October 2016, the Authority implemented a cash defeasance of $45.5 million Senior Lien Water System Revenue Bonds consisting of $0.7 million of Senior Lien Water System Revenue Bond Series 2007A, $4.5 million of Series 2009A, $3.9 million of 2009 (Refunding Bonds), $19.0 million of 2012 (Refunding Bonds), $15.5 million of 2014A, and $1.9 million of 2015 (Refunding Bonds), utilizing a total of $51.0 million in General Fund money in addition to debt service and reserve funds on hand totaling $1.6 million. The bonds defeased had maturity dates ranging from June 1, 2017 through June 1, 2022 and interest rates ranging from 2.75% to 5.00%.

In November 2016, the Authority implemented a second cash defeasance of $5.0 million Senior Lien Revenue Bonds consisting of $4.5 million of Series 2014A and $0.5 million of Series 2015 (Refunding Bonds) utilizing a total of $5.4 million in General Fund monies. The bonds had a maturity date of June 1, 2018 and an interest rate of 5.00%.

In November 2016, the Authority issued an aggregate of $178.1 million Senior Lien Water System Revenue Bonds, consisting of $84.3 million of Series 2016A, $40.0 million of 2016B and $53.8 million of Series 2016 (Refunding Bonds).

The Series 2016A Bonds were issued to provide for the advance refunding of $75.0 million of the Authority's outstanding Bond Anticipation Note 2015B. The proceeds from Series 2016A were used to fund the escrow account for $78.3 million, fund the reserve account for $7.0 million and $1.1 million to pay cost of issuance. The 2016A Bonds bear interest rates ranging from 3.00% to 5.00% and have a final maturity date of June 1, 2042.

The Series 2016B Bonds were issued to finance the cost of acquisition and construction of improvements and additions to the water system, fund the reserve account and to pay cost of issuance. The Series 2016B Bonds bear an interest rate of 3.25% and have a final maturity date of June 1, 2042.

The Series 2016 (Refunding Bonds) were issued to provide for the advance refunding of $49.0 million of Series 2009A and $6.6 million of Series 2009 (Refunding Bonds). The proceeds of the 2016 (Refunding Bonds) were used to fund the escrow account for $62.0 million, along with $1.0 million in existing debt service funds on hand and $7.3 million of existing Reserve funds on hand and to fund the 2016 (Refunding Bond) reserve account for $4.5 million and pay cost of issuance of $0.4 million. This refunding resulted in a net present value savings of approximately $4.9 million and the Authority recognized a loss on bond refunding in the amount of $3.4 million which was recorded as a deferred outflow on bond refunding. The 2016 (Refunding Bonds) bear interest rates ranging from 3.00% to 5.00% and have a final maturity date of June 1, 2035.

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

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

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

In fiscal years ended 2018 and 2017, the Authority has not participated in any new NYS EFC bond issues.

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, 2018, the amount of defeased debt obligation outstanding was approximately $174.0 million, a decrease of $48.7 million from May 31, 2017, which represents the amount of defeased debt fully redeemed after May 31, 2017.

In June, 2017, the Authority applied to the NYSEFC for the New York State Water Infrastructure Improvement Act (WIIA) Grant for five projects costing approximately $8.0 million. The proposed projects included the construction of an Advanced Oxidation Process (AOP) System to treat 1,4-dioxane at the Authority’s Smith Street, East Farmingdale well field site, a water main installation to improve service in East Farmingdale, a water main replacement along Montauk Highway in Amagansett, a well replacement at the Blue Point Road well field in Holtsville, and a well replacement at the Brook Avenue well field in Deer Park. In October 2017, the Authority was awarded grant money for two of the five projects: $0.7 million for the Smith Street Advanced Oxidation Process System and $1.4 million for the East Farmingdale well field site water main installation. Work on these projects will begin in Fiscal Year 2019.

Interest expense on the bonds was $27.9 million and $28.9 million for the years ended May 31, 2018 and 2017, 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 years ending:				
2019	$	4,097	31,170	35,267
2020		3,645	31,024	34,669
2021		6,218	30,792	37,010
2022		3,355	30,586	33,941
2023		11,559	30,116	41,675
2024–2028		129,392	134,790	264,182
2029–2033		177,840	104,874	282,714
2034–2038		216,984	60,316	277,300
2039–2044		232,370	14,711	247,081
	$	785,460	468,379	1,253,839

(5) Debt Service Requirements

As prescribed in the Authority's Bond Resolution, the Authority is required to maintain a reserve account for each Series of Bonds to be held in the custody of the Bond Fund Trustee in an amount equal to the lesser of (1) 10% of the proceeds of the particular bond issue, (2) the maximum debt service due on the particular bond issue, or (3) 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. At May 31, 2018, the debt service reserve funds were approximately $77.0 million. In addition, there is $15.8 million in the Senior Lien Bond Fund.

Revenue before interest expense and depreciation and amortization was equivalent to 2.18 times (2.22 in 2017) the debt service requirement on all outstanding debt. The minimum debt service requirement on all bonds is 1.10.

(6) Notes Payable

Outstanding bond anticipation notes payable are summarized as follows:

Series	Final maturity date	Balance at May 31, 2017	Issued	Redeemed (In thousands)	Balance at May 31, 2018	Due within one year
2015 A EFC	July 30, 2020	$ 16,539	—	—	16,539	224
Total notes outstanding		$ 16,539	—	—	16,539	224

Series	Final maturity date	Balance at May 31, 2016	Issued	Redeemed (In thousands)	Balance at May 31, 2017	Due within one year
2015 A EFC	July 30, 2020	$ 16,539	—	—	16,539	—
2015 B SCWA	November 1, 2017	75,000	—	(75,000)	—	—
Total notes outstanding		$ 91,539	—	(75,000)	16,539	—

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.

In July 2015, the Authority closed on its NYS EFC Bond Anticipation Note 2015A with a maximum advance amount of $16.5 million as part of the Storm Mitigation Loan Program through the NYS EFC. The Note has a maturity date of July 30, 2020. The Storm Mitigation Loan Program comprises a $16.5 million 0% interest free loan and $5.5 million in grant monies. The eligible projects are related to main extensions and generators. Work on eligible projects began in fiscal years 2018 and 2017.

During the fiscal year ending May 31, 2018, the Authority received a total of $6.1 in advances against the EFC Storm Mitigation Loan note receivable of $16.5 million and $1.0 million in grant monies pertaining to its NYS EFC Bond Anticipation Note 2015A. The advances received were for eligible projects related to main extensions and generators. At May 31, 2018, the note receivable balance is $8.1 million. In accordance with the EFC 2015A Bond Anticipation Note Financing Agreement, in May 2019, the Authority is required to make an estimated principal payment of $0.2 million which is based upon the amount of funds drawn down on the note.

In May 2017, the Authority received an advance payment in the amount of $2.3 million from the NYS EFC against the EFC Storm Mitigation Loan note receivable of $16.5 million pertaining to its NYS EFC Bond Anticipation Note 2015A. This advance was for eligible projects related to main extensions. At May 31, 2017, the note receivable balance is $14.2 million.

In November 2016, the Authority advance refunded $75.0 million Suffolk County Water Authority Bond Anticipation Notes, 2015B with the issuance of Senior Lien Water System Revenue Bond, Series 2016A.

The proceeds from the 2016A Bonds were used to fund the escrow account for $78.3 million, and to fund the reserve account and pay cost of issuance.

(7) Pension Plan

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

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

(a) Contributions

The System is contributory, employees contribute 3% of their salary for the first 10 years of membership, and employees who joined on or after January 1, 2010 contribute throughout employment. Under the authority of the RSSL, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions based on salaries paid during the System's fiscal year ending March 31. The System offers a range of programs and benefits that vary based on the date of membership, years of credited service and final average salary, vesting of retirement benefits, disability benefits, and optional methods of benefit payments. Contributions for the current year and 2 preceding years were equal to 100% of the contributions required, and were as follows (dollars in thousands):

2016	$	7,161
2017		6,325
2018		6,902

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

At May 31, 2018 and 2017, the Authority reported a liability of $5.7 million and $15.5 million for its proportionate share of the System's net pension liability, respectively. The net pension liability used by the Authority at May 31, 2018 and 2017 was measured as of March 31, 2018 and 2017, respectively, and the total pension liability used to calculate the net pension liability was determined by actuarial valuations as of April 1, 2017 and April 1, 2016, respectively. The Authority's proportion of the System's net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined.

At May 31, 2018 and 2017, the Authority's proportion was 0.1776255% and 0.1651319%, respectively.

For the years ended May 31, 2018 and 2017, the Authority recognized pension expense of $6.7 million and $8.6 million, respectively. At May 31, 2018 and 2017, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

	2018	
	Deferred outflows of resources	**Deferred inflows of resources**
Differences between expected and actual experience	$ 2,045	1,690
Changes of assumptions	3,801	—
Net difference between projected and actual investment earnings on pension plan investments	—	8,110
Changes in proportion and differences between employer contributions and proportionate share of contributions	550	660
Contributions made subsequent to the measurement date	1,150	—
Total	$ 7,546	10,460

	2017	
	Deferred outflows of resources	**Deferred inflows of resources**
Differences between expected and actual experience	$ 388	2,356
Changes of assumptions	5,301	—
Net difference between projected and actual investment earnings on pension plan investments	3,099	—
Changes in proportion and differences between employer contributions and proportionate share of contributions	—	897
Contributions made subsequent to the measurement date	1,149	—
Total	$ 9,937	3,253

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (dollars in thousands):

Year ended May 31:		
2019	$	1,016
2020		870
2021		(4,137)
2022		(1,814)
2023		—

(c) Actuarial Assumptions

The total pension liability at March 31, 2018 and 2017 was determined by using an actuarial valuation as of April 1, 2017 and 2016, with update procedures used to roll forward the total pension liability to March 31, 2018 and 2017, respectively.

Significant actuarial assumptions used in the April 1, 2018 and 2017 valuations were as follows:

Investment rate of return	7.0 %
Salary scale	3.8 %
Inflation rate	2.5 %
Cost of living adjustments	1.3% annually
Decrements	Developed from the System's 2015 experience study of the period April 1, 2010 through March 31, 2015
Mortality improvement	Society of Actuaries Scale MP-2014

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best-estimates of arithmetic real rates of return for each major asset class as of April 1, 2018 and 2017 are summarized as follows:

	2018		2017	
Asset class	Target allocation	Long term expected real rate	Target allocation	Long term expected real rate
Domestic equity	36 %	4.55 %	36 %	4.55 %
International equity	14	6.35	14	6.35
Private equity	10	7.50	10	7.75
Real estate	10	5.55	10	5.80
Absolute return strategies	2	3.75	2	4.00
Opportunistic portfolio	3	5.68	3	5.89
Real assets	3	5.29	3	5.54
Bonds and mortgages	17	1.31	17	1.31
Cash	1	(0.25)	1	(0.25)
Inflation indexed bonds	4	1.25	4	1.50
	100 %		100 %	

(d) Discount Rate

The discount rate used to measure the total pension liability as of April 1, 2017 and 2016 was 7.0%. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially. Based upon these assumptions, the System’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the Authority’s proportionate share of the net pension liability at May 31, 2018 and 2017 calculated using the discount rate assumption of 7.0%, as well as what the Authority’s proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is one-percentage point lower (6.0%) or one-percentage-point higher (8.0%) than the current rate (dollars in thousands):

		2018		
		1% Decrease (6.0%)	Current assumption (7.0%)	1% Increase (8.0%)
Authority's proportionate share of the net pension liability (asset)	$	43,376	5,733	(26,112)

		2017		
		1% Decrease (6.0%)	Current assumption (7.0%)	1% Increase (8.0%)
Authority's proportionate share of the net pension liability (asset)	$	49,556	15,516	(13,264)

(f) Pension Plan Fiduciary Net Positions

The components of the current-year net pension liability of the System as of March 31, 2018 and 2017, were as follows (dollars in thousands):

		2018	2017
Employers' total pension liability	$	183,400,590	177,400,586
System's fiduciary net position		180,173,145	168,004,363
Employers' net pension liability	$	3,227,445	9,396,223
System fiduciary net position as percentage of total pension liability		98.2 %	94.7 %

(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 $58 million and $53 million at May 31, 2018 and 2017, 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. A publicly available financial report for the plan is not issued.

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 for employees hired after January 1, 2017 contribute 15% through payroll deduction; for employees hired prior to January 1, 2017 the plan is noncontributory for active employees, with all payments for plan benefits being funded by the Authority. Upon retirement, the cost of the dental and optical plans is partially funded by the Authority and the balance by the retiree. During fiscal year 2018, there were 950 participants (561 active and 389 inactive) that were eligible to receive benefits.

GASB No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, establishes guidance for the financial reporting of other postemployment benefits (OPEB) cost over a period that approximates employees' years of service and providing information about actuarially calculated liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan.

In accordance with this standard, the Authority's annual OPEB cost for the plan is calculated based on the 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, 2018 and 2017 (dollars in thousands):

		2018	2017
Annual OPEB cost:			
ARC:			
Normal cost	$	11,267	10,926
Amortization payment		15,540	15,025
Interest to the end of the year		1,072	1,038
Total		27,879	26,989
Interest on net OPEB obligation		5,790	5,070
Net OPEB obligation amortization adjustments to the ARC		(8,371)	(7,330)
Annual OPEB cost (expense)		25,298	24,729
Contributions made		(7,332)	(6,727)
Increase in net OPEB obligation		17,966	18,002
Net OPEB obligation, beginning of year		144,746	126,744
Net OPEB obligation, end of year	$	162,712	144,746

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, 2018	$	25,298	29.0	$	162,712
May 31, 2017		24,729	27.2		144,746
May 31, 2016		23,528	27.4		126,744

As of June 1, 2017 and 2016, the actuarial accrued liability for benefits was $279.5 million and $270.2 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, 2018 and 2017, the undedicated reserve is $35.2 million and $25.2 million, respectively.

As of June 1, 2017 and 2016, the covered payroll (annual payroll of active employees covered by the plan) was $43.9 million and $42.7 million, respectively, and the ratio of unfunded actuarial liability to covered payroll 635.5% and 632.9% for each respective year. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about the retiree healthcare plan.

The actuarial valuations involve 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, 2017 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 annual cost trend rates, as listed in the table below.

	Healthcare annual cost trend rates		
Fiscal Year Ended	**Medical/Rx**	**Dental**	**Part B**
2018	8.50 %	4.50 %	4.50 %
2019	8.00	4.25	5.00
2020	7.50	4.00	5.00
2021	7.00	4.00	5.00
2022	6.50	4.00	5.00
2023	6.00	4.00	5.00
2024	5.50	4.00	5.00
2025+	5.00	4.00	5.00

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

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 $3,690 to $8,900, per month and have terms ranging from five to 15 years, multiple five-year renewals, and 3.0% to 3.5% annual rental increases. The Authority currently has 137 lease agreements with seven different wireless carriers. Annual lease income from these agreements for the next five years is expected to be the following:

2019	$	10.5 million
2020		10.8 million
2021		11.1 million
2022		11.5 million
2023		11.8 million

The Authority has negotiated the consolidation of antenna leases, increasing the rent on the remaining leases and extending the terms.

Annual lease income that is included in other operating revenue for the fiscal years ended May 31, 2018 and 2017 was $11.2 million and $10.7 million, respectively.

(b) Legal

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

(c) Risk Management

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

The Authority is self-insured for workers’ compensation claims. Claims are administered through a third-party administrator. There is insurance in place that will limit the Authority’s exposure of individual claims to $750,000.

For general liability and automobile claims, the Authority is insured to an aggregate limit of $53 million subject to a $100,000 deductible per occurrence.

(Continued)

For damage to Authority owned property, the Authority is insured to a limit of $75 million per occurrence subject to a $50,000 deductible. Various sub-limits and deductibles apply depending on the particular property that is damaged.

For employment related practices claims, the Authority maintains insurance with a limit of $5 million subject to a $35,000 self-insured retention.

GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The Authority has established a liability based on actuarial estimates of the amounts needed to pay prior year and current year claims. That liability, which is for workers' compensation, general, and automobile claims, was approximately $8.2 million and $5.0 million at May 31, 2018 and 2017.

Changes in the Authority's workers' compensation claims liability amount in fiscal years 2018 and 2017 were as follows (dollars in thousands):

		2018	2017
Unpaid claims, beginning of fiscal year	$	3,440	174
Changes in the estimate for claims of all years		3,316	3,266
Unpaid claims, end of fiscal year	$	6,756	3,440

Changes in the Authority's general and automobile claims liability amount in fiscal years 2018 and 2017 were as follows (dollars in thousands):

		2018	2017
Unpaid claims, beginning of fiscal year	$	1,589	1,714
Changes in the estimate for claims of all years		160	526
Claim payments		(507)	(651)
Unpaid claims, end of fiscal year	$	1,242	1,589

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

(11) Subsequent Events

The Authority has evaluated subsequent events through, August 30, 2018, the date the financial statements were available to be issued.

In July 2018, the Authority entered into an inter-municipal agreement with the Town of East Hampton to install new water mains at various sites in the town of Wainscott and new water service lines in East Hampton where private wells have been contaminated with perfluorinated compounds or PFCs. To address the situation, the Town of East Hampton decided to pursue the creation of a water supply district to pay for the cost of connecting to Suffolk County Water Authority water. To lessen the financial burden on local residents, the Authority and the town have decided to pursue joint inter-municipal state grant to secure funding from the previous year's $2.5 billion Water Infrastructure Improvement Act. In September, 2018, the Authority will take the lead in applying for Inter-municipal Grant funding from the Environmental Facilities Corporations NYS Inter-municipal Water Infrastructure Grant (IMG) Program.

In August 2018, the Authority issued $100.0 million in Series 2018A Senior Lien Water System Revenue Bonds. The Series 2018A Bonds were issued to finance the cost of acquisition and construction of improvements and additions to the water system, fund the reserve account and to pay cost of issuance. The Series 2018A bonds bear interest rates ranging from 3.25% to 5.00% and have a final maturity date of June 1, 2043.

SUFFOLK COUNTY WATER AUTHORITY

Required Supplementary Information (Unaudited)

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

May 31, 2018

(Dollars in thousands)

		2018	2017	2016
Contractually required contribution	$	6,902	6,325	7,161
Contributions in relation to the contractually required contribution		6,902	6,325	7,161
Contribution deficiency (excess)	$	—	—	—
Authority covered-employee payroll (authority year end)	$	45,119	46,952	40,686
Contributions as a percentage of covered-employee payroll		15.30 %	13.47 %	17.60 %

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

See accompanying independent auditors' report.

SUFFOLK COUNTY WATER AUTHORITY

Required Supplementary Information (Unaudited)

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

May 31, 2018

(Dollars in thousands)

		2018	2017	2016
Authority's share of the net pension liability		0.1776255 %	0.1651319 %	0.1703727 %
Authority's proportionate share of the net pension liability	$	5,733	15,516	27,345
Authority's covered-employee payroll (measurement date as of March 31)		45,088	45,695	41,422
Authority's proportionate share of the net pension liability as a percentage of the covered-employee payroll		12.72 %	33.96 %	66.02 %
Plan fiduciary net position as a percentage of the total pension liability		98.24 %	94.70 %	90.70 %

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

See accompanying independent auditors' report.

SUFFOLK COUNTY WATER AUTHORITY

Required Supplementary Information (Unaudited)

Schedule of Funding Progress for the Retiree Healthcare Plan

May 31, 2018

(Dollars 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, 2017	$	—	279,462	279,462	—	43,978	635 %
June 1, 2016		—	270,202	270,202	—	42,697	633
June 1, 2015		—	257,443	257,443	—	40,307	639

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 statements of net position as of May 31, 2018 and 2017, 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, and have issued our report thereon dated, August 28, 2018.

Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to 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 audits we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, 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 30, 2018