

In the opinion of Harris Beach PLLC, Bond Counsel to the Authority, under existing statutes, regulations, court decisions and administrative rulings, and assuming compliance with the tax covenants described herein and the accuracy of certain representations and certifications made by the Authority described herein, interest on the Series 2016 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”). Furthermore, Bond Counsel is of the opinion that interest on the Series 2016 Bonds is not an “item of tax preference” for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. Interest on the Series 2016 Bonds is, however, included in the computation of “adjusted current earnings” for purposes of calculating the federal alternative minimum tax imposed on certain corporations. Bond Counsel is further of the opinion that, under existing statutes, interest on the Series 2016 Bonds is exempt from personal income taxes imposed by the State of New York and any political subdivision thereof (including The City of New York). See “TAX MATTERS” in this Official Statement.



\$178,105,000
SUFFOLK COUNTY WATER AUTHORITY
NEW YORK
Water System Revenue Bonds
consisting of

\$84,280,000	\$40,000,000	\$53,825,000
Water System Revenue Bonds, Series 2016A	Water System Revenue Bonds, Series 2016B	Water System Revenue Bonds, Series 2016 Refunding

Dated: Date of Delivery

Due: June 1, as shown on the inside cover

The \$84,280,000 Water System Revenue Bonds, Series 2016A (the “Series 2016A Bonds”) are being issued to (i) retire all of the Authority’s outstanding Bond Anticipation Renewal Notes, 2015B, (ii) fund a deposit to the Reserve Account, Series 2016A and (iii) pay costs of issuance relating to the Series 2016A Bonds. The \$40,000,000 Water System Revenue Bonds, Series 2016B (the “Series 2016B Bonds”) are being issued to (i) finance the Cost of Acquisition and Construction of improvements and additions to the Water System, (ii) fund a deposit to the Reserve Account, Series 2016B and (iii) pay costs of issuance relating to the Series 2016B Bonds. The \$53,825,000 Water System Revenue Bonds, Series 2016 Refunding (the “Series 2016 Refunding Bonds” and together with the Series 2016A Bonds and the series 2016B Bonds, collectively, the “Series 2016 Bonds”) are being issued to (i) provide moneys for the refunding of certain Outstanding Senior Lien Bonds of the Authority, (ii) fund a deposit to the Reserve Account, Series 2016 Refunding and (iii) pay costs of issuance relating to the Series 2016 Refunding Bonds. The Series 2016 Bonds will be issued as fully registered bonds in the denomination of \$5,000 or any integral multiple thereof. Interest (due each June 1 and December 1, commencing June 1, 2017 on the Series 2016 Bonds will be payable by The Bank of New York Mellon, New York, New York, the Bond Fund Trustee and Paying Agent, to the registered owners thereof as more fully described herein.

The Series 2016 Bonds will be issued initially under a book-entry only system, registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). Individual purchases of beneficial interests in the Series 2016 Bonds may only be made in such book-entry form (without certificates). So long as DTC or its nominee is the registered owner of the Series 2016 Bonds, payments of the principal of and interest on such Series 2016 Bonds will be made by wire transfer directly to DTC or its nominee. Disbursement of such payments to DTC participants is the responsibility of DTC and disbursement of such payments to the beneficial owners is the responsibility of DTC participants. See “APPENDIX D — Book-Entry Only System” hereto.

The Series 2016 Bonds are payable as to both interest and principal solely from the Net Revenues (as defined herein) on a parity with other outstanding Senior Lien Bonds (as defined herein) heretofore or hereafter issued by the Authority, all as set forth in the Resolution authorizing and securing the Series 2016 Bonds. See “SECURITY FOR THE Series 2016 Bonds” herein.

The Series 2016 Bonds are limited obligations of the Authority and are not a debt of the State of New York or of Suffolk County or of any municipality therein and none of the State of New York, Suffolk County or any municipality therein shall be liable thereon. The Authority has no taxing power.

The Series 2016 Bonds are subject to optional redemption prior to their stated maturity date as more fully described herein. See “DESCRIPTION OF THE Series 2016 Bonds — Redemption Provisions” herein.

The Series 2016 Bonds are offered when, as and if issued and received by the Purchaser and subject to the approval of legality by Harris Beach PLLC, New York, New York, Bond Counsel. Goldman, Sachs & Co. is serving as Financial Consultant to the Authority in connection with the issuance of the Series 2016 Bonds. It is expected that the Series 2016 Bonds will be available for delivery through the facilities of DTC on or about November 15, 2016.

\$84,280,000
Water System Revenue Bonds,
Series 2016A

<u>Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP¹</u>
2037 [†]	\$12,725,000	5.000%	2.540%	120.732	864784GA5
2038 [†]	13,210,000	4.000	2.970	108.504	864784GB3
2039	13,740,000	3.000	3.188	97.000	864784GC1
2040	14,290,000	3.000	3.244	96.000	864784GD9
2041	14,860,000	3.125	3.289	97.250	864784GE7
2042 [†]	15,455,000	3.250	3.324	98.750	864784GF4

\$40,000,000
Water System Revenue Bonds,
Series 2016B

<u>Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP¹</u>
2042	\$40,000,000	3.250%	3.400%	97.451	864784GG2

\$53,825,000
Water System Revenue Bonds,
Series 2016 Refunding

<u>Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP¹</u>
2017	\$370,000	4.000%	0.790%	101.740	864784 FF5
2018	510,000	5.000	0.890	106.289	864784 FG3
2019	530,000	5.000	0.970	110.103	864784 FH1
2020	1,480,000	5.000	1.000	113.894	864784 FJ7
2021	1,545,000	5.000	1.080	117.337	864784 FK4
2022	1,610,000	5.000	1.180	120.442	864784 FL2
2023	2,040,000	5.000	1.310	123.069	864784 FM0
2024	2,100,000	5.000	1.450	125.282	864784 FN8
2025	2,165,000	5.000	1.600	127.051	864784 FP3
2026	2,300,000	5.000	1.750	128.452	864784 FQ1
2027 [†]	2,480,000	5.000	1.840	127.543	864784 FR9
2028 [†]	2,560,000	4.000	2.100	116.354	864784 FS7
2029 [†]	2,660,000	4.000	2.360	113.941	864784 FT5
2030 [†]	2,745,000	4.000	2.550	112.214	864784 FU2
2031 [†]	2,725,000	3.000	2.950	100.412	864784 FV0
2032	2,695,000	3.000	3.000	100.000	864784 FW8
2033	7,545,000	3.000	3.039	99.500	864784 FX6
2034	7,770,000	3.000	3.074	99.000	864784 FY4
2035	7,995,000	3.000	3.107	98.500	864784 FZ1

[†] Priced to the first call date at 100%.

¹ Copyright 2009, American Bankers Association. CUSIP numbers have been assigned by an organization not affiliated with the Authority and are included solely for the convenience of the holders of the Series 2016 Bonds. The Authority is not responsible for the selection or uses of these CUSIP numbers and no representation is made as to their correctness on the Series 2016 Bonds or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Series 2016 Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Series 2016 Bonds.

Suffolk County Water Authority

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Patrick G. Halpin	Secretary
Jane R. Devine	Member
Mario R. Mattera	Member
Errol D. Toulon, Jr., Ed. D.	Member

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Tyrand Fuller, C.P.G	Director of Strategic Initiatives and Lead Hydrogeologist
Kevin P. Durk	Director of Water Quality and Laboratory Services

Authority Advisors

Bond Counsel	Harris Beach PLLC, New York, New York
Financial Consultant	Goldman, Sachs & Co., New York, New York
Bond Fund Trustee and Paying Agent	The Bank of New York Mellon, New York, New York

REGARDING THIS OFFICIAL STATEMENT

The Suffolk County Water Authority has executed and issued this as its Official Statement with respect to its Series 2016 Bonds, has authorized the initial purchaser (the “Purchaser”) to offer the Series 2016 Bonds for sale to the public by means of this Official Statement and has approved the inclusion of information within this Official Statement as being, as of the date hereof, in full disclosure of all material facts of interest to prospective purchasers contemplating purchase of the Series 2016 Bonds.

No purchaser, dealer, broker, salesperson or other person has been authorized by the Authority to give any information or to make any representations with respect to the Series 2016 Bonds, other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the Authority. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Series 2016 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. Certain information contained herein has been obtained from sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness and it is not to be construed as a representation of the Authority. The information and expressions of opinion contained herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority or of Suffolk County or the other matters described herein since the date hereof.

The Purchaser has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Purchaser does not guarantee the accuracy or completeness of such information.

This Official Statement should be considered in its entirety and no one factor considered less important than any other by reason of its location herein. Where agreements, reports or other documents are referred to herein, reference should be made to such agreements, reports or other documents for more complete information regarding the rights and obligations of parties thereto, facts and opinions contained therein and the subject matter thereof.

This Official Statement contains statements which, to the extent they are not recitations of historical fact, constitute “forward-looking statements.” In this respect, the words “estimate,” “project,” “anticipate,” “expect,” “intend,” “believe” and similar expressions are intended to identify forward-looking statements. A number of important factors affecting the Authority’s financial results could cause actual results to differ materially from those stated in the forward-looking statements.

A wide variety of other information, including financial information, concerning the Authority is available from the Authority’s website. Any such information that is inconsistent with the information set forth in this Official Statement should be disregarded.

IN CONNECTION WITH THE OFFERING OF THE SERIES 2016 BONDS, THE PURCHASER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT MAY STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH SERIES 2016 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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This Table of Contents does not list all of the subjects contained in this Official Statement and in all instances reference should be made to the complete Official Statement to determine all of the subjects set forth therein.

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OFFICIAL STATEMENT

Relating to

\$178,105,000
SUFFOLK COUNTY WATER AUTHORITY
NEW YORK
Water System Revenue Bonds
consisting of

\$84,280,000
Water System Revenue Bonds,
Series 2016A

\$40,000,000
Water System Revenue Bonds,
Series 2016B

\$53,825,000
Water System Revenue Bonds,
Series 2016 Refunding

INTRODUCTION

The purpose of this Official Statement is to set forth certain information pertaining to the Suffolk County Water Authority (the “Authority”), its water supply and distribution system and the revenues generated by it, the Authority’s \$84,280,000 Water System Revenue Bonds, Series 2016A (the “Series 2016A Bonds”), \$40,000,000 Water System Revenue Bonds, Series 2016B (the “Series 2016B Bonds”) and \$53,825,000 Water System Revenue Bonds, Series 2016 Refunding (the “Series 2016 Refunding Bonds” and together with the Series 2016A Bonds and the Series 2016B Bonds, collectively, the “Series 2016 Bonds”), and the resolutions pursuant to which they were issued, and other related matters in connection with the sale of the Series 2016 Bonds. Capitalized terms used but not otherwise defined in this Official Statement have the meanings given them in the section entitled “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Definition of Certain Terms” in Appendix A hereto.

The Authority, a body corporate and politic constituting a public benefit corporation organized and existing under the Suffolk County Water Authority Act, as amended (the “Act”), was created for the purpose of acquiring, constructing, maintaining and operating a water supply and distribution system within the territorial boundaries of Suffolk County, New York (the “Water System” or “System,” as more particularly described in the section entitled “SERVICE AREAS, PLANT FACILITIES AND WATER SUPPLY”).

The Authority is issuing \$84,280,000 aggregate principal amount of its Series 2016A Bonds dated their date of delivery, pursuant to the Act, the Water System Revenue Bonds Bond Resolution adopted by the Authority on September 27, 1988, as amended on October 27, 1988 and as further amended on March 30, 1993 and on November 29, 1994 (the “General Resolution”), a supplemental resolution adopted by the Authority on September 28, 2015 (the “2015 Supplemental Resolution”) and a supplemental resolution adopted by the Authority on September 26, 2016 (collectively, the “Series 2016A Supplemental Resolution”). The Authority is issuing \$40,000,000 aggregate principal amount of its Series 2016B Bonds dated their date of delivery, pursuant to the Act, the General Resolution and a supplemental resolution adopted by the Authority on September 26, 2016 (the “Series 2016B Supplemental Resolution”). The Authority is issuing \$53,825,000 aggregate principal amount of its Series 2016 Refunding Bonds dated their date of delivery, pursuant to the Act, the General Resolution, a supplemental resolution adopted by the Authority on September 26, 2016 (the “Series 2016 Refunding Supplemental Resolution” and together with the Series 2016A Supplemental Resolution and the Series 2016B Supplemental Resolution, collectively, the “Supplemental Resolutions” and together with the General Resolution, collectively, the “Resolution”). The Series 2016A Bonds will be the thirty-ninth series of Senior Lien Bonds issued under the General Resolution. The Series 2016B Bonds will be the fortieth series of Senior Lien Bonds issued under the General Resolution. The Series 2016 Refunding Bonds will be the forty-first series of Senior Lien Bonds issued under the General Resolution. The Series

2016A Bonds are being issued to (i) retire all of the Authority's outstanding Bond Anticipation Renewal Notes, 2015B ("2015B Notes"), (ii) fund a deposit to the Reserve Account, Series 2016A and (iii) pay costs of issuance relating to the Series 2016A Bonds. The 2015B Notes were issued in anticipation of the issuance of the Series of Bonds authorized to be issued in the amount not to exceed \$85,000,000 initially pursuant to the 2015 Supplemental Resolution. The Series 2016B Bonds are being issued to (i) finance the Cost of Acquisition and Construction of improvements and additions to the Water System, (ii) fund a deposit to the Reserve Account, Series 2016B and (iii) pay costs of issuance relating to the Series 2016B Bonds. The Series 2016 Refunding Bonds are being issued to (i) provide moneys for the refunding of certain Outstanding Senior Lien Bonds of the Authority, (ii) fund a deposit to the Reserve Account, Series 2016 Refunding and (iii) pay costs of issuance relating to the Series 2016 Refunding Bonds. See "CAPITAL IMPROVEMENT PLAN" herein.

The Series 2016 Bonds shall not constitute a general obligation of the Authority. Neither the faith and credit nor the taxing power of the State of New York or of any political subdivision thereof are pledged for the payment of the principal of, premium, if any, or interest on the Series 2016 Bonds, and no holder of the Series 2016 Bonds shall have the right to compel the exercise of the taxing power of the State of New York or of any political subdivision thereof in connection with any default with respect to the Series 2016 Bonds. The Series 2016 Bonds are not a debt of the State of New York or of Suffolk County or of any municipality in Suffolk County, neither the State nor Suffolk County nor any municipality in Suffolk County is liable for the payment of the Series 2016 Bonds, nor are the Series 2016 Bonds payable out of any funds other than those of the Authority pledged for the payment of the Series 2016 Bonds under the Resolution.

The Resolution requires the Authority to fix, establish and collect (or cause to be fixed, established and collected) rates, tolls, rents and other charges for the water distributed by it and for any services or facilities sold, furnished or supplied by the Water System, which will be sufficient in each Fiscal Year to produce revenues which, together with other moneys lawfully available, will be equal to at least the sum of (A) Debt Service for such Fiscal Year on all Bonds of the Authority, (B) the necessary expenses of operating, maintaining, renewing and replacing the Water System and maintaining required Reserve Accounts and Secondary Reserve Accounts and (C) the additional amounts, if any, required to pay all other charges or liens whatsoever payable from the Revenues in such Fiscal Year.

The Act expressly declares that neither the Public Service Commission of New York (the "PSC") nor any other board or commission of like character has jurisdiction over the Authority in the management and control of its properties or operations or any power over the regulation of rates fixed or charges collected by the Authority.

The Authority has never defaulted in the payment of maturing principal of or interest on any of its bonds or notes.

The Bank of New York Mellon is the Bond Fund Trustee appointed under the Resolution to assume and perform the obligations and duties imposed on the Bond Fund Trustee by provisions of the Resolution and is herein called the "Bond Fund Trustee."

The Series 2016 Bonds are authorized and secured in accordance with the provisions of the Act and the Resolution. Notwithstanding that certain provisions of the Resolution are summarized hereinafter in this Official Statement, reference should be made by investors and other interested parties to the complete Resolution and any and all modifications and amendments thereof for a description of the nature and extent of (i) the security for the Series 2016 Bonds, and of any additional parity bonds heretofore and hereafter issued under the General Resolution (all of such bonds being herein collectively called the "Senior Lien Bonds"), (ii) the funds and revenues pledged to the payment of the Series 2016 Bonds, (iii) the nature and extent and manner of enforcement of the pledge, the rights and remedies of the holders of such Series 2016 Bonds with respect thereto, (iv) the terms and conditions upon which such

Series 2016 Bonds are issued and (v) a statement of rights, duties, immunities and obligations of the Authority.

Copies of the General Resolution and the Supplemental Resolutions are available for inspection in the offices of the Authority.

This Official Statement contains certain “forward-looking statements” concerning the Authority’s operations and financial condition. These statements are based upon a number of assumptions and estimates which are subject to significant uncertainties, many of which are beyond the control of the Authority. The words “may,” “would,” “could,” “will,” “expect,” “anticipate,” “believe,” “intend,” “plan,” “estimate” and similar expressions are meant to identify these forward-looking statements. Actual results may differ materially from those expressed or implied by these forward-looking statements.

DESCRIPTION OF THE SERIES 2016 BONDS

The Series 2016 Bonds

The Series 2016 Bonds shall be dated their date of delivery, and shall bear interest at the rates and shall mature as set forth on the inside cover of this Official Statement.

The Series 2016 Bonds shall be issued in fully registered form without interest coupons appurtenant thereto in the denomination of \$5,000 or any integral multiple of \$5,000.

Principal of the Series 2016 Bonds shall be payable at The Bank of New York Mellon, the Bond Fund Trustee, also designated as the Paying Agent and Registrar for the Series 2016A Bonds by the Series 2016A Supplemental Resolution, for the Series 2016B Bonds by the Series 2016B Supplemental Resolution and for the Series 2016 Refunding Bonds by the Series 2016 Refunding Supplemental Resolution. Interest on the Series 2016 Bonds is payable by check mailed by the Paying Agent to the holder of such Series 2016 Bond in whose name such Series 2016 Bonds are registered upon the bond registration books as of the fifteenth day (whether or not a business day) of the calendar month next preceding each June 1 and December 1 (the “Record Date”) at the holder’s address as it appears on the bond registration books. However, the Series 2016 Bonds shall initially be issued in book-entry form only and during all such times principal of and interest on the Series 2016 Bonds shall be payable by wire transfer by the Bond Fund Trustee to The Depository Trust Company, New York, New York. See APPENDIX D — Book-Entry Only System.

Redemption Provisions

Optional Redemption. The Series 2016 Bonds shall be subject to redemption at the option of the Authority, prior to their stated maturities, on or after June 1, 2026, in whole or in part on any date, at the price of par, plus interest accrued to the date of redemption, in such order of maturities as shall be determined by the Authority and by lot within a maturity.

Notice of Redemption

In the event any Series 2016 Bonds shall be called for redemption, notice of redemption thereof shall be given by publication not less than thirty (30) days prior to the date fixed for redemption in a newspaper of general circulation printed in the English language published in Suffolk County, New York, and in The Bond Buyer, New York, New York, or in lieu of publication therein, in some other newspaper specializing in financial matters printed in the English language and customarily published on each business day and of general circulation in The City of New York, New York. Notice of the redemption of any Series 2016 Bond shall be mailed not less than thirty (30) days before the redemption date, to the registered owners as of the forty-fifth (45th) day (whether or not a business day) next preceding the redemption date of any of the Series 2016 Bonds which are to be redeemed at their last

known addresses appearing on the bond register, but failure to mail any such notice, or any defect therein, shall not affect the validity of any proceedings for the redemption of said Series 2016 Bonds.

Any notice of optional redemption for the Series 2016 Bonds may state that it is conditional upon receipt by the Bond Fund Trustee of monies sufficient to pay the redemption price of the Series 2016 Bonds or upon the satisfaction of any other condition, or that it may be rescinded upon the occurrence of any other event. Any such conditional notice may be rescinded at any time before payment of the redemption price if any specified condition is not satisfied or any specified event occurs. Notice of such rescission shall be given by the Bond Fund Trustee to affected Bondholders as promptly as practicable upon the failure of such condition or the occurrence of such event in the same manner as the notice of optional redemption was originally given.

Selection for Redemption

So long as the book-entry only system for the Series 2016 Bonds is in effect, if fewer than all of the Series 2016 Bonds are called for redemption, the particular Series 2016 Bonds or portions of Series 2016 Bonds to be redeemed will be selected by DTC and its participants, in such manner as DTC and its participants in their discretion deem proper. If the book-entry only system for the Series 2016 Bonds is no longer in effect, selection for redemption of fewer than all of the Series 2016 Bonds of any one maturity will be made by the Bond Fund Trustee by lot as provided in the Resolution.

Purchase of Series 2016 Bonds

The Authority may direct the Bond Fund Trustee to purchase Series 2016 Bonds out of any moneys of the Authority available therefor, at prices not exceeding the redemption price at which Series 2016 Bonds may be redeemed at the next ensuing redemption date, plus accrued interest to the date of purchase. The amount of the Series 2016 Bonds required to be redeemed in any year from moneys credited to the Bond Retirement Account pursuant to the Resolution shall be reduced to the extent that such Series 2016 Bonds are purchased from moneys credited to said Bond Retirement Account.

REFUNDING PLAN

The Series 2016 Refunding Bonds are being issued in part to provide sufficient moneys to effect a refunding of the Refunded Bonds set forth in Appendix E hereto.

Simultaneously with the issuance of the Series 2016 Refunding Bonds, a portion of the proceeds from the sale of the Series 2016 Refunding Bonds will be used to purchase obligations of the type only as described in items (i) and (ii) and (iii) of the definition of Investment Securities (the “Federal Securities”), in an amount sufficient, together with the interest to accrue thereon, to pay the principal of, redemption premium, if any, and interest on the Refunded Bonds, as the same become due and payable. The Federal Securities will be deposited with The Bank of New York Mellon, New York, New York as Escrow Agent under a certain Escrow Agreement (the “Escrow Agreement”) with the Authority to be applied solely to the payment of the principal of, redemption premium, if any, and interest on the Refunded Bonds, as the same become due and payable. Upon the deposit of the Federal Securities in the Escrow Fund established by the Escrow Agreement, the Refunded Bonds will no longer be deemed to be outstanding and the obligations of the Authority under the Resolution and the liens, pledges, charges, trusts, covenants and agreements of the Authority made in the Resolution or provided for, shall be fully discharged and satisfied as to the Refunded Bonds. See APPENDIX E — Table of Refunded Bonds.

SOURCES AND USES OF FUNDS

The proceeds to be received from the sale of the Series 2016A Bonds are estimated to be applied as follows:

Sources of Funds	
Principal Amount of Series 2016A Bonds.....	\$84,280,000
Net Original Issue Premium	<u>2,175,888</u>
Total Sources.....	\$86,455,888
Use of Funds	
Retirement of the 2015B Notes.....	\$78,290,787
Deposit to Reserve Account, Series 2016A.....	7,041,240
Costs of Issuance ¹	<u>1,123,861</u>
Total Uses.....	\$86,455,888

The proceeds to be received from the sale of the Series 2016B Bonds are estimated to be applied as follows:

Sources of Funds	
Principal Amount of Series 2016B Bonds.....	\$40,000,000
Net Original Issue Premium	<u>(1,019,600)</u>
Total Sources.....	\$38,980,400
Use of Funds	
Deposit to Construction Fund, Series 2016B.....	\$35,477,790
Deposit to Reserve Account, Series 2016B.....	3,341,832
Costs of Issuance ¹	<u>160,778</u>
Total Uses.....	\$38,980,400

The proceeds to be received from the sale of the Series 2016 Refunding Bonds are estimated to be applied as follows:

Sources of Funds	
Principal Amount of Series 2016 Refunding Bonds	\$53,825,000
Release of Reserve Funds (Series 2009A and 2009 Ref.)	7,264,395
Release of Debt Service Funds (Series 2009A and 2009 Ref.)....	1,055,297
Net Original Issue Premium	<u>4,719,952</u>
Total Sources.....	\$66,864,644
Use of Funds	
Deposit to Escrow Fund.....	\$61,957,068
Deposit to Reserve Account, Series 2016 Refunding.....	4,496,853
Costs of Issuance ¹	<u>410,723</u>
Total Uses.....	\$66,864,644

¹Includes Underwriter's Discount and Contingency.

SECURITY FOR THE SERIES 2016 BONDS

The Series 2016 Bonds are authorized and will be issued in accordance with the Constitution and statutes of the State of New York (the "State"), and will constitute valid and legally binding obligations of the Authority.

The Series 2016 Bonds are payable on a parity with all other Outstanding Senior Lien Bonds heretofore and hereafter issued under the Resolution solely from Net Revenues of the Water System and other funds pledged therefor under the Resolution, subject to the provisions of the Resolution permitting the application of Net Revenues and other funds for the purposes and on the terms and conditions set forth in the Resolution.

The rights of the holders of the Series 2016 Bonds under the Constitution, the statutes, other applicable law and the Resolution and the enforceability of the Series 2016 Bonds under the same may be subject to judicial discretion, the exercise of the sovereign police powers of the State and the constitutional powers of the United States of America and to valid bankruptcy, insolvency, reorganization, moratorium and other laws affecting the relief of debtors.

The Bond Fund Trustee under the Resolution holds the monies and investments deposited in the Bond Fund and the Secondary Bond Fund for the benefit of the holders of the Bonds of the Authority.

Flow of Funds

The Authority has covenanted that it will pay or cause to be paid into the Water Revenue Fund, as promptly as practicable after receipt thereof, all of the Revenues and all other moneys required to be paid into the Water Revenue Fund pursuant to the Resolution. Moneys in the Water Revenue Fund shall be applied monthly in the following order of priority:

1. to the Operating Fund, the amounts required to pay Operation and Maintenance expenses;
2. to the Interest Account of the Bond Fund, not later than the 25th day of the sixth month prior to the date upon which an installment of interest is due and on or before the twenty-fifth (25th) day of each succeeding calendar month thereafter, an amount equal to one-sixth of the interest coming due on Senior Lien Bonds;
3. to the Principal Account of the Bond Fund, not later than the 25th day of the twelfth month prior to the date upon which an installment of principal is due and on or before the twenty-fifth (25th) day of each succeeding calendar month thereafter, an amount equal to one-twelfth of the principal coming due on Senior Lien Bonds;
4. to the Bond Retirement Account of the Bond Fund, not later than the 25th day of the twelfth month prior to the date upon which a Sinking Fund Installment is due and on or before the twenty-fifth (25th) day of each succeeding calendar month thereafter, an amount equal to one-twelfth of the Sinking Fund Installment coming due on Senior Lien Bonds;
5. to the Interest Account of the Secondary Bond Fund, not later than the 25th day of the sixth month prior to the date upon which an installment of interest is due and on or before the twenty-fifth (25th) day of each succeeding calendar month thereafter, an amount equal to one-sixth of the interest coming due on Subordinate Lien Bonds;

6. to the Principal Account of the Secondary Bond Fund, not later than the 25th day of the twelfth month prior to the date upon which an installment of principal is due and on or before the twenty-fifth (25th) day of each succeeding calendar month thereafter, an amount equal to one-twelfth of the principal coming due on Subordinate Lien Bonds;
7. to the Bond Retirement Account of the Secondary Bond Fund, not later than the 25th day of the twelfth month prior to the date upon which a Sinking Fund Installment is due and on or before the twenty-fifth (25th) day of each succeeding calendar month thereafter, an amount equal to one-twelfth of the Sinking Fund Installment coming due on Subordinate Lien Bonds;
8. to the Reserve Accounts of the Bond Fund and the Secondary Reserve Accounts of the Secondary Bond Fund, the amounts, if any, required so that the balances on deposit therein are equal to the Reserve Account Requirements applicable to each Series of Bonds; and
9. the balance remaining in the Water Revenue Fund at the end of each month, after making the transfers set for the above, shall be deposited in the General Fund to be used for any lawful purpose of the Authority.

Reserve Account

Under the General 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 Reserve Account Requirement for such Series of Bonds, if any, established in each resolution authorizing a Series of Bonds.

No Bonds other than the Series of Bonds for which such account has been created shall have any right to be paid from such Reserve Account. Therefore, the Series 2016 Bonds are not secured by or entitled to any reserve other than the Reserve Account established for each respective Series of Bonds and no other Series of Bonds shall be entitled thereto. No assurance can be given as to the amount of the reserve requirement, if any, established for any future Series of additional Bonds issued on parity with the Series 2016 Bonds.

The Supplemental Resolutions permit 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 (2) highest rating categories by Standard & Poor's Ratings Services or Moody's Investors Service in the Reserve Account for each respective Series of Bonds in order to satisfy the Reserve Account Requirement for the Bonds.

Reserve Account, Series 2016A. The Series 2016A Supplemental Resolution has established a Reserve Account Requirement for the Series 2016A Bonds (the "2016A Bonds Reserve Account Requirement"), as that amount which is the average of the annual installments of Debt Service with respect to all Series 2016A Bonds outstanding for the then current and all future Fiscal Years or if funded from the proceeds of the Series 2016A Bonds the lesser of: (i) 10% of the proceeds of the Series 2016A Bonds, (ii) the maximum Debt Service due on the Series 2016A Bonds in any Fiscal Year, (iii) 125% of the average of the annual installments of Debt Service with respect to all Series 2016A Bonds for the current and all future Fiscal Years, or (iv) the amount of proceeds that may be used to finance a reasonably required reserve or replacement fund under Section 148 of the Code. The monies in the Reserve Account for the Series 2016A Bonds (the "Reserve Account, Series 2016A") shall be used and applied solely for the purpose of paying the principal of and the interest on the Series 2016A Bonds, whether at their maturity or upon the redemption or purchase thereof, and shall be so used and applied

whenever there are insufficient monies on credit to the Interest Account, Principal Account, or Bond Retirement Account for such purposes.

Reserve Account, Series 2016B. The Series 2016B Supplemental Resolution has established a Reserve Account Requirement for the Series 2016B Bonds (the “2016B Bonds Reserve Account Requirement”), as that amount which is the average of the annual installments of Debt Service with respect to all Series 2016B Bonds outstanding for the then current and all future Fiscal Years or if funded from the proceeds of the Series 2016B Bonds the lesser of: (i) 10% of the proceeds of the Series 2016B Bonds, (ii) the maximum Debt Service due on the Series 2016B Bonds in any Fiscal Year, (iii) 125% of the average of the annual installments of Debt Service with respect to all Series 2016B Bonds for the current and all future Fiscal Years, or (iv) the amount of proceeds that may be used to finance a reasonably required reserve or replacement fund under Section 148 of the Code. The monies in the Reserve Account for the Series 2016B Bonds (the “Reserve Account, Series 2016B”) shall be used and applied solely for the purpose of paying the principal of and the interest on the Series 2016B Bonds, whether at their maturity or upon the redemption or purchase thereof, and shall be so used and applied whenever there are insufficient monies on credit to the Interest Account, Principal Account, or Bond Retirement Account for such purposes.

Reserve Account, Series 2016 Refunding. The Series 2016 Refunding Supplemental Resolution has established a Reserve Account Requirement for the Series 2016 Refunding Bonds (the “2016 Refunding Bonds Reserve Account Requirement”), as that amount which is the average of the annual installments of Debt Service with respect to all Series 2016 Refunding Bonds outstanding for the then current and all future Fiscal Years or if funded from the proceeds of the Series 2016 Refunding Bonds the lesser of: (i) 10% of the proceeds of the Series 2016 Refunding Bonds, (ii) the maximum Debt Service due on the Series 2016 Refunding Bonds in any Fiscal Year, (iii) 125% of the average of the annual installments of Debt Service with respect to all Series 2016 Refunding Bonds for the current and all future Fiscal Years, or (iv) the amount of proceeds that may be used to finance a reasonably required reserve or replacement fund under Section 148 of the Code. The monies in the Reserve Account for the Series 2016 Refunding Bonds (the “Reserve Account, Series 2016 Refunding”) shall be used and applied solely for the purpose of paying the principal of and the interest on the Series 2016 Refunding Bonds, whether at their maturity or upon the redemption or purchase thereof, and shall be so used and applied whenever there are insufficient monies on credit to the Interest Account, Principal Account, or Bond Retirement Account for such purposes.

Additional Bonds

The Authority may issue additional Bonds under the Resolution which may be Senior Lien Bonds on a parity with the Series 2016 Bonds, at any time and from time to time, for any corporate use or purpose relating to the Water System, including, without limitation, payment of all or a portion of the Cost of Acquisition and Construction, subject to the limitations set forth in the Resolution.

The Resolution provides that the Authority may not issue an additional Series of Bonds for the purpose of paying all or a portion of the Cost of Acquisition and Construction of the Water System unless, among other conditions precedent, there shall be filed with the Authority and the Bond Fund Trustee at the time of issuance of such Series of Bonds:

(1) a certificate signed by an Authorized Officer of the Authority showing that the average of the Net Revenues for any consecutive 24-month period out of the 36-months immediately preceding the month in which such Authorized Series of Bonds are to be issued were equal to not less than one hundred ten percent (110%) of the average annual Debt Service on all outstanding Bonds of the Authority (including the Series of Bonds then being issued) for the then current and all future Fiscal Years; or

(2) a certificate of the Consulting Engineer showing that the estimated Net Revenues together with other moneys lawfully available therefor as estimated by such Consulting Engineer as provided in the Resolution for each of the five Fiscal Years commencing with the Fiscal Year in which the Series of Bonds then being issued is delivered will be at least equal to 1.25 times the Debt Service for such Fiscal Year on all outstanding Bonds, including the Series of Bonds then being issued.

The Resolution provides that the Authority may issue any Series of Bonds issued for the purpose of refunding all or any portion of outstanding Authority Bonds without delivering the certificates described above to the Bond Fund Trustee.

The Authority will deliver to the Bond Fund Trustee the certificate referenced in clause (1) above upon the issuance and delivery of the Series 2016 Bonds to the purchasers thereof.

For a more extensive discussion of the terms and provisions of the Resolution, including the security for the Series 2016 Bonds, the funds and accounts established by the Resolution and the purposes to which moneys in such funds and accounts may be applied, see “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION” in Appendix A hereto.

State of New York and Political Subdivisions not Liable

Neither the members of the Authority nor any person executing the Series 2016 Bonds will be liable personally on such Series 2016 Bonds by reason of the issuance thereof. The Series 2016 Bonds will not be a debt of the State or of Suffolk County or any municipality or governmental entity (other than the Authority) therein, and neither the State nor Suffolk County nor any municipality or governmental entity (other than the Authority) therein will be liable thereon.

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AUTHORITY DEBT

The following table sets forth the Authority's outstanding Bonds as of May 31, 2016:

<u>Senior Lien Bonds*</u>	<u>Original Principal Amount</u>	<u>Principal Outstanding at May 31, 2016</u>
Water System Revenue Bonds, Series 2007A, dated December 20, 2007	\$ 45,000,000	\$ 1,380,000
Water System Revenue Bonds, Series 2009, (Refunding), dated November 16, 2009	13,415,000	10,595,000
Water System Revenue Bonds, Series 2009A, dated November 16, 2009	66,395,000	54,980,000
Water System Revenue Bonds, Series 2009B (Federally Taxable-Build America Bonds), dated November 16, 2009	100,000,000	100,000,000
Water System Revenue Bonds, Series 2010C (EFC Series), dated June 24, 2010	2,902,750	1,245,000
Water System Revenue Bonds, Series 2011 (Refunding), dated April 6, 2011	24,930,000	24,930,000
Water System Revenue Bonds, Series 2011A (EFC Series), dated March 15, 2011	7,384,173	3,587,975
Water System Revenue Bonds, Series 2011C (EFC Series), dated July 21, 2011	10,946,917	6,719,150
Water System Revenue Bonds, Series 2012 (Refunding), dated January 24, 2012	83,635,000	83,635,000
Water System Revenue Bonds, Series 2012B (EFC Series), dated June 21, 2012	4,523,189	3,022,054
Water System Revenue Bonds, Series 2012A, dated October 4, 2012	80,000,000	80,000,000
Water System Revenue Bonds, Series 2013, (Refunding), dated March 5, 2013	62,380,000	62,380,000
Water System Revenue Bonds, Series 2013B, (EFC Series), dated August 1, 2013	4,088,936	3,083,557
Water System Revenue Bonds, Series 2014B, (EFC Series), dated July 2, 2014	3,947,820	3,317,820
Water System Revenue Bonds, Series 2014A, dated October 23, 2014	65,000,000	65,000,000
Water System Revenue Bonds, Series 2014B, dated October 23, 2014	50,000,000	50,000,000
Water System Revenue Bonds, Series 2015D, (EFC Series), dated August 20, 2015	4,039,184	3,729,184
Water System Revenue Bonds, Series 2015A, dated November 17, 2015	49,105,000	49,105,000
Water System Revenue Bonds, Series 2015, (Refunding) dated November 17, 2015	116,660,000	<u>116,660,000</u>
Total Outstanding Senior Lien Bonds		<u>\$723,369,740</u>

*On or about November 15, 2016, from a portion of the proceeds of the Series 2016 Refunding Bonds, and other sources, the Authority expects to defease, to their earliest call date, the Water System Revenue Bonds, Series 2009A maturing June 1, 2020 through 2035, inclusive and Water System Revenue Bonds Series 2009 Refunding maturing June 1, 2020 through 2022, inclusive; See APPENDIX E — Table of Refunded Bonds. Further, the Authority has adopted a Supplemental Resolution authorizing the defeasance of Outstanding Water

System Revenue Bonds, not to exceed \$60,000,000, pursuant to which Supplemental Resolution the Authority defeased to their maturity or to their earliest call date, whichever is to occur sooner, on October 7, 2016, from the Authority's Revenues and other sources, the Water System Revenue Bonds, Series 2007A maturing June 1, 2017, the Water System Revenue Bonds, Series 2009A maturing June 1, 2017 through 2019, inclusive, the Water System Revenue Bonds Series 2009 Refunding maturing June 1, 2017 through 2019, inclusive, the Water System Revenue Bonds Series 2012 Refunding maturing June 1, 2019 through 2021, inclusive, \$1,000,000 in aggregate principal amount of the Outstanding Water System Revenue Bonds Series 2012 Refunding maturing June 1, 2022, the Water System Revenue Bonds Series 2014A maturing June 1, 2019 through 2022, inclusive and the Water System Revenue Bonds Series 2015 Refunding maturing June 1, 2019, 2021 and 2022.

The Authority has issued from time to time Bond Anticipation Notes to finance improvements and additions to the Water System. These notes are redeemed from the proceeds of the Bonds in anticipation of which they are issued and or from any available monies in the General Fund. As of May 31, 2016, the Authority had the following bond anticipation notes outstanding:

<u>Bond Anticipation Notes</u>	<u>Original Principal Amount</u>	<u>Principal Outstanding May 31, 2016</u>
Bond Anticipation Notes, 2015B, dated November 17, 2015, maturing November 1, 2017. *	\$75,000,000	\$75,000,000
E.F.C Drinking Water Facility Note, 2015A (Bond Anticipation Note), dated July 30 , 2015, maturing July 30, 2020**	\$16,538,558	<u>\$16,538,558</u>
Total outstanding Bond Anticipation Notes		<u>\$91,538,558</u>

*To be retired with a portion of the proceeds of the Series 2016A Bonds on or about November 15, 2016.

**On July 30, 2015, in connection with the Authority's participation in the New York State Environmental Facilities Corporation Storm Mitigation Loan Program, the Authority issued its \$16,538,558.00 E.F.C. Drinking Water Facility Note – 2015A (Bond Anticipation Note). To date, no advance has been made to the Authority under the E.F.C. Drinking Water Facility Note – 2015A (Bond Anticipation Note), however, the Authority expects to make draws on the full maximum advance amount of \$16,538,558.

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DEBT SERVICE REQUIREMENTS

The following schedule sets forth the principal and interest requirements for the Authority's Bonds for each Fiscal Year ending May 31*:

<u>Date</u>	Plus: Series 2016A and B and Series 2016 Refunding		Less:	Pro Forma <u>Debt Service***</u>
	<u>Senior Debt Service**</u>	<u>Debt Service</u>	<u>Defeased Bonds Debt Service***</u>	
2017	\$33,936,930	\$ 3,433,001	\$ 6,835,663	\$30,534,269
2018	34,138,589	6,660,713	8,938,063	31,861,239
2019	39,545,263	6,775,213	12,847,675	33,472,800
2020	41,171,298	6,768,713	15,064,963	32,875,048
2021	44,416,323	7,644,713	16,845,913	35,215,123
2022	42,119,298	7,632,463	17,604,463	32,147,298
2023	46,031,771	7,616,963	13,768,013	39,880,721
2024	44,256,079	7,944,963	3,705,813	48,495,229
2025	45,385,662	7,899,963	3,696,013	49,589,612
2026	47,284,658	7,856,713	3,693,138	51,448,233
2027	47,148,956	7,876,713	3,687,138	51,338,531
2028	50,128,381	7,932,713	3,720,763	54,340,331
2029	50,283,194	7,910,313	3,672,475	54,521,031
2030	50,117,094	7,903,913	3,654,875	54,366,131
2031	49,924,894	7,879,113	3,628,675	54,175,331
2032	49,866,869	7,777,363	3,527,250	54,116,981
2033	52,318,344	7,666,513	3,420,825	56,564,031
2034	52,646,073	12,290,163	7,932,363	57,003,873
2035	52,564,843	12,282,063	7,899,450	56,947,455
2036	52,489,069	12,267,213	7,880,000	56,876,281
2037	41,924,206	4,272,213	-	46,196,419
2038	42,078,656	16,360,963	-	58,439,619
2039	41,994,000	16,317,563	-	58,311,563
2040	41,900,000	16,435,363	-	58,335,363
2041	41,760,000	16,556,663	-	58,316,663
2042	-	16,662,288	-	16,662,288
2043	-	55,455,000	-	55,455,000
Totals†	<u>\$1,135,430,450</u>	<u>\$304,079,539</u>	<u>\$152,023,525</u>	<u>\$1,287,486,464</u>

* Debt Service amounts reflect the principal payment due on June 1 of each Fiscal Year, plus interest payments due on December 1 of such Fiscal Year and June 1 of the next succeeding Fiscal Year.

** Senior Debt Service is net of interest subsidy received on the Authority's \$100,000,000 Water System Revenue Bonds, Series 2009B (Federally Taxable – Build America Bonds). The interest subsidy paid by the Federal Government, is currently reflecting at the reduced rate of 6.8% as imposed by the Budget Control Act of 2011, also known as sequestration.

*** Reflects (i) expected defeasance on or about November 2, 2016, from the Authority's Revenues, to their maturity, the Water System Revenue Bonds, Series 20014A maturing June 1, 2018 and the Water System Revenue Bonds Series 2015 Refunding maturing June 1, 2018, (ii) expected defeasance on or about November 15, 2016, from a portion of the proceeds of the Series 2016 Refunding Bonds, and other sources, the Authority, to their earliest call date, the Water System Revenue Bonds, Series 2009A maturing June 1, 2020 through 2035, inclusive and Water System Revenue Bonds Series 2009 Refunding maturing June 1, 2020 through 2022, inclusive, See APPENDIX E — Table of Refunded Bonds; and (iii) defeasance on October 7, 2016, from the Authority's Revenues and other sources, to their maturity or to their earliest call date, whichever is to occur sooner, the Water System Revenue Bonds, Series 2007A maturing June 1, 2017, the Water System Revenue Bonds, Series 2009A maturing June 1, 2017 through 2019, inclusive, the Water System Revenue Bonds Series 2009 Refunding maturing June 1, 2017 through 2019, inclusive, the Water System Revenue Bonds Series 2012 Refunding maturing June 1, 2019 through 2021, inclusive, \$1,000,000 in aggregate principal amount of the Outstanding Water System Revenue Bonds Series 2012 Refunding maturing June 1, 2022, the Water System Revenue Bonds Series 2014A maturing June 1, 2019 through 2022, inclusive and the Water System Revenue Bonds Series 2015 Refunding maturing June 1, 2019, 2021 and 2022.

† Totals may not add due to rounding.

THE AUTHORITY

Certain Powers

The Authority has the power, under the Act, to fix, alter, charge and collect rates and other charges for the use of water by the inhabitants of Suffolk County or other consumers thereof, at reasonable rates to be determined by the Authority for the purpose of providing for the payment of the expenses of the Authority, the construction, improvement, repair, maintenance and operation of the Water System, the payment of the principal and interest on the obligations of the Authority and to fulfill the terms and provisions of any agreements made with the purchasers or holders of any such obligations.

No governmental board, agency, corporation or officer of the State has jurisdiction of, or control over, or is required to approve any water rates or charges for services or facilities of the Authority except the Authority itself. The Act expressly declares that neither the PSC nor any other board or commission of like character will have jurisdiction over the Authority in the management and control of its properties or operations or any power over the regulation of rates fixed or charges collected by the Authority.

The drilling of wells and acquisition otherwise of water are subject to the jurisdiction of the Department of Environmental Conservation of the State (the "Department"). The powers of the Department in this respect are part of its statewide powers, extending to all internal waters within the State, which have been exercised by the Department and its predecessors for many years. The Act does not alter or abridge the powers and duties, present or future, of the Department, the State Department of Health or the State over water supply or distribution.

The Authority is empowered within its geographical area to acquire by purchase or condemnation, construct, develop, hold, maintain and dispose of, in its name, real property (or rights or easements therein) and personal property necessary for its corporate purposes. The Authority may not, however, condemn property the legal title to which is vested in a municipal corporation without the consent of such municipality; sell water in any area which is served by a water system owned or operated by a municipality unless the governing board of such municipality requests the Authority to sell water in such area; purchase all of the stock of any existing privately owned water corporation or company without the approval of the PSC; or acquire by purchase or condemnation any existing water supply and distribution system without the approval of the Suffolk County Legislature and, in the case of a system owned by a municipality may not so acquire, unless the governing board thereof requests the Authority to make such acquisition.

Members

Under the Act, the five members of the Authority, who must be residents of Suffolk County, 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 present members of the Authority and the dates of expiration of their terms as members are as follows:

JAMES F. GAUGHRAN, Chairman, term as member expires in March 2018. Mr. Gaughran is an attorney in private practice, having begun his practice in 1984. He is admitted to practice in the New York State and U.S. Eastern District of NY Courts. He has held a number of public sector appointments over the years including service as counsel to the Huntington Community Development Agency, Village of Northport, Town of Babylon and staff service to Congressman Gary Ackerman and the New York State Senate. From 1984-1987 he was an elected member of the Huntington Town Board, which included service as a Commissioner of the Dix Hills Water District. From 1988-1993 he was an

elected member of the Suffolk County Legislature, representing the 17th District, during which time the Legislature aggressively supported and funded the Suffolk County Drinking Water Protection Program. Mr. Gaughran received a Bachelor of Arts degree in Political Science from Stony Brook University and a Juris Doctor degree from Hofstra University School of Law.

PATRICK G. HALPIN, Secretary, term as member expires on March 2021. Mr. Halpin currently serves as Managing Director in the New York office of Mercury Public Affairs. Mr. Halpin served for nearly two decades as Executive Vice President for External Affairs for the Institute for Student Achievement, beginning in 1994. Mr. Halpin also had an extensive career in local and state politics, which began in 1979 when he was elected to the Suffolk County Legislature. In 1982 he was elected to the New York State Assembly and served three terms in that office. In 1987, Mr. Halpin was elected to the office of Suffolk County Executive. He served as County Executive from 1988 through 1991, managing a budget of more than \$1.4 billion and supervising more than 12,000 employees. During his tenure, Mr. Halpin instituted a comprehensive anti-domestic violence program, a nationally recognized open space and environmental protection program and an extensive affordable housing initiative. He also persuaded Computer Associates International Inc. to establish its worldwide headquarters in Suffolk, creating more than 10,000 jobs. Mr. Halpin, the host of Cablevision's Meet the Leaders television program, serves as a director with the Long Island Housing Partnership, Vision Long Island and the advisory board of the Long Island Index. Mr. Halpin received a Bachelor of Arts degree in Political Science and Economics from Old Dominion University. He is a member of the Long Island Hall of Fame.

JANE R. DEVINE, term as member expires June 2017. Ms. Devine has held a variety of positions in public service both on the town and county level. Most recently, she has served on the Town of Huntington Planning Board and from 1988-1991, she served as commissioner of Consumer Affairs for Suffolk County. From 1978-1987 she represented the former 17th Legislative District as an elected Suffolk County Legislator and, for a portion of that tenure, was the first female leader of the minority caucus. Ms. Devine's professional career spans a wide range of posts dedicated to education and protection of consumers, including Director of Consumer Education and a member of the Consumer Protection Board for the Town of Huntington, and consultant to the New York State Consumer Protection Board. She was a founding partner of a small public relations company and served for a time as pastoral consultant to a Long Island AIDS-care organization. In addition to graduate work at the Fordham University School of Law, studies in sociology and a Certificate in Clinical Pastoral Education from the Nassau County Medical Center, Ms. Devine holds a Bachelor of Arts degree from the College of New Rochelle and a Master of Arts degree from the C.W. Post - Long Island University, College of Management.

ERROL D. TOULON, Jr. Ed.D., term as member expires May 2020. Dr. Toulon is a Lake Grove resident, and currently serves as Deputy Commissioner of Operations at the New York City Correction Department. Previously, he served as Assistant Deputy County Executive for Public Safety for Suffolk County. He is a retired New York City Correction Captain. During his twenty-two year career with the New York City Department of Correction, Dr. Toulon was assigned as a captain to the Emergency Service Unit and the Firearms & Tactics Unit. During the final year of his law enforcement career, Dr. Toulon was assigned to an independent unit that reported directly to a federal court judge monitoring environmental issues in the city's jails. Dr. Toulon is certified through the Department of Homeland Security in Emergency Planning, Radiological Emergency Management, Incident Response to Terrorist Bombing, WMD Threat and Risk Assessment and State Disaster Management. In addition, Dr. Toulon is certified to teach Weapons of Mass Destruction Awareness, NIMS, and Domestic Terrorism and Hate Crimes. Dr. Toulon received his Master's degree in Business Administration from Dowling College, and Advanced Certificate in Homeland Security Management from Long Island University and recently completed his Doctorate in Educational Administration.

MARIO R. MATTERA, term as member expires in March 2019. Mr. Mattera is a St. James resident and currently serves as business agent for Plumbers Local Union #200 of Ronkonkoma. In that capacity, Mr. Mattera serves as trustee for union funds and is responsible for the management of \$150 million in pension funds, welfare and annuity. He provides management and supervision over more than 1,100 members, 80 signatory contractors and 100 general contractors. Mr. Mattera also served as the union's Executive Board Officer from 1999-2003; Examining Board Officer from 1996-1998; Sentry Officer from 1994-1996; and General Foreman from 1994-2003. Mr. Mattera also has numerous business affiliations. He has served on the Suffolk County Workforce Housing Committee since 2008; the Suffolk County Consumer Affairs Plumbing Licensing and Fire Protection Board since 2009, the Riverhead Empire Zone since 2010; the Apprenticeship Board since 2003; and Helmets to Hardhats for returning veterans since 2007. Additionally, Mr. Mattera was named 2012 Labor Leader of the Year for PBA Columbia and volunteers for the Hallockville Museum Farm in Riverhead and the Long Island Partnership for Hurricane Sandy Relief Program for Boilers and Water Heaters.

The powers of the Authority are vested in and exercised by a majority of the members then in office and may be delegated to one or more members, agents or employees. The members of the Authority receive compensation for their services as fixed by the Suffolk County Legislature, and are also reimbursed for all necessary expenses incurred in connection with their duties.

Executive Staff

The executive staff of the Authority consists of a Chief Executive Officer, a Chief Financial Officer, a Deputy Chief Executive Officer for Customer Service, and a Deputy Chief Executive Officer for Operations, General Counsel, Chief Human Resources Officer, Chief Technology Officer Director of Strategic Initiatives and Lead Hydrogeologist and a Director of Water Quality and Laboratory Services.

JEFFREY W. SZABO, Chief Executive Officer. Mr. Szabo was named Suffolk County Water Authority CEO in May 2010. Since that time, he has led an effort to reposition the organization to meet future challenges by creating a water authority that is more accountable to its customers, more efficient, more environmentally conscious and more transparent. Among his notable achievements to date are the development of the Authority's first long-term strategic business plan, which identifies ten key objectives to transform Authority operations over the course of the next decade, and the creation of the Long Island Commission for Aquifer Protection, the first bi-county effort to identify threats to our aquifer system and share information pertaining to the preservation of Long Island's groundwater resources. Mr. Szabo has also conducted a comprehensive review of overtime practices that resulted in substantial savings, incorporated vehicles into the fleet that use renewable fuels such as compressed natural gas and reduced the Authority's workforce through the creation of hybrid positions and a detailed analysis of current staffing needs. Prior to joining the Authority, Mr. Szabo served as Deputy County Executive and Chief of Staff for Suffolk County, New York. Mr. Szabo played a significant role in the management of more than 11,000 employees and a \$2.5 billion annual operating budget with direct oversight of fifteen departments. He is credited with implementing many of the administration's successful reform measures. As a Deputy County Executive, Mr. Szabo oversaw the departments of Public Works, Police, Parks, Probation, Civil Service, Fire, Rescue and Emergency Services, Information Technology, Labor, Women Services, Handicapped Services, Youth, Aging, Veterans, Consumer Affairs and Minority Affairs. Mr. Szabo also oversaw personnel and human resources for the County Executive's Office. Mr. Szabo holds a Bachelor of Arts degree from Long Island University.

DOUGLAS J. CELIBERTI, CFP, CGFM, Chief Financial Officer. Mr. Celiberti was appointed Chief Financial Officer of the Suffolk County Water Authority in March, 2015. Mr. Celiberti has been employed by SCWA since 2007, during which time he has served as Budget Manager and Director of Accounting. Prior to working for SCWA, he served for more than 20 years in the Town of Islip as Internal Auditor, Deputy Comptroller and Comptroller/Director of Finance. Mr. Celiberti is a

graduate of Dowling College with a Bachelor in Business Administration in Accounting. As Certified Financial Planner and Certified Government Financial Manager, Mr. Celiberti is a member of the Association of Government Accountants and New York State Government Finance Officers Association, where he has served as Long Island Council Chairman and Board Trustee. He currently serves on the NYS GFOA Legislative Committee.

JANICE E. TINSLEY, Esq., Deputy Chief Executive Officer for Customer Service. Ms. Tinsley was appointed by the Authority in April 2008 as Deputy Chief Executive Officer for Customer Service. She is responsible for all facets of the Customer Service Division, which include Metering, Field Service, Workforce Technology and Call Center Operations. For eight years, Ms. Tinsley served as Town Clerk for the Town of Babylon. Additionally, she served as Special Assistant to the Babylon Town Supervisor concentrating on constituent services. Prior to that, she served as Special Assistant to the Babylon Town Supervisor, concentrating on constituent services. Before entering public service, Ms. Tinsley was employed in various positions with Northwest Airlines for over 18 years. Ms. Tinsley received her Bachelor of Arts degree in Political Science from Lycoming College and her Juris Doctor in 1992 from Brooklyn Law School. Ms. Tinsley is admitted to practice law in the State of New York.

JOSEPH M. POKORNY, P.E., Mr. Pokorny was appointed Deputy Chief Executive Officer for Operations, effective September 2013. He has been employed by the Suffolk County Water Authority since 1995. His employment began in the Production Control Department overseeing maintenance operations on all the Authority's water production and storage facilities. In 1997, Mr. Pokorny was promoted to Chief Engineer responsible for the budgeting, planning, design and construction of all of the Authority's production, storage and treatment facilities. He then served as Acting Director of Distribution in the Construction and Maintenance Department where he oversaw the installation of all pipeline construction, rehabilitation and repair work associated with the Authority's 5,900 mile distribution system. Prior to working for the Authority, Mr. Pokorny worked for eight years for the Long Island Lighting Company in its Electrical Engineering Department, where he worked on a variety of projects from fossil and nuclear power plants to small wastewater treatment plants. He also worked for five years as Engineering Manager for two systems integration companies designing various automation systems for water, wastewater and transportation systems throughout the Northeast United States. Mr. Pokorny has served as the Chairman of the Long Island Water Conference and has previously served as an Executive Board Member for that same organization. He is also a member of the AWWA Water Utility Council. Mr. Pokorny earned a Bachelor of Science degree in Electrical Engineering from Manhattan College, a Masters in Business Administration from St. John's University and is a licensed professional engineer in the State of New York.

TIMOTHY J. HOPKINS, Esq., General Counsel. Mr. Hopkins joined the Authority in 1992. He is responsible for managing the Authority's Legal Department and outside counsel, and conducts litigation for the Authority. Prior to joining the Authority Mr. Hopkins was an associate of Farrell Fritz of Uniondale, New York where he was a member of the municipal litigation department. While attending law school, Mr. Hopkins was employed by the New York State Attorney General's Office. Mr. Hopkins received his Juris Doctor in 1992 from Touro College Jacob D. Fuchsberg Law Center and his Bachelor of Science degree in Industrial Economics in 1986 from Union College. Mr. Hopkins is admitted to practice in the State of New York, the Eastern and Northern Districts of New York of the United States District Court and the United States Court of Appeals for the Second Circuit. Mr. Hopkins has played important roles in issues ranging from the creation of transferable development rights programs to Federal multidistrict MTBE contamination litigation.

DONNA MANCUSO, Chief Human Resources Officer. Ms. Mancuso has been with the Authority since 1985. She began her career as a customer service clerk in the Babylon Office and then transferred to a position in the Engineering Department. In 1995, she was selected by the Members of the Board to hold the position of Secretary to the Board. Ms. Mancuso implemented and is responsible for the Authority's successful educational outreach program. She was appointed Director of Administration

in December 2010, overseeing Human Resources, Information Technology and General Services. In April 2016, Ms. Mancuso was promoted to Chief Human Resources Officer, focusing on the long term goals and ambitions of Authority employees through the Authority's own Employee Development Program. She holds a Bachelor of Arts degree in Music from California Lutheran University, has completed graduate studies toward a Master of Science degree in Education, and is currently working toward an MBA in Public Management at Dowling College.

MICHAEL A. LITKA – Chief Technology Officer. Mr. Litka has been employed by the Suffolk County Water Authority since 1989, where he began his service as a programmer in the Laboratory. He was appointed Deputy Director of Information Services in 1998 and Director of Information Technology in 2002. In 2016, he was appointed Chief Technology Officer, where he provides direction and support for Information Technology solutions that enhance mission-critical business operations and strategic goals for the Authority. He also oversees, directs, coordinates and organizes all operational information technology activities for the Information Technology department. Mr. Litka received his Bachelor of Business Administration degree in 1984 from Hofstra University.

TYRAND FULLER, C.P.G. – Director of Strategic Initiatives and Lead Hydrogeologist. Mr. Fuller has been with the Suffolk County Water Authority since 2000, when he began his career as an Assistant Hydrogeologist. During that time he gained experience in environmental project management, research and analysis, with specialization in public supply water well construction and groundwater monitoring. In addition to creating a State certified educational lecture series for SCWA field operators and office personnel, he participated in educational workshops for civic groups and high school science classes. Most recently he led the efforts to create WaterTraq for the Long Island Commission for Aquifer Protection. This historic achievement provides, for the first time, water quality data of both treated and untreated water to be accessible to regulators and residents for all of Nassau and Suffolk County's public supply wells. In his current role, as Director of the Office of Strategic Initiatives, Mr. Fuller reports directly to the CEO on matters related to implementing the Authority's Ten Year Strategic Business Plan – 2025, further develop and implement the Authority's water conservation initiative by using time of use data and peak system demand information to reduce capital expenditure of particular sections of the service territory, participate as a project manager for implementation of the mobile workforce initiative, and coordinate the activities of the GIS division as it relates to data gathering and water use. He holds a Bachelor of Science degree in Environmental Resources from Hofstra University and a Master of Science degree in Hydrogeology from Stony Brook University. Mr. Fuller is a Certified Professional Geologist with the American Institute of Professional Geologists (AIPG).

KEVIN P. DURK, Director of Water Quality & Laboratory Services. Mr. Durk has been employed by the Suffolk County Water Authority since 1990 when he began work as a chemist. He has held the titles of Section Leader and Inorganic Laboratory Manager and in 2003 was promoted to Laboratory Manager. In 2014, he was appointed Director of Water Quality and Laboratory Services. Mr. Durk has a B.S. in Engineering Chemistry from Stony Brook University. He is licensed through the New York State Department of Health Environmental Laboratory Approval Program. This national certification allows SCWA's in-house laboratory to perform chemical and bacteriological testing. He oversees the water quality of nearly 600 wells. With his staff of 48 water quality professionals, Mr. Durk works with the U.S. Environmental Protection Agency, the State Department of Health and Suffolk County Department of Health Services to ensure that drinking water quality and the source water monitoring program meet the highest standards. His working relationship with the Environmental Protection Agency has resulted in the SCWA participating in multiple method validation studies and performing peer review of methods prior to them being published. This had led to SCWA being acknowledged in published EPA methodology. Mr. Durk is a member of the American Water Works Association's Water Quality Laboratory Committee.

Authority Advisors

Bond Counsel to the Authority is Harris Beach PLLC, New York, New York.

Tank Consultants - Dvirka and Bartilucci, Woodbury, New York.

Labor Counsel - Putney, Twombly, Hall, & Hirson, LLP, New York, New York.

Consulting Ground-Water Geologist for the Authority - Leggette, Brashears & Graham of Wilton, Connecticut.

Bond Fund Trustee under the Resolution is The Bank of New York Mellon, New York, New York.

Financial Consultant to the Authority for long-term bond issues is Goldman, Sachs & Co., New York, New York

Communication Consultants - Zimmerman\Edelson, Inc., Great Neck, New York.

Consulting Engineer - H2M architects and engineers, Melville, New York

CAPITAL IMPROVEMENT PLAN

Although the Authority's Board does not adopt a 5-year capital improvement plan, management annually prepares a 5-year forecast of its projected capital improvement requirements. The Authority formulates this forecast primarily based on information provided by its Construction-Maintenance, Engineering, and Production Control Departments. The Authority's Laboratory, Information Technology, General Services and Customer Service Departments as well as other administrative departments provide supplemental information. The Authority anticipates financing the cost of these capital expenditures with a combination of revenues, notes, and bonds issued for such purposes.

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The following is management’s forecast of capital expenditures which average \$73.2 million for the next five Fiscal Years:

Forecasted Capital Costs

	Fiscal Years Ending May 31,				
	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Water Main Installations	\$25,950,000	\$27,200,000	\$29,450,000	\$31,200,000	\$31,824,000
Meters, Services, and Hydrants	18,679,000	15,390,000	12,120,000	12,120,000	12,362,000
Treatment and Remediation	4,270,000	4,270,000	5,375,000	4,365,000	4,452,000
Plant Facilities	17,100,000	20,810,000	21,175,000	21,770,000	22,205,000
Miscellaneous / Equipment /Facilities	<u>5,378,000</u>	<u>4,488,000</u>	<u>4,893,000</u>	<u>4,518,000</u>	<u>4,608,000</u>
	<u>\$71,377,000</u>	<u>\$72,158,000</u>	<u>\$73,013,000</u>	<u>\$73,973,000</u>	<u>\$75,451,000</u>

Management annually prepares a capital budget for the current Fiscal Year. This budget is based on its 5-year forecasted capital costs and incorporates the latest available information and needs of the Construction-Maintenance, Engineering, and Production Control Departments. The 12-month capital budget is then submitted to the Authority’s Board in March for its approval.

For the twelve months ending May 31, 2017 (the “2017 Fiscal Year”) the Authority has approved, adopted and amended a capital budget totaling \$ 73,560,000 (the “2017 Capital Budget”).

The construction and improvements funded by these expenditures will enable the Authority to maintain its high standards of water quality and purity, fulfill its legal requirements, and apply state-of-the-art technology, all in the most cost effective manner possible. The Authority anticipates financing the costs of these capital expenditures with the proceeds of notes and bonds issued for such purposes as well as net revenues from operations.

Any component of the capital improvement plan subject to review pursuant to the New York State Environmental Quality Review Act (“SEQRA”) will be reviewed in accordance with SEQRA and its implementing regulations prior to adoption of any decisions, orders or resolutions committing the Authority to undertake any such improvement.

Water Main Installations

There are four components to the Authority’s water main installation program: (1) the installation of new water mains to serve communities that were previously served by private wells, (2) the replacement of existing water mains, (3) the installation of new water mains paid by developers, and (4) improvements to the distribution system to provide better service within existing service areas.

With respect to the first component, the possibility of private well contamination, the security of having water that is constantly tested, and the safety offered by the presence of public fire hydrants are issues that drive the demand for public water. The amount of \$7.7 million has been provided for in the 2017 Capital Budget.

The second component of the program relates to the replacement of existing water mains. Incorporated in the 2017 Capital Budget is a long-term program of pipeline replacement to improve pressure and volume distribution, fire protection and reduce main breaks. The selection of water mains targeted for replacement is based on repair history and the age of the water main. While most of the Authority’s distribution system is relatively young, there are several areas where the water mains are

neering the end of their useful lives and must be replaced. Water mains typically have an average life of 75 - 100 years or more. Additionally, when a particular section of water main has required excessive amounts of repair, it is included in the replacement program. The Authority's commitment to replacement of this critical infrastructure is supported by its inclusion of \$10.3 million in the 2017 Capital Budget for this purpose.

The third component of the program relates to the installation of new water mains paid by developers and the amount included in the 2017 Capital Budget for this component is \$3.5 million.

The fourth component of the program relates to improvements to the distribution system in order to provide enhanced service within existing service areas, such as the replacement of existing water mains with larger mains to provide increased water flow. The amount included in the 2017 Capital Budget for this component is \$5.3 million.

The Authority has aggressively met the demand for public water in areas previously served by private wells to the point where there are only a few locations in Suffolk County that do not have access to public mains. As a result, the Authority anticipates that over the coming years, as more water mains reach the end of their useful lives, the water main installation program will focus more on water main replacement and less on the installation of new water mains.

Fifteen (15) miles of new and replaced water mains were installed in the 2016 Fiscal Year. The Budget for the 2017 Fiscal Year includes \$21.5 million dollars for the installation of approximately thirty one (31) miles of new and replaced water mains.

Meters, Services, and Hydrants

The Authority has projected approximately 382 new customers and approximately 37 new hydrants for the 2017 Fiscal Year. To avoid disruption of roadways and reduce the costs of connecting future customers to new pipes being installed underground, the Authority is providing easy connections to the water supply ("stub services") where existing homes are not immediately connecting to the water supply system but are expected to in the future. For the 2017 Fiscal Year, the Authority's budget includes an aggregate amount of \$7.8 million for these services.

The Authority has implemented a program to replace its meters with Automated Meter Reading ("AMR") devices. This will allow for timely and accurate meter readings without the inhibitions from weather, or the need for Authority personnel to enter a residence or leave their vehicle. By having access to timely accurate meter readings, the Authority will be able to evaluate its current rate structure and utilize the system features AMR provides in establishing future rate structures. Beginning in fiscal year May 31, 2014, the Authority reallocated its' employee resources to increase the amount of meter replacements resulting in the expectation of the Authority completing the program in nine rather than ten year period. For the 2017 Fiscal Year, the eighth year of the AMR project, the Authority budgeted \$6.6 million.

Normal replacement and upgrades of its residential customers will continue to be reflected in the Authority's annual capital improvement budget in future years. For the 2017 Fiscal Year, the Authority has budgeted \$4.1 million for new and replacement residential meters.

Treatment Facilities

Water quality regulations are promulgated by the United States Environmental Protection Agency ("EPA") and the New York State Department of Health. In addition, in some instances the Authority has adopted its own water quality standards that are more stringent than those imposed by the regulations of the New York State Department of Health. In order to provide water that meets these regulations and the Authority's internal standards, the Authority from time to time, has to treat water to

remove volatile organic chemicals, pesticides, herbicides and other contaminants through the utilization of filtration systems, such as granular activated carbon or ion exchange. It is anticipated that water treatment will be ongoing since contamination, inevitably, will be detected for the first time each year in a few wells and new contaminants may be added and/or the level of the standard requiring remediation may be changed in the regulations of the United States Environmental Protection Agency (“EPA”) and/or the New York State Department of Health. The Authority also utilizes filtration systems to remove excess iron primarily for aesthetic reasons (the presence of iron in drinking water poses no known health hazard). Currently, the Authority has over 145 filtration systems in operation. For the 2017 Fiscal Year, the Authority has adopted a budget of \$3.8 million for treatment facilities.

Additional Plant Facilities – Storage, New Wells, Replacement Wells, Tanks

The Water System operates 46 separate and distinct pressure distribution zones. The wells have a capacity to pump in excess of 870 million gallons of water per day. (For a more detailed description of the Water System, see the subsection entitled “Physical Plant” below.) On July 6, 2010, the Authority set its peak single day pumpage record of 538,033,000 gallons. In July 2010, the Authority set its peak monthly pumpage record of 12,760,000,000 gallons. During these peak events, the Water System provided all the water needed by its customers and still had appropriate reserves for firefighting needs. The Authority’s engineering staff believes the demand for water will increase, both from existing customers and through expansion of the Water System. In order to meet this demand, the Authority has budgeted for new well construction and replacement of wells that are reaching the end of their useful lives. The Authority budgeted \$15.7 million for the 2017 Fiscal Year of which new and replacement wells totaled \$7.5 million in Fiscal Year 2017.

Operation Facilities

To operate the Water System, the Authority must continually add or replace certain support equipment in the information technology, transportation, facilities, and clerical areas. This includes the upgrading of computer equipment, vehicles, field and office equipment, and the undertaking of various site improvements. For the 2017 Capital Budget, the Authority has budgeted \$8.8 million.

2017 Capital Budget

On March 28, 2016, the Board of the Authority authorized and approved a capital budget totaling \$69,771,000, which was subsequently amended to \$73,560,000 for the 2017 fiscal year. As in the past, the Authority anticipates financing the costs of these capital expenditures with the proceeds of notes and bonds issued for such purposes as well as net revenues from operations.

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The following is a comparison of the authorized amended capital improvement budget for the 2017 Fiscal Year compared to the final amended capital improvement budget for the fiscal year ended May 31, 2016 (the “2016 Fiscal Year”).

	<u>2017 Fiscal Year</u>	<u>2016 Fiscal Year</u>
Water Main Installations	\$26,768,000	\$27,170,000
Meters, Services and Hydrants	18,518,000	16,793,000
Plant Facilities	15,698,000	14,807,000
Treatment and Remediation	3,740,000	3,833,000
Misc / Equipment / Facilities	<u>8,836,000</u>	<u>6,140,000</u>
TOTAL	<u>\$73,560,000</u>	<u>\$68,743,000</u>

SERVICE AREAS, PLANT FACILITIES AND WATER SUPPLY

The Authority currently serves approximately 85% of the total population of Suffolk County. The remaining population is served by other municipal water districts (12%) or private wells (3%). The population served by the Water System is estimated by the Authority to be approximately 1.2 million. The Authority projects an annual growth rate of approximately one-tenth percent over the next several years.

The Water System serves, at retail, areas in the Towns of Babylon, Brookhaven, East Hampton, Huntington, Islip, Smithtown, Southampton, and Southold, including numerous villages and unincorporated communities. Wholesale service is provided to two water districts and the incorporated Village of Greenport.

Customer Count

The Authority supplies water to its customers in one of the three following ways: (i) direct service to retail customers through facilities owned and operated by the Authority, (ii) direct service to retail customers through facilities that are lease-managed by the Authority, and (iii) wholesale service to other water distribution systems.

The percentage of total sales (based on total number of customers) to each of the aforementioned customers are as follows:

Facilities owned and operated by the Authority	94.4%
Facilities lease-managed by the Authority	3.0%
Wholesale service to other systems	2.6%

As of May 31, 2016, 392,550 customers including wholesale were served by the Authority, compared to 391,391 at May 31, 2015, an increase of 1,159 customers. The following table details the number of customers, by region, served directly by the Authority, customers served through operating agreements and customers served through wholesale service as well as their respective percentage growth over the two most recent Fiscal Years.

<u>Customers served</u>	<u>Fiscal Year Ended May 31,</u>		
<u>Region</u>	<u>2016</u>	<u>2015</u>	<u>% Growth</u>
Western	171,953	171,797	.09%
Central	129,339	129,154	.14
Eastern	<u>69,384</u>	<u>68,571</u>	1.19
Subtotal	<u>370,676</u>	<u>369,522</u>	.31
<u>Customers Served through Operating Agreements</u>			
Brentwood Water District	6,523	6,505	.28
Fair Harbor Water District	474	481	(1.46)
Stony Brook Water District	1,633	1,621	.74
Riverside Water District	590	584	1.03
East Farmingdale Water District	<u>2,407</u>	<u>2,400</u>	.29
Subtotal	<u>11,627</u>	<u>11,591</u>	.31
Subtotal SCWA Customers	<u>382,303</u>	<u>381,113</u>	.31
<u>Wholesale Customers[†]</u>			
St. James Water District	3,374	3,364	.30
Smithtown Water District	5,869	5,864	.09
Village of Greenport	<u>1,004</u>	<u>1,050</u>	(4.38)
Wholesale Subtotal	<u>10,247</u>	<u>10,278</u>	(.30)
TOTAL	<u>392,550</u>	<u>391,391</u>	.30

[†] The number of customers served by the Authority's Wholesale Customers is derived from information provided by the respective Districts and Village of Greenport. The recently approved rate increase includes an adjustment to the rate for these three municipalities from \$1.265 to \$1.320 per one thousand gallons effective January 1, 2016. Effective January 1, 2017, the wholesale rate will increase from \$1.320 to \$1.390 per one thousand gallons

The number of customers served as of May 31, 2012 through May 31, 2016 is presented below.

<u>Year</u>	<u>Number of Customers</u>
2016	392,550
2015	391,391
2014	390,462
2013	390,054
2012	389,724

The Authority's customers are approximately 95% residential and 5% commercial and municipal. The following chart lists the top ten metered account users of water and their corresponding water consumption for the 2016 Fiscal Year. The customers listed below and their corresponding usage, reflect individual metered accounts; each such customer may have more than one account with the Authority.

	<u>User</u>	<u>Consumption (gallons)</u>
1	Smithtown Water District ¹	1,057,163,030
2	St. James Water District ¹	627,860,870
3	State University of New York at Stony Brook ²	349,166,774
4	State University of New York at Stony Brook ²	100,370,380
5	National Grid	92,205,960
6	Greenport Water District	91,970,340
7	Suffolk County Comptroller	87,130,780
8	Bretton Woods HOA	75,663,940
9	Waterways/Fairfield	65,210,640
10	Artist Lake Homeowners Association	63,692,574

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1. Effective January 1, 2016, the wholesale rate was increased to \$1.320 per one thousand gallons from \$1.265 per thousand gallons. Effective January 1, 2017 the wholesale rate will increase to 1.39 per one thousand from 1.320 per thousand gallons. Effective April 1, 2016, all other accounts, except where noted are billed at \$1.81 per thousand gallons, an increase from the previous rate of \$1.74 per thousand gallons.
 2. Consumption reflects activity for one metered account. User has multiple accounts at different locations.

Acquisitions of water systems, creation of lease-managed systems, expansion onto the North Fork of Long Island and special contractual arrangements with Federal and State agencies have resulted in average customer growth of approximately one-fifth of one percent each year over the last four (4) years. The Authority also conservatively anticipates customer growth at approximately one-tenth percent each year for budgeting purposes.

According to the Five Year Engineer’s Report issued in June 2014 by the Authority’s consulting engineers, H2M architects and engineers (the “Engineer’s Report”), the pumping and storage facilities are adequately maintained in accordance with accepted standards for the supply of drinking water.

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Physical Plant

The following table presents certain data relating to the major physical properties of the Authority as of May 31, 2016:

<u>Town</u>	<u>Wells</u>		<u>Pumping Plants</u>		<u>Storage Facilities</u>	
	<u>Active</u>	<u>Inactive</u>	<u>No.</u>	<u>Capacity (gpm)</u>	<u>No.</u>	<u>Capacity*</u>
Babylon	55	3	23	75,530	8	8.22
Brookhaven	172	8	72	209,083	19	21.89
East Hampton	40	2	18	21,430	3	3.42
Huntington	52	2	25	54,438	10	12.52
Islip	104	9	40	122,885	11	12.19
Riverhead	6	0	2	1,750	0	0.00
Smithtown	49	0	22	67,290	5	3.50
Southampton	57	5	19	45,448	6	6.35
Southold	<u>50</u>	<u>1</u>	<u>16</u>	<u>8,685</u>	<u>2</u>	<u>.80</u>
Totals	<u>585</u>	<u>30</u>	<u>237</u>	<u>606,539</u>	<u>64</u>	<u>68.89</u>

* Millions of gallons

As of May 31, 2016, there were a total of 5,950 miles of water mains in use, an increase of 16 miles since May 31, 2015, and there were 35,659 fire hydrants in-service which does not include 2,133 hydrants used for private or SCWA pump stations.

The capital improvement budget for the Water System for the 2017 Fiscal Year included provisions for additional wells, pumping equipment and storage capacity amounting to approximately 22% of the total amount budgeted in the Authority's capital improvement budget. (See "CAPITAL IMPROVEMENT PLAN – Additional Facilities – Storage, New Wells, Replacement Wells, and Tanks" herein.) Additional wells under construction, not classified as "In Service" as of May 31, 2016, is expected to increase the capacity of major facilities over the next twelve months as follows:

<u>Site Locations</u>	<u>Wells and Pumping Equipment Gallons per Day</u>
Bay Shore	576,000
Huntington	1,998,720
TOTAL	<u>2,574,720</u>

Source of Supply

Management believes the Suffolk County Water Authority is the largest municipal groundwater supplier in the nation. All water that the Authority sells is pumped from large reserves of water located underground called aquifers. Aquifers are large geologic sand and gravel formations saturated with groundwater. There are three aquifers beneath Long Island. The deepest aquifer is called the Lloyd Aquifer, and it holds water that is thousands of years old. In recognition to the importance of the Lloyd Aquifer on Long Island, New York State established a moratorium in 1986 on new wells anywhere but in coastal communities. The Authority only has three wells that utilize the Lloyd. The middle aquifer, called the Magothy Aquifer, holds water that can be several hundred years in its deepest layers. The Authority draws the majority of its water from this aquifer. The third and shallowest aquifer is called the Upper Glacial Aquifer, which may be up to several hundred feet deep in some locations. In areas on both the North Fork and South Fork, the Upper Glacial Aquifer is the sole source of freshwater supply.

Hydrogeological studies have determined that significantly more water enters the aquifer system than is removed. The United States Department of Interior's United States Geological Survey reports that there is over 70 trillion gallons of water stored within these underground aquifers in Suffolk County. The Authority pumps about 70 billion gallons per year. Studies indicate this level of pumpage is not reducing the level of water in the aquifers due to the replacement of water annually by rain and snow absorbed into the aquifers. Since 1987, the County of Suffolk has been acquiring and preserving thousands of acres specifically for drinking water protection purposes, using funds generated by one-quarter of one percent of the local sales and use tax. In 2010 the Authority completed a transaction with the County of Suffolk that gives the Authority easement rights to drill wells on 34 separate sites of up to five acres apiece from 18,871 acres that were ultimately acquired in the aforementioned original 1987 drinking water protection program. This transaction gives the Authority access to new well sites for the future. New well sites in protected lands should result in lower costs, since the cost to remediate water quality problems in wells located in more developed areas is becoming more expensive than pumping water from new uncontaminated sites. Large expanses of watershed protection areas are preserved for future use. The Authority accesses these lands through an easement given in perpetuity for drinking water purposes in exchange for a modest one-time payment. Raw water quality in these areas is expected to be very good requiring minimal treatment measures. In early 2005, the Authority began operating its first pump station on County Drinking Water Protection lands. Other facilities are in various stages of planning and development. The Authority is the 2006 recipient of the nationally prestigious "Exemplary Source Water Protection Award," given annually by the American Water Works Association ("AWWA").

Water Quality

The quality of the drinking water provided by the Water System surpasses accepted standards for physical, chemical and bacteriological content. According to the 5 Year Engineers Report, the pumping and storage facilities are adequately maintained in accordance with accepted standards for the supply of drinking water. Approximately 24% of the Authority's wells are treated using granular activated carbon to remove contaminants such as volatile organic compounds, pesticides and herbicides. Approximately 13% of the Authority's wells are filtered to remove iron and manganese. Other treatment technologies, such as air strippers, ion exchange and reverse osmosis units are used as needed. Due to standards imposed which regulate organic compounds, nitrates, pesticides and herbicides, it is necessary at times for the Authority to take wells out of service. As a result of treatment practices put in place by the Authority, drinking water quality meets and exceeds standards set forth by federal and state guidelines. Bacterial contamination in water from wells of the type constructed by the Authority is rare. Chlorine is added to the water as required by the State Department of Health as precautionary protection against any bacterial contamination that might result from repairs or additions to the distribution system. The acidity of the water is buffered to guard against possible corrosion of the lead and copper in home

plumbing systems. The high standards of design, construction and quality control employed by the Authority's staff assure the production of an adequate quantity of potable water conforming to the requirements of the State and County Departments of Health, and the EPA.

The Authority has taken major steps in watershed protection and stewardship. The Authority has participated with the Pine Barrens Commission to oversee vast tracts of sparsely developed land in the center of Suffolk County to ensure that the water recharging the aquifer system remains uncontaminated. The Authority has aggressively and successfully brought suit against identified polluters whose activities or products have resulted in contamination of Authority wells. The Authority is also a financial sponsor of the United States Geological Survey which researches issues related to the management and protection of the aquifers. Recently, the Authority updated its Water Conservation Program and adopted an official Source Water Protection Program to further ensure the protection of the aquifer system. The Authority also led the charge to create the newly formed Long Island Commission for Aquifer Protection whose mission is to provide a coordinated, regional approach to groundwater resources management; and is coordinating the production of the inaugural State of the Aquifer report and website, to be updated annually, as well as the first Long Island Groundwater Resource Management Plan in nearly 30 years,

The Authority operates a groundwater testing laboratory which is both state and nationally certified. The Authority's laboratory employs over 48 chemists, technicians, and support staff, with an annual operating budget of \$6.3 million for the 2016 Fiscal Year. Last year, the laboratory staff conducted approximately 171,000 tests, from over 59,000 water samples. The water samples were collected from the wells operated countywide and from over 5,900 miles of water main making up the water distribution system. Reflecting the Authority's proactive and comprehensive approach to water quality and safety, tests are done for over 398 chemical constituents, more than twice the number required by federal or state regulation. The laboratory has developed specialized testing methodologies that have been adopted by the EPA and published in the Federal Register for use by laboratories throughout the United States. In order to maintain its certifications, the laboratory must pass rigorous proficiency tests twice each year and is subject to an audit of its Quality Assurance Program and quality control data every other year. Sophisticated laboratory equipment allows the Authority to measure some contaminants to levels as low as 0.10 parts per trillion. The laboratory, which encompasses 28,000 square feet, is highly automated and operates 24 hours a day, seven days a week.

The Suffolk County Department of Health Services has electronic access to the laboratory's water quality data and audits this information to ensure that the Authority is in compliance with all applicable water quality standards and monitoring requirements. To ensure the precision and accuracy of the water quality data generated, additional tests are performed by the laboratory for quality control and quality assurance purposes on approximately 40% of the total number of water samples tested.

In the 5 Year Engineers Report, the Consulting Engineer discusses five rules that have been promulgated by the EPA. The Authority believes that as a result of the quality of its groundwater source and existing Authority standards and procedures, compliance with any or all of these rules, if implemented as described in the Engineers Report, would have a minimal financial impact on the Authority.

The EPA has promulgated the Groundwater Rule ("GWR") which is designed to provide protection from microbial pathogens where a well is vulnerable to such contamination. The GWR requires increased chlorine contact time, referred to as "4-log treatment" for wells with positive fecal indicator results. The Authority routinely chlorinates all raw water and maintains a free chlorine residual of 1.0 part per million (ppm) in water leaving the pump station. There have been no confirmed fecal results for any of the Authority's wells. Under the GWR, a total coliform-positive result from a routine sample collected for the Total Coliform Rule ("TCR") will trigger source water monitoring. GWR source

water monitoring requires a sample be collected from any well running in the pressure zone 24-hours prior to sample collection for the TCR coliform-positive sample along with the repeat samples required for TCR compliance. The Authority has determined the well(s) from which samples will be collected for all GWR source water triggered monitoring events. This information is part of the TCR GWR monitoring plan submitted to the Suffolk County Department of Health Services. A coliform-positive sample result from a well will require corrective action, which most likely will result in taking the well out of service and disinfecting it before returning it to routine operation.

The EPA has reversed a decision made by their previous administration and plans to move forward with the development of a regulation for the chemical perchlorate. This could result in a maximum contaminant level standard lower than the current interim drinking water health advisory level of fifteen (15) parts per billion. Perchlorate is both a naturally occurring and a man made chemical. Several years ago the Authority began testing for perchlorate and tests revealed low levels of this chemical in wells located primarily in the northwest area of Suffolk County and in the Town of Southold, located on the east end of Suffolk County. The perchlorate found is believed to be the result of past farming practices which included the use of certain fertilizers (perchlorate is found in fertilizer mined in Chile). It can now be found in numerous “organic” fertilizers. Currently all Suffolk County Water Authority wells have levels of perchlorate well below the current New York State Health Department and EPA standard.

If the EPA reduces the acceptable level of perchlorate in a new standard, the Authority may be required to install treatment facilities or pipe-in additional water to the impacted areas. The new standard would likely be put into effect after providing affected water systems with some period of time to install the necessary facilities/equipment to meet the new standard. The precise timing of these new standards or the exact financial impact on the Authority are unknown at this time and will depend on, among other things, the specific standard chosen by the EPA. Based on currently available information, the Authority believes any additional costs which may result from a stricter standard will not have a material impact on future budgets of the Authority.

Protection of Water System

The Authority has taken a number of steps to enhance its security arrangements to protect the Water System, including more frequent monitoring of the water supply for contaminants, severely restricting access to certain facilities, additional fencing installations, upgrading locks and alarming entry points within the Water System. During 2002 the Authority contracted with an EPA approved consultant to perform a vulnerability assessment on the Water System, in accordance with EPA protocols. The report was completed in March 2003 and identified the Water System’s vulnerabilities. The report provides a prioritized plan for security upgrades, modifications of operational procedures and/or policy changes to mitigate risks to critical assets. The assessment also provided a basis for comparing the cost of protection against the risks posed. The Authority uses these recommendations to establish cost effective, balanced security upgrades to its system. The assessment has been updated twice since its original completion. Based on the findings of the report, the Authority originally estimated that it would cost approximately \$2.0 million to implement the report’s recommendations. In 2012 the Authority completed a comprehensive Cyber Resilience Review with the United States Department of Homeland Security and assessed key facilities by utilizing the New York State Department of Homeland Security and Emergency Services Enhanced Visual Assessment Program. To date, the Authority has spent over \$2.0 million incorporating the recommendations in the report.

To protect against potentially severe weather conditions, the Authority has refined its Emergency Response Plan to contemplate and plan for severe damage scenarios. The Emergency Response Plan and Vulnerability Study were updated in 2014 as mandated by the United States Environmental Protection Agency. The Authority has also taken steps to secure its information technology assets from potential cyber attacks and continues to upgrade its systems in order to ensure that

these assets continue to remain secure. In addition, the Authority has established an internal Office of Emergency Management consisting of emergency managers specially trained and designated to address issues related to security and emergency preparedness. These emergency managers report directly to the CEO and are the point persons for developing contingency plans and interfacing with emergency planners and responders within neighboring agencies.

The Authority participates in the Suffolk County Emergency Operations Center (“EOC”) for the purposes of coordinating emergency response. The Authority has also adopted the National Incident Management System as its method to incident management. This is consistent with most public agencies and many private organizations in Suffolk County and New York State. It provides for a comprehensive and coordinated approach to incident command and management resources communications and support efforts during any significant incident or event.

The Authority maintains and periodically updates its Emergency Response Plan procedures, which are utilized for instances such as Hurricane Sandy. As part of these procedures, preparations were made to ensure its water supply facilities would be ready to continue to provide water to its customers during and after the storm. Preparations included ensuring that the automatic back-up generators were operational and that their fuel supply tanks were full. In addition, steps were also taken to ensure that there would be adequate staffing available to operate and maintain the water system through the potentially lengthy recovery period.

The main concern, as with any situation that could disrupt the electric supply, is getting the emergency generators fuel supply replenished. The Authority was able to work with fuel suppliers before and after the Hurricane Sandy ensuring fuel to run generators as needed. Most all of the generators utilized by the Authority turn on automatically when the electric supply is lost and keep running until the electric power has been restored. At the worst period of the storm, 196 out of 287 pump and booster stations were without power. At the same time there were 78 generators running to provide power to operate the pumps. This was sufficient to ensure continued water flow to all customers with exception to the remote communities within the Authority’s Fire Island service area.

During Hurricane Sandy, the Fire Island area served by the Authority had the most severe problems. The Long Island Power Authority, (“LIPA”) shut off electric power to all facilities on the island the day before the storm hit and there was a mandatory evacuation for Fire Island residents. The Authority’s generators came on and provided water for drinking and fire protection for all communities it served. However, since there was no access to Fire Island immediately after the storm, all of the back-up generators eventually shut down when they ran out of fuel. This shut all water pumps down as well. Once access to Fire Island was reinstated to the Authority, water for fire protection for all the communities served was restored within 5 days. Since the system was de-pressurized when the pumps were shut off, the Authority needed to disinfect the distribution system and get satisfactory water quality samples before the water could be approved for drinking purposes.

System wide, the Authority only sustained a moderate amount of downed trees on its property and very limited damage to its infrastructure.

In 2013 and 2014 the Authority submitted grant proposals to the Hazard Mitigation Grant Program and to the Storm Mitigation Loan Program to facilitate improvements to the water system’s resiliency during severe storm events. The Hazard Mitigation Grant Program is active and is currently in the review process for projects relating to portable generators not covered under the Storm Mitigation Loan Program. In fiscal year 2015, the Authority was approved and awarded \$22.0 million from the Storm Mitigation Loan Program through the NYSEFC. The Storm Mitigation Loan Program is comprised of a \$16.5 million dollar zero percent interest free loan and a \$5.5 million in grant monies. The eligible projects are related to main extensions and generators. A note issued by the NYS

Environmental Facilities Corporation for \$16.5 million dollars closed on July 30, 2015. Work on the eligible projects began during fiscal year 2016.

Water Plant Account

The Authority carries its water plant on its Statement of Net Position at cost and includes costs arising from the acquisition of properties. Provision for depreciation is made monthly on a straight-line basis at the composite rate of 2.84% annually, upon the depreciable properties of the Authority. The current provision for depreciation is intended to represent a proper portion of the cost of the depreciable assets allocated to the period of the earnings statement. The Authority's accounting policy with respect to depreciation is in conformity with generally accepted accounting principles.

A comparative statement of the combined water plant account, including construction work in progress, and the accumulated depreciation thereon, as of May 31 in each of the past five fiscal years, is as follows:

	<u>Water Plant Account</u> (in thousands)				
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Water Plant at Cost	\$1,743,298	\$1,688,611	\$1,643,693	\$1,599,792	\$1,557,977
Less: Accumulated Depreciation	<u>635,583</u>	<u>598,593</u>	<u>566,370</u>	<u>532,771</u>	<u>500,514</u>
Net Water Plant	<u>\$1,107,715</u>	<u>\$1,090,018</u>	<u>\$1,077,323</u>	<u>\$1,067,021</u>	<u>\$1,057,463</u>

According to the Resolution, after allowance for (i) payment of operating and maintenance expenses, (ii) payments on Outstanding Senior Lien Bonds issued under the Resolution, and (iv) payments on Outstanding Subordinate Lien Bonds issued under the Resolution, Revenues of the Water System are paid to the General Fund. Amounts in the General Fund may be transferred to the New Construction Fund from time to time as desired by the Authority.

The sources of funds providing the growth in the water plant account reflected in the preceding table were primarily Net Revenues deposited in the New Construction Fund, tapping fees for service connections, certain proceeds of Bonds, Bond Anticipation Notes and other obligations, and moneys obtained by the Authority from advances under construction contracts. (See "Construction Contracts" below).

In June 2014, the Authority, in accordance with the requirements of Section 8.5 of the General Resolution, filed with the Bond Fund Trustee, the Engineers Report on the properties and operations of the Water System. A copy of this report is available for inspection, upon request, during regular business hours at the offices of the Authority. It is the policy of the Authority, after the acquisition of any properties, to extend to new customers the Authority's uniform, system-wide rate schedules for water service. Such rates generally have been lower than those which had been charged by the former water companies. The Authority intends to continue this policy. However, from time to time, the Authority has, and may in the future find it necessary to create rate structures for new service areas which are different from the Authority's uniform, system-wide rate schedules for water service. See "WATER RATES" herein.

Construction Contracts

In its rules and regulations, the Authority has provided terms and conditions upon which it will install, at the expense of a real estate developer, the necessary mains to provide for a water supply

within a designated area. Such terms and conditions are set forth in a construction contract between the developer and the Authority, which, in some cases, is supplemented by additional provisions relating to transmission mains. Such construction contracts provide that the Authority will receive certain advances of moneys from developers requiring construction of mains. When these mains are placed in service, these advances are reflected as Construction Reimbursement Fees.

At the request of homeowners currently serviced by private wells, the Authority will extend main water service to provide public water. Generally, each extension requires no less than 40% of the homeowners on the extension to convert to public water. The Authority is reimbursed for the cost of the extension in excess of 75 feet per homeowner. The homeowner agrees to pay for this cost in full or installments of not to exceed ten years. This cost is reflected as Construction Reimbursement Fees.

WATER RATES

The Authority covenants that it will furnish no free service by the Water System to any person, firm or corporation, public or private. The Authority's water rate schedules applicable to residential, commercial, industrial and certain public users are uniform for approximately 96% of its service areas. In addition, the Authority charges certain customers pursuant to different rate schedules. In 2010, the Authority retained Black & Veatch Corporation for the purpose of preparing a rate study for the Authority. After considering this study, in January 2011 the Authority adopted the final report and implemented the first year of the five year recommended rate increase. Upon the recommendation of the CFO, the Authority subsequently adopted certain changes in the rate schedules for the Water System effective April 1, 2012, 2013, 2014, 2015 and 2016, with current rates as set forth in the table below. In July 2015, the Board authorized the proposal of Municipal Financial Service Group of Annapolis, Maryland to provide a five-year Cost of Service and Rate Study which was finalized and approved by the Board in May, 2016. On April 1, 2016, as part of the Cost of Service and Rate Study, the Greenport, Shorewood and Bridgehampton Surfside service area rates were consolidated into the General rates. Copies of the Authority's Rules and Regulations setting forth all of its present rate schedules are available for inspection, upon request, during regular business hours at the offices of the Authority.

General Rates

Service Classification No. 1 Quarterly

Service Charge - \$22.50

Commodity Charge - \$1.354/hundred cubic ft.
or \$1.81/thousand gallons.

Service Classification No. 1A Monthly

Service Charge - \$7.50

Commodity Charge – \$1.354/hundred cubic ft.
or \$1.81/thousand gallons.

Service Classification No. 1 relates to residential, commercial and industrial customers (other than those who consume large volumes of water). Service Classification No. 1A relates to customers who consume large volumes of water.

Service Classification No. 1B relates to water provided on a wholesale basis to water districts within the Authority's service area. Effective January 1, 2016, the following water districts within the service area of the Authority: Village of Greenport, St. James Water District, and Smithtown Water District are billed at the rate of \$1.320 per one thousand gallons, an increase from \$1.265 per one thousand gallons, payable monthly. In March 2016, the Authority adopted an increase in the rate from \$1.320 to 1.390 per one thousand gallons effective January 1, 2017. Service Classification No. 1C relates to water provided on a stand-by wholesale basis to private water utilities interconnected with the Authority's service facilities, provided adequate capacity is available. The rate applicable to such service includes a service charge of \$5.40 per gallon per minute (gpm) of delivery capability, as determined by the Authority, but not less than 500 gpm and \$802 per one million gallons, payable monthly.

In addition, there is also a separate rate schedule for customers on Fire Island. The Authority has been acquiring various water systems on Fire Island since 1994. For the most part these systems had unmetered flat rates based on various factors including number of rooms in the premise or water-using devices. Over time, meters were installed and a rate structure created, including an annual minimum and consumption charge. In connection with the aforementioned rate study, effective April 1, 2016, the Authority increased the annual minimum from \$180 to \$188 and the consumption rate from \$1.81 to \$1.885 per hundred cubic feet.

Effective April 1, 2016, the commodity charge for Service Classification No. 1 and 1A increased from \$1.30 to \$1.354 per hundred cubic feet. Previous rate increases, since 2000, became effective in 2001, 2005, 2006, 2007, 2011, 2012, 2013, 2014 and 2015. An increase in the general rate quarterly service charge for Service Classification No. 1 from \$21.60 to \$22.50 and in the monthly service charge for Service Classification No. 1A from \$7.20 to \$7.50 became effective April 1, 2016.

The Authority's financial division analyzes pertinent information and prepares applicable reports and forecasts for the purpose of evaluating water rates and service classifications. When appropriate, recommendations are made to adjust the rates charged by the Authority to remain in compliance with the Rate Covenant established under the Resolution.

The minimum bill is charged to each of the Authority's customers in advance and any excess consumption is billed following the end of the period of service. Bills are rendered for the net amount and are payable within fifteen days after presentation. A late charge of one and one-half percent (1½%) per month is applied to all outstanding water bills rendered in excess of 45 days. The Authority establishes a reserve for accounts deemed uncollectible. The reserve as of May 31, 2016 was \$1,436,997.

Sales to the preceding classifications of consumers are made only on a metered basis, except in the case of private fire lines for sprinkler lines.

Rates for fire protection, for the most part, include rentals for public hydrant service which are billed semi-annually following the period of service. The Authority's system-wide uniform rate schedule for public fire protection service is \$160.20 per hydrant per annum effective July 1, 1994 except for the Shorewood service area where it is \$312.00 per hydrant per annum. The category Private Hydrant Rates was extracted from the system-wide uniform rate schedule and an increase in the rate from \$202.56 to \$209.64 per hydrant per annum became effective as of April 1, 2016.

As security for the payment of its bills, the Authority generally requires a deposit from each new commercial customer. The amount of the deposit required from a commercial user varies according to the nature and size of the establishment. The Authority may on occasion require, primarily from rental tenants, deposits from residential customers.

Comparative Rates

The following table compares the estimated amount that will be charged by the Authority (during the 2016 Calendar Year) for customers who use an average of 40,000 gallons per quarter with amounts charged by several other public water suppliers that do not derive any of their revenue from real property taxes.

Suffolk County Water Authority	\$380
Water Authority of Great Neck North	845
Erie County Water Authority	621
Monroe County Water Authority	531
Onondaga County Water Authority	795

Source: Comparative rates from the web site of each respective public water supplier are as of August, 2016.

REVENUES AND OPERATING EXPENSES

Revenues, Operating and Maintenance Expense

The revenues, expenses of operation and maintenance and the resulting net revenues of the Authority for the five most recent fiscal years ended May 31, 2012 through fiscal year ending 2016 are set forth in the following table. After provision for the stated debt service charges, the remaining revenues are available for new construction and other corporate purposes of the Authority. The table sets forth the application of the revenues of the Water System in accordance with the provisions of the Resolution. For a discussion of the Authority's 2016 Fiscal Year results, see "Management's Discussion and Analysis" in the Authority's Financial Statements attached hereto as Appendix B.

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HISTORICAL FINANCIAL DATA*

(000's omitted)	Fiscal Year Ended May 31,				
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Revenue:					
Operating Revenue					
Residential & Commercial	\$140,736	\$133,829	\$124,410	\$121,612	\$117,798
Public & Private Fire Protection	8,157	8,231	8,226	8,061	7,959
Public Authority & Water Districts	6,586	5,855	5,814	5,890	5,536
Miscellaneous	20,042	22,449	21,425	20,358	18,953
Total Operating Revenue ⁽ⁱ⁾	175,521	170,364	159,875	155,921	150,246
Other Revenue** ⁽ⁱ⁾	20,752	20,909	22,196	20,096	26,966
Total Revenue	\$196,273	\$191,273	\$182,071	\$176,017	\$177,212
Operating Expenses:					
Operations ⁽ⁱ⁾	94,074	91,496	91,819	87,235	89,754
Maintenance ⁽ⁱ⁾	27,718	28,732	27,381	25,857	23,534
Total Operating and Maintenance Expenses	\$121,792	\$120,228	\$119,200	\$113,092	\$113,288
Net Revenues Before Debt Service	\$74,481	\$71,045	\$62,871	\$62,925	\$63,924
Debt Service:					
Interest on Bonds & Notes	\$29,271	\$28,080	\$27,755	\$26,445	\$24,619
Principal of Bonds ⁽ⁱ⁾	6,060	5,445	3,206	3,254	3,490
Total Debt Service	\$35,331	\$33,525	\$30,961	\$29,699	\$28,109
Available for New Construction Fund, General Fund and general corporate purposes	\$39,150	\$37,520	\$31,910	\$33,226	\$35,815
Senior Lien Bond Debt Service Coverage (Times)	2.32	2.23	2.62	2.60	2.70
Total Debt Service Coverage (Times)	2.11	2.12	2.03	2.12	2.27

* The information in this table marked as (i) has been derived from the Authority's audited financial statements. All other information has been derived from the Authority's financial records.

**Other Revenue consists of income from investments, costs to be recovered from future revenues and capital reimbursement fees.

A preponderant part of the operating revenue is derived from residential and commercial service, from fees and charges for public and private fire protection and from charges to public bodies and water districts. Traditionally these are the most stable sources of operating revenue for any water system.

In recent years the Authority has taken great strides in reviewing its procedures and making changes to streamline operations with the ultimate goal of providing quality water to its customers at the most reasonable cost possible. Enhanced purchasing and bidding procedures have allowed the Authority to maintain minimal increases, and at times reductions in costs on various aspects of operations.

The accounts of the Authority are maintained in accordance with the Uniform System of Accounts prescribed by the PSC, although the Authority is not subject to PSC rules and regulations. Rates established by the Authority do not require PSC or Suffolk County Legislative approval.

Expenses incurred include all proper and necessary costs to satisfactorily operate and maintain a water system that as of May 31, 2016 includes 5,950 miles of water main, 37,792 public, private and SCWA hydrants, and 392,550 customers and generates approximately 70 billion gallons of water annually. Major components of these expenses are discussed below.

Power Costs

The cost of purchasing electrical power is the Authority's third highest single operating expense, representing approximately 18% of the Authority's total operating and maintenance budget for the 2017 budget year. The Authority is the second largest power user in Suffolk County.

The Public Service Electric and Gas Company ("PSEG"), operates the electric system for the Long Island Power Authority ("LIPA"), and is the power provider to the Authority. PSEG recoups increased fuel and purchased power costs through a purchased power and fuel adjustment clause in the rate tariff. As of January 1, 2016, PSEGLI approved a three year plan to raise delivery charges by approximately 4% per year (or approximately 2% raise per year of the overall charges). Therefore, for the 2017 Fiscal Year the Authority has budgeted, based on average consumption, power costs of \$21.1 million allowing for a 3% increase in overall charges.

Wages and Employees

The Authority employed 554 full time employees as of May 31, 2016. Total payroll for the 2017 Fiscal Year is budgeted at \$45,471,000 of which approximately \$36,377,000 is charged to the operation and maintenance of the Water System. The Authority has made a conscious effort over the past decade to control payroll costs since wages represent approximately 31% of the operating and maintenance budget, excluding the deferred portion of OPEB.

The Authority has employees that are members of two collective bargaining units that are represented by the Utility Workers Union of America A.F.L. C.I.O., Local 393 ("Local 393"), a main bargaining unit of approximately 329 employees and a laboratory bargaining unit of approximately 24 employees. The collective bargaining agreements for both bargaining units expired June 30, 2013. Under New York State law the expired agreements remain in effect until new collective bargaining agreements have been reached, and the employees are prohibited from striking. The parties have been conducting collective bargaining negotiations since the expiration of the prior agreements.

Pension System

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans* – an amendment of GASB Statement No. 25, and Statement No. 68, *Financial Reporting for Pension Plans* – an amendment of GASB Statement No. 27. These statements change how governments calculate and report the costs and obligations associated with pensions, improve the decision usefulness of reported pension information and increase the transparency, consistency, and comparability of pension information. GASB Statement No. 67 took effect for periods beginning after June 15, 2013. GASB Statement No. 68 took effect for periods beginning after June 15, 2014. GASB Statement No. 68 requires governmental entities to recognize its proportional share of the difference between the net position liability and fiduciary plan position of each pension plan that the entity participates in. Beginning with Fiscal Year 2016, the Authority adopted and applied the provisions of Government Accounting Standards Board Statement No. 68, Statement No.71, *Pension Transition for Contributions Made Subsequent to the*

Measurement Date – an amendment of GASB Statement No. 68 and Statement No. 82, Pension Issues – an Amendment of GASB Statement No. 67, No 68, and No. 73.

The Authority makes annual contributions to the State and Local Employees Retirement System (the “Retirement System”) to provide retirement benefits for its employees as determined by the State. All personnel employed before July 27, 1976 are on a non-contributory basis, with the total retirement expense funded by the Authority. Those employees hired after July 27, 1976 are required to contribute 3% of their gross salaries and wages to partially offset the Authority’s cost. Employees in Tier III and Tier IV (hired on or after July 27, 1976), achieving ten years of service in the Retirement System are no longer required to contribute 3% of their gross salaries and wages. Tier V employees (hired on or after January 1, 2010) are required to contribute 3% of their gross salaries and wages for the entire length of their public service. Tier VI employees (hired on or after April 1, 2012) were required to contribute 3% of their gross salaries and wages from April 1, 2012 through March 31, 2013. Beginning April 1, 2013, Tier VI members are required to contribute the contribution rate based on their annual wage. Those employees earning \$45,000 or less will contribute 3%, \$45,000 to \$55,000 will contribute 3.5%, \$55,000 to \$75,000 will contribute 4.5%, \$75,000 to \$100,000 will contribute 5.75% and those earning in excess of \$100,000 will contribute 6% of their gross salaries and wages.

The Authority’s contributions in connection with the Retirement System are funded on an actuarial basis determined by the State. The Authority is assessed on an annual basis for its share of the Retirement System’s pension and group term life insurance costs. The amounts of the Authority’s contributions for the Fiscal Years 2012 through 2016 are shown on the following schedule.

**Payments to Employees’ Retirement System
Fiscal Year ending May 31,**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012*</u>
Regular Pension and Group Term Life Insurance Contribution	\$7,161,091	\$7,813,370	\$8,713,347	\$7,490,863	\$7,283,573

* Included in the December 15, 2011 payment is \$1,819,874 representing a one-time lump sum payment for the New York State Retirement Incentive Program.

Effective May 14, 2003, legislation was passed allowing the Office of the State Comptroller to establish contribution rates for a given fiscal year based on the value of the pension fund as of the prior April 1. The legislation also establishes a minimum 4.5% payment. The Authority has been advised that the contribution rates for the period April 1, 2016 through March 31, 2017 (payment due February 1, 2017) and April 1, 2017 through March 31, 2018 (payment due February 1, 2018) are as follows:

<u>Tiers</u>	<u>Years</u>	<u>March 31, 2017</u>	<u>March 31, 2018</u>
Tier I	Employees who joined prior to 7/1/73	21.8%	21.7%
Tier II	Employees who joined on or after 7/1/73 and prior to 7/27/76	19.8	19.7
Tier III and Tier IV	Employees who joined on or after 7/27/76	16.0	16.0
Tier V	Employees who joined on or after 01/01/10	13.1	13.1
Tier VI	Employees who joined on or after 4/1/12	9.3	9.3

Based on the contribution rate for the twelve month period ending March 31, 2017, the Authority estimates the cost to fund the payment to the Retirement System to be approximately \$6.3 million.

Other Post-Employment Benefits

GASB Statement No. 45 (“GASB 45”) of the Governmental Accounting Standards Board (“GASB”) requires state and local governments to account for and report their costs associated with post-retirement healthcare benefits and other non-pension benefits (“OPEB”). GASB 45 generally requires that employers account for and report the annual cost of the OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Under previous rules, annual OPEB costs were reported as an expense on a pay-as-you-go basis and were not reported as a liability on governmental financial statements.

GASB 45 requires that state and local governments adopt actuarial methodologies to determine annual OPEB costs. Annual OPEB costs for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they become due.

Under GASB 45, based on actuarial valuation, an annual required contribution (“ARC”) will be determined for each state or local government employer. 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. If a government employer 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 45 does not require that the unfunded liabilities actually be funded, only that employers account for unfunded accrued liability and compliance in meeting the ARC. Actuarial valuations are required every 2 years for each government employer including the Authority. The Authority implemented the requirements of GASB 45 in connection with the reporting of its financial statements for the 2008 Fiscal Year.

As permitted by Statement No. 62 of the Governmental Accounting Standards Board, “Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,” the Authority intends to defer the impact of implementing GASB 45 on its financial statement until such costs are raised in future water rates.

The Authority engaged a consultant to assist in preparing the interim GASB actuarial valuation for the fiscal year ending May 31, 2016, estimating its actuarial unfunded OPEB liabilities based on existing plan benefits and certain assumptions. These assumptions include (i) 4% rate of return on assets, (ii) various increases in insurance premiums from 8.0% grading down to 5% for medical, dental 4.5% grading down to 4%, and optical 3%, (iii) all active employees will retire and receive OPEB, (iv) face value of life insurance benefit remains constant, (v) spouses are assumed to be the same age as retiree, (vi) upon reaching the age of 65 all retirees will participate in Medicare Part B and (vii) all active employees and retirees currently opting out of health insurance coverage are assumed to continue this election. The report estimated an actuarial OPEB liability of \$257.4 million and the annual net ARC of approximately \$17.1 million as of May 31, 2016. This analysis is subject to further review and adjustment in future years based in part on further examination of the relevant assumptions, measures, which the Authority may consider to manage plan benefits, and ongoing changes in health care costs and the delivery of health care services. From time to time, the Authority may consider the legal and economic feasibility of financing all or a portion of the OPEB liabilities, as well as available options for managing plan benefits. GASB 45 does not require that the unfunded liability actually be funded, only

that the Authority account for the unfunded accrued liability. The Authority has not yet adopted a comprehensive financing plan for its OPEB liabilities. However, during the fiscal year ending May 31, 2012, in an effort to mitigate possible future rate impacts related to any expected legislation, the Authority has established an undedicated reserve for this purpose. As of May 31, 2016, the undedicated reserve is \$17.0 million. In continuing with this effort, the Authority has included \$7.5 million in its Fiscal Year 2017 operating and maintenance budget for this purpose.

Insurance

The Authority renewed its insurance coverage on April 1, 2016. Property and Casualty (excluding workers compensation) premiums and claim costs decreased by 2% over last year, amounting to a total program cost of \$985,629. This amount includes claim payments, claims handling charges and legal fees.

The Authority maintains an insurance policy for both general liability and automobile liability coverage. This policy provides a coverage limit of \$1.0 million in excess of self-insured retention of \$500,000. In addition, excess liability insurance is maintained at an aggregate limit of \$50,000,000. Claims handling is performed by a third party claims administrator, and legal defense is under the direction of the Authority’s General Counsel. Some claims are defended through the use of in-house counsel while others are outsourced to a panel of attorneys.

Property insurance with a per occurrence blanket limit of \$75.0 million and no aggregate policy limit, provides coverage for buildings and contents, boiler and machinery, contractor’s equipment, inventory and loss of revenue due to a covered loss.

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. A National third party claims administrator (TPA) was retained to administer claims.

The Authority also maintains directors’ and officers’ liability, commercial crime, and disability insurance in commercially reasonable amounts.

The Authority continues to review its insurance needs annually in an effort to manage its risk while at the same time managing its costs.

Collections

The Authority’s collection activities have resulted in a collection rate on revenues (revenues less uncollectible accounts) of 99.6% in the 2016 Fiscal Year. Total revenues, uncollectible accounts and collection percentage for each of the Fiscal Years 2012 through 2016 are set forth below:

<u>Fiscal Year</u>	<u>Water Service Revenues</u>	<u>Uncollectible Accounts</u>	<u>Collection Percentage</u>
2016	\$155,479,000	\$610,252	99.6%
2015	147,915,000	635,299	99.6
2014	138,450,000	514,671	99.6
2013	135,563,000	575,483	99.6
2012	131,293,000	587,004	99.6

Authority rules and regulations state that all bills are due and payable, net cash, 12 working days from date of bill. A late charge of 1½% per month is applied to all outstanding bills in

excess of forty-five (45) days. The Authority’s regulations also provide for discontinuance of water service, in conformance with law, when necessary.

After extensive efforts to collect on any outstanding bills, account information is forwarded to the Authority’s in house counsel for action.

In fiscal year 2017 Property Tax Lien Legislation passed by the NYS Legislature was signed into law by the Governor granting the Suffolk County Water Authority collection powers similar to those possessed by municipal water districts. This enables the Authority the ability to fully collect the rates, fees and charges for services it has rendered to its customers but were not paid for and will reduce the amount of unpaid rates, fees, and charges written off as uncollectible.

Operating and Maintenance Budget for the 2016 Fiscal Year

<u>Category</u>	<u>2016</u> <u>Actual</u>	<u>2017</u> <u>Budget</u>
Benefits	\$ 29,988,000	\$ 30,371,000
Communications	69,500	80,000
Construction Maintenance	6,400,000	5,251,000
Customer Service	156,000	180,000
Education Awareness	8,600	6,000
Emergency Management	9,500	39,000
Engineering	3,184,000	4,196,000
Facilities Management	1,086,000	1,283,000
Finance	3,525,000	3,280,000
Human Resources.	319,600	290,000
Information Technology & G.I.S.	686,000	835,000
Laboratory	678,700	480,000
Meter Shop	108,600	115,000
Production Control	5,020,000	4,737,000
Risk Management	3,087,000	5,365,000
Safety	205,000	169,000
Stores	217,000	180,000
Sustainability	8,500	21,000
Telecommunications	848,000	850,000
Accrued Expenses – OPEB	10,079,000	6,500,000
Power Purchase	19,585,000	21,101,000
Transportation	914,000	1,607,000
Payroll	<u>35,609,000</u>	<u>36,377,000</u>
TOTAL	<u>\$121,792,000</u>	<u>\$123,313,000</u>

The Authority has budgeted \$123,313,000 in operation and maintenance expenses for Fiscal Year 2017. This figure represents an increase of 1.25% or \$1,521,000 over the operating and maintenance actual expenses for the 2016 Fiscal Year. The increase is mainly attributable to an increase in power costs of \$1.5 million, an increase in benefit costs of \$0.4 million, an increase in administrative operations costs of \$3.8 million and an increase in wells, pumping and treatment expense of \$0.5 million. This is offset by a decrease in maintenance of mains expense of \$1.1 million and a decrease in deferred “OPEB” postretirement benefits other than pension costs of \$3.6 million. The above reflects the line item

breakdown of the Authority's operation and maintenance budget for the 2017 Fiscal Year compared to operation and maintenance actual for the 2016 Fiscal Year.

Investment Policy

The Resolution imposes restrictions on the Authority's ability to invest moneys on deposit in the Funds created by the Resolution. On January 26, 1999, the Authority adopted comprehensive investment guidelines with additional restrictions on the investment of all moneys of the Authority. These guidelines were amended on June 30, 2009 and August 19, 2013.

INCORPORATION BY REFERENCE OF SUFFOLK COUNTY'S MOST RECENT OFFICIAL STATEMENT

The Series 2016 Bonds are not a debt of Suffolk County, nor is Suffolk County in any way, directly or indirectly, obligated for the repayment thereof. However, the service area of the Authority is generally coterminous with the geographical area of Suffolk County and therefore certain demographic, economic and statistical information relating to Suffolk County may be relevant to prospective purchasers of the Series 2016 Bonds. Therefore, the Official Statement of the County of Suffolk, dated June 21, 2016, relating to the County of Suffolk New York \$49,150,000 Public Improvement Serial Bonds – 2016 Series A, filed with the Municipal Securities Rulemaking Board (the "MSRB"), but only to the extent of the information contained in "APPENDIX A – THE COUNTY OF SUFFOLK" under the captions and subcaptions entitled "THE COUNTY OF SUFFOLK—Economic Considerations," "—Transportation," "—School Facilities" and "—Tourism & Recreation, "REAL PROPERTY TAXES" and "STATISTICAL INFORMATION," is hereby incorporated by reference herein and made a part hereof. Such information may be reviewed at MSRB's website through its Electronic Municipal Market Access ("EMMA") system. Such information is not guaranteed as to its accuracy or completeness by the Authority and is not to be construed as a representation by the Authority.

TAX MATTERS

Federal Income Taxes

In the opinion of Harris Beach PLLC, Bond Counsel to the Authority, and subject to the limitations set forth below, under existing statutes, regulations, administrative rulings and court decisions as of the date of such opinion, interest on the Series 2016 Bonds is excluded from gross income for federal income tax purposes, pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). Furthermore, Bond Counsel is of the opinion that interest in the Series 2016 Bonds is not an "item of tax preference" for purposes of computing the federal alternative minimum tax imposed on individuals and corporations. Interest on the Series 2016 Bonds held by certain corporations is, however, included in the computation of "adjusted current earnings" a portion of which is taken into account in determining the federal alternative minimum tax imposed on such corporations. Corporate purchasers of the Series 2016 Bonds should consult with their tax advisors regarding the computation of any alternative minimum tax liability.

The Series 2016 Bonds have an initial offering price in excess of their principal amount. An initial purchaser with an initial adjusted basis in a Series 2016 Bond in excess of its principal amount will have amortizable bond premium which is not deductible from gross income for federal income tax purposes. The amount of amortizable bond premium for a taxable year is determined actuarially on a constant interest rate basis over the term of each Series 2016 Bond based on the purchaser's yield to maturity. For purposes of determining gain or loss on the sale or other disposition of a Series 2016 Bond, an initial purchaser who acquires such obligation with an amortizable bond premium is required to decrease such purchaser's adjusted basis in such Series 2016 Bond annually by the amount of amortizable bond premium for the taxable year. As a result of the tax cost reduction requirements of the Code relating

to amortization of bond premium, under certain circumstances, an initial owner of the Series 2016 Bonds may realize a taxable gain upon disposition of the Series 2016 Bonds even though they are sold or redeemed for an amount equal to such owner's original cost of acquiring such Series 2016 Bonds. Owners of the Series 2016 Bonds are advised that they should consult with their own advisors with respect to the tax consequences of owning such bonds.

The Code establishes certain requirements that must be met at and subsequent to the issuance and delivery of the Series 2016 Bonds in order that interest on the Series 2016 Bonds be and remain excluded from gross income for federal income tax purposes, pursuant to Section 103 of the Code. These continuing requirements include certain restrictions and prohibitions on the use of the proceeds of the Series 2016 Bonds and the facilities financed by the Series 2016 Bonds, restrictions on the investment of proceeds and other amounts and the rebate to the United States of certain earnings in respect of such investments. Failure to comply with such continuing requirements may cause the interest on the Series 2016 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issue of the Series 2016 Bonds, irrespective of the date on which such noncompliance occurs. In the General Resolution, the Supplemental Resolutions and the Tax Certificate as to Arbitrage and the Provisions of Sections 103 and 141-150 of the Internal Revenue Code of 1986 (the "Tax Certificate"), the Authority has covenanted to comply with certain procedures, and has made certain representations and certifications, designed to assure compliance with the requirements of the Code. The opinion of Bond Counsel described in the preceding paragraph is made in reliance upon, and assumes continuing compliance with, such covenants and procedures and the continuing accuracy, in all material respects, of such representations and certifications.

Bond Counsel expresses no opinion regarding any other federal income tax consequences related to the ownership or disposition of, or the receipt or accrual of interest on, the Series 2016 Bonds. The proposed form of opinion of Bond Counsel is attached to hereto as Appendix C.

In addition to the matters referred to in the preceding paragraphs, prospective purchasers of the Series 2016 Bonds should be aware that the accrual or receipt of interest on the Series 2016 Bonds may otherwise affect the federal income tax liability of the recipient. The extent of these other tax consequences may depend upon the recipient's particular tax status or other items of income or deduction. Bond Counsel expresses no opinion regarding any such consequences. Examples of such other federal income tax consequences of acquiring or holding the Series 2016 Bonds include, without limitation, that (i) with respect to certain insurance companies, the Code reduces the deduction for loss reserves by a portion of the sum of certain items, including interest on the Series 2016 Bonds, (ii) interest on the Series 2016 Bonds earned by certain foreign corporations doing business in the United States may be subject to a branch profits tax imposed by the Code, (iii) passive investment income, including interest on the Series 2016 Bonds, may be subject to federal income taxation under the Code for certain S corporations that have certain earnings and profits, and (iv) the Code requires recipients of certain Social Security and certain other federal retirement benefits to take into account, in determining gross income, receipts or accruals of interest on the Series 2016 Bonds. The foregoing is not intended as an exhaustive list of potential tax consequences. Prospective purchasers should consult their tax advisors regarding any possible collateral consequences with respect to the Series 2016 Bonds.

Certain requirements and procedures contained or referred to in the General Resolution, the Supplemental Resolution and the Tax Certificate may be changed, and certain actions may be taken or omitted subsequent to the date of issue, under the circumstances and subject to the terms and conditions set forth in such documents or certificates, upon the advice or with the approving opinion of a nationally recognized bond counsel. Bond Counsel expresses no opinion as to any tax consequences with respect to the Series 2016 Bonds, or the interest thereon, if such change occurs or action is taken or omitted upon the advice or approval of a bond counsel other than Harris Beach PLLC.

State Income Taxes

In the opinion of Bond Counsel, under existing statutes, interest on the Series 2016 Bonds is exempt from personal income taxes imposed by the State of New York and any political subdivision thereof, including The State of New York.

Bond Counsel expresses no opinion regarding any other state or local tax consequences related to the ownership or disposition of, or the receipt or accrual of interest on, the Series 2016 Bonds.

Interest on the Series 2016 Bonds may or may not be subject to state or local income taxes in jurisdictions other than the State of New York under applicable state or local tax laws. Bond Counsel expresses no opinion as to the tax treatment of the Series 2016 Bonds under the laws of such other state or local jurisdictions. Each purchaser of the Series 2016 Bonds should consult his or her own tax advisor regarding the taxable status of the Series 2016 Bonds in a particular jurisdiction other than the State of New York.

Other Considerations

Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or omitted) or any events occurring (or not occurring) after the date of issuance of the Series 2016 Bonds may adversely affect the value of, or the tax status of interest on, the Series 2016 Bonds.

No assurance can be given that any future legislation or governmental actions, including amendments to the Code or State income tax laws, regulations, administrative rulings, or court decisions, will not, directly or indirectly, cause interest on the Series 2016 Bonds to be subject to federal, State or local income taxation, or otherwise prevent Bondholders from realizing the full current benefit of the tax status of such interest. Further, no assurance can be given that the introduction or enactment of any such future legislation, or any judicial decision or action of the Internal Revenue Service or any State taxing authority, including, but not limited to, the promulgation of a regulation or ruling, or the selection of the Series 2016 Bonds for audit examination or the course or result of an audit examination of the Series 2016 Bonds or of obligations which present similar tax issues, will not affect the market price, value or marketability of the Series 2016 Bonds. For example, President Obama has released various legislative proposals that would limit the extent of the exclusion from gross income of interest on obligations of states and political subdivisions under Section 103 of the Code (including the Series 2016 Bonds) for taxpayers whose income exceeds certain threshold levels. No prediction is made as to whether any such proposals will be enacted. Prospective purchasers of the Series 2016 Bonds should consult their own tax advisors regarding the foregoing matters.

All quotations from and summaries and explanations of provisions of law do not purport to be complete, and reference is made to such laws for full and complete statements of their provisions.

ALL PROSPECTIVE PURCHASERS OF THE SERIES 2016 BONDS SHOULD CONSULT WITH THEIR TAX ADVISORS IN ORDER TO UNDERSTAND THE IMPLICATIONS OF THE CODE AS TO THESE AND OTHER FEDERAL AND STATE TAX CONSEQUENCES, AS WELL AS ANY LOCAL TAX CONSEQUENCES, OF PURCHASING OR HOLDING THE SERIES 2016 BONDS.

COVENANT BY THE STATE OF NEW YORK

Under the Act, the State covenants with the purchasers and with all subsequent holders and transferees of bonds and notes issued by the Authority that such bonds and notes and the income therefrom and all moneys, funds and revenues pledged to pay or secure the payment of such bonds and

notes, shall at all times be free from taxation, except for transfer and estate taxes. Under the Act, the State also pledges to and agrees with the holders of bonds or notes issued by the Authority (including the Series 2016 Bonds) that the State will not limit or alter the rights thereby vested in the Authority to acquire, construct, maintain, operate, reconstruct and improve the properties, to establish and collect the revenues, rates, rentals, fees and other charges referred to in the Act and to fulfill the terms of any agreements made with the holders of such bonds or notes, or in any way impair the rights and remedies of the holders thereof, until the bonds, together with interest thereon, interest on any unpaid installments of interest and all costs and expenses in connection with any action or proceeding by or on behalf of the holders thereof, are fully met and discharged.

LEGALITY FOR INVESTMENT

The Act provides that bonds and notes issued by the Authority (including the Series 2016 Bonds) are securities in which all public officers and bodies of the State and all municipalities and municipal subdivisions, all insurance companies and associations and other persons carrying on an insurance business, all banks, bankers, trust companies, savings banks and savings associations, including savings and loan associations, building and loan associations, investment companies and other persons carrying on a banking business and all other persons whomsoever, except as hereinafter provided, who are now or may hereafter be authorized to invest funds including capital in their control or belonging to them. Such bonds or notes, however, shall not be eligible for the investment of funds including capital, of trusts, estates or guardianships under the control of individual administrators, guardians, executors, trustees and other individual fiduciaries.

The bonds and notes issued by the Authority are also, by the Act, made securities which may be deposited with and may be received by all public officers and bodies of the State and all municipalities and municipal subdivisions for any purpose for which the deposit of bonds or other obligations of the State is now or may hereafter be authorized.

LEGAL MATTERS

Harris Beach PLLC, New York, New York, Bond Counsel to the Authority, will render its approving opinion as to the validity and legality of the Series 2016 Bonds, copies of which will be available at the time of delivery of the Series 2016 Bonds and the form of which is annexed hereto in Appendix C. Said Bond Counsel has not assumed responsibility for the preparation of this Official Statement and is not rendering any opinions as to the accuracy or completeness of the Official Statement.

In the opinion of Timothy J. Hopkins, Esq., General Counsel to the Authority, the Authority is vested with the title or right and interest in all the properties constituting the Water System, including plants, works, instrumentalities or parts thereof and appurtenances thereto, lands, easements, rights in land and water rights, rights-of-way, contract rights, approaches, connections, storage tanks, water mains and pipe lines, pumping stations and equipment and any other property incidental to and included in the Water System or part thereof and any improvements, extensions and betterments thereof, all of which are located in Suffolk County. Such counsel is of the opinion that substantially all parcels of land included in the Water System are owned in fee or by long-term easement agreements, and the transmission and distribution mains are located on land with respect to which the Authority has rights-of-way or easements, or along public streets and roadways, and with respect to such rights-of-way or easements, the Authority is not obligated to pay any rental charges for the use thereof. The small numbers of parcels not owned in fee are operated by the Authority under long-term contractual arrangements or easement agreements. Such counsel is of the opinion that, so far as legal matters are concerned, such properties, interests and rights vested in the Authority are sufficient to authorize the use and operation of the Water System as now being used and operated; and is also of the opinion that the aforesaid properties, interests and rights held by the Authority in the Water System are held free and clear

of any mortgages, liens, or other encumbrances which might affect the same to the extent of interfering with the operations of the Water System; nor has the Authority assumed the obligation of any such mortgages, liens, or encumbrances or the payment of any interest charges thereunder.

LITIGATION

There is not now pending or, to the best of the Authority's knowledge, threatened any litigation restraining or enjoining the issuance or delivery of the Series 2016 Bonds or questioning or affecting the validity of the Series 2016 Bonds or the proceedings and authority under which they are to be issued, nor is the creation, organization, or existence of the Authority being contested.

There is no litigation pending or, to the best of the Authority's knowledge, threatened which in any manner questions the right of the Authority to operate the Water System or its right to conduct its activities in accordance with the provisions of the Act and of the Resolution. Any other litigation pending is generally of a routine nature which does not affect the right of the Authority to conduct its business or affect the validity of its obligations, or which in the judgment of the Authority, due to the nature of such claims and/or the availability of insurance as described above under "REVENUES AND OPERATING EXPENSES - Insurance," would not have a material adverse effect on the financial condition or operations of the Authority if adversely determined.

CONTINUING DISCLOSURE UNDER SEC RULE 15C2-12

In order to assist the Purchasers in complying with Rule 15c2-12, as it may be amended (the "Rule") promulgated by the Securities and Exchange Commission ("SEC") under the Securities Exchange Act of 1934, as amended, the Authority, to the extent the Rule requires, will agree for the benefit of the beneficial owners from time to time of the Series 2015 Bonds (the "Authority Undertaking") to provide to the Municipal Securities Rulemaking Board (the "MSRB") through its Electronic Municipal Market Access ("EMMA") system, in electronic format and accompanied by such identifying information as is prescribed by the MSRB, an Annual Report, containing the information set forth in clause (1) below and with notices of events set forth in clauses (2) and (3) below:

(1) within 180 days after the end of the 2017 Fiscal Year and each subsequent Fiscal Year, core financial information and operating data for the prior Fiscal Year, including (i) the Authority's audited financial statements, if available, prepared in accordance with generally accepted accounting principles in effect from time to time, or, if such annual audited financial statements are not available, annual unaudited financial statements of the Authority shall be so provided and such annual audited financial statements shall be so delivered within 60 days after they become available and in no event later than 360 days after the end of each Fiscal Year, and (ii) material historical financial and operating data concerning the System and the Revenues of the Authority generally of the type included under the captions "Debt Service Requirements," "Capital Improvement Plan," "Service Areas, Plant Facilities and Water Supply" and "Revenues and Operating Expenses";

(2) to file in a timely manner, not in excess of 10 business days, of the occurrence of any of the following events with respect to the Series 2016 Bonds:

- (a) principal and interest payment delinquencies;
- (b) non-payment related defaults, if material;
- (c) unscheduled draws on debt service reserves reflecting financial difficulties;
- (d) unscheduled draws on credit enhancements reflecting financial difficulties;
- (e) substitution of credit or liquidity providers, or their failure to perform;

- (f) adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Series 2016 Bonds, or other material events affecting the tax-exempt status of the Series 2016 Bonds;
- (g) modifications to rights of the holders (including Beneficial Owners) of the Series 2016 Bonds, if material;
- (h) bond calls, if material, and tender offers;
- (i) defeasances;
- (j) release, substitution, or sale of property securing repayment of the Series 2016 Bonds, if material;
- (k) rating changes;
- (l) bankruptcy, insolvency, receivership or similar events;
- (m) the consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions other than pursuant to its terms, if material; and
- (n) appointment of a successor or additional trustee or the change of name of a trustee, if material.

(3) to file in a timely manner notice of any failure by the Authority to comply with clause (1) above.

The provisions of the Authority Undertaking inure solely to the benefit of the beneficial owners from time to time of the Series 2016 Bonds who will be third-party beneficiaries of the Authority Undertaking.

With respect to event (d) and (e), the Authority does not undertake to provide any notice with respect to credit enhancement added after the primary offering of the Bonds, unless the Authority applies for or participates in obtaining the enhancement.

With respect to event (f) and the tax status of the Bonds, see TAX MATTERS.

With respect to event (h), the Authority does not undertake to provide notice of a mandatory scheduled redemption not otherwise contingent upon the occurrence of an event if (i) the terms, dates and amounts of redemption are set forth in detail in this Official Statement under DESCRIPTION OF THE SERIES 2016 BONDS - Redemption above, (ii) the only open issue is which Series 2016 Bonds will be redeemed in the case of a partial redemption, (iii) notice of redemption is given to the Beneficial Owners as required under the terms of the Series 2016 Bonds, (iv) public notice of the redemption is given pursuant to the Release Number 34-23856 of the SEC under the 1934 Act, even if the originally scheduled amounts are reduced by prior optional redemptions or bond purchases.

The Authority may from time to time choose to provide notice of the occurrence of certain other events in addition to those listed above if, in the judgment of the Authority, such other event is material with respect to the Series 2016 Bonds, but the Authority does not undertake to provide any such notice of the occurrence of any material event except those events listed above.

The obligations of the Authority to comply with the provisions of the Authority Undertaking shall be enforceable (i) in the case of enforcement of obligations to provide financial statements, financial information, operating data and notices, by any owner of outstanding Series 2016 Bonds, or by the Bond Fund Trustee on behalf of the owners of outstanding Series 2016 Bonds, or (ii) in

the case of challenges to the adequacy of the financial statements, financial information and operating data so provided, by the Bond Fund Trustee on behalf of the owners of outstanding Series 2016 Bonds; provided, however, that the Bond Fund Trustee shall not be required to take any enforcement action except at the direction of the owners of not less than a majority in aggregate principal amount of the Series 2016 Bonds at the time outstanding who shall have provided the Bond Fund Trustee with adequate security and indemnity. Neither the Authority nor its directors, officers or employees shall have any liability under the Authority Undertaking for any act or failure to act under the Authority Undertaking. The owners and Bond Fund Trustee's sole remedy with respect to enforcement of the provisions of the Authority Undertaking shall be a right, by action in mandamus or for specific performance, to compel performance of the Authority's obligations under the Authority Undertaking. In consideration of the third-party beneficiary status of beneficial owners of Series 2016 Bonds pursuant to the Authority Undertaking, beneficial owners shall be deemed to be owners of Series 2016 Bonds for purposes of enforcement of the Authority Undertaking. All proceedings may be instituted only as specified herein, in the Federal or State courts located in the County of Suffolk, State of New York, and for the equal benefit of all holders of the outstanding Series 2016 Bonds.

The Authority Undertaking provides that the Authority's and the Bond Fund Trustee's obligations thereunder will terminate upon a legal defeasance pursuant to the Resolution, prior redemption or payment in full of all of the Series 2016 Bonds. Upon any legal defeasance, the Authority Undertaking provides that the Authority shall give notice of such defeasance to the MSRB. The Authority Undertaking further provides that if all or any part of the Rule ceases to be in effect for any reason, then the information required to be provided under the Authority Undertaking, insofar as the provision of the Rule no longer in effect required the providing of such information, shall no longer be required to be provided.

Copies of the Authority Undertaking when executed by the parties thereto on the date of the initial delivery of the Series 2016 Bonds will be on file at the office of the Bond Fund Trustee.

In connection with the issuance of prior series of Bonds and Notes, the Authority entered into agreements to provide continuing disclosure for the benefit of the beneficial owners of such Bonds, which agreements are substantially similar to the Authority Undertaking. Since 2011, the Authority has undertaken several defeasances of certain of its Bonds. In connection with such defeasances, material event notices were not timely filed. However, the Authority has timely filed material event notices, if applicable, for the early redemption of its defeased Bonds. The Authority has reviewed and modified its continuing disclosure practices to ensure that all material event notices are filed in a timely manner. The Authority has also posted a notice on EMMA disclosing such prior defeasances. On January 31, 2011, the Authority filed its annual financial information and operating data on EMMA five days past the due date. The Authority did not provide timely notice of such late filing. On January 24, 2012, for the purpose of posting its annual financial information and operating data for fiscal year ending in 2011 the Authority posted on EMMA a copy of the Official Statement, dated January 5, 2012, for the Authority's \$83,635,000 Water System Revenue Bonds, Series 2012 Refunding (the "Series 2012 Refunding Bonds"). However, such official statement as posted on EMMA inadvertently omitted the appendix containing the Authority's audited financial statements for 2011. Accordingly, the Authority's audited financial statements for 2011 were not timely filed. The Authority did not provide timely notice of such late filing on EMMA. However, five days earlier, on January 19, 2012, a copy of the same official statement, including the appendix containing the audited financial statements for 2011 was posted on EMMA in connection with the issuance of the Series 2012 Refunding Bonds. Further, as of October 14, 2014, the Authority has posted on EMMA, under "Continuing Disclosures" a copy of the audited financial statements for 2011. The Authority has reviewed and modified its continuing disclosure practices to ensure that annual financial information and operating data are filed in a timely manner. The Authority has also posted notices on EMMA disclosing such prior late filings. Except as disclosed above, in the previous five years, the Authority has not failed to comply, in all material respects, with such prior agreements to provide continuing disclosure.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Samuel Klein and Company, Certified Public Accountants, a firm of independent public accountants, will deliver to the Authority and the successful underwriting bidder on or before the delivery date of the Series 2016 Refunding Bonds its report indicating that it has examined, in accordance with standards established by the American Institute of Certified Public Accountants, the information and assertions provided by the Authority and its representatives. Included in the scope of its examination will be a verification of the mathematical accuracy of the mathematical computations (i) of the adequacy of the cash, the maturing principal amounts and the interest on the Federal Securities deposited with the Trustee to pay the principal, interest and redemption price coming due on the Refunded Bonds on and prior to their respective maturity or redemption dates as described in “REFUNDING PLAN” (ii) of the adequacy of the cash, the maturing principal amounts and the interest on the Federal Securities deposited with the Trustee to pay the principal and interest coming due on the 2015B Notes on and prior to their maturity date and (iii) supporting the conclusion of Bond Counsel that the Series 2016 Refunding Bonds are not “arbitrage bonds” under the Code and regulations promulgated thereunder.

FINANCIAL CONSULTANT

Pursuant to a written agreement between the Authority and Goldman, Sachs & Co. (the “Financial Consultant Agreement”), Goldman, Sachs & Co., serves as financial consultant to the Authority and provides recommendations and other financial guidance to the Authority with respect to the sale and issuance of its long-term obligations, including the Series 2016 Bonds, timing of sale, tax-exempt bond market conditions and other factors related to the sale and issuance of such obligations. The Financial Consultant Agreement provides that Goldman, Sachs & Co. will not serve as underwriter unless the procedures contained in Municipal Securities Rulemaking Board Rule G-23 have been complied with, if applicable. The Financial Consultant has not audited, authenticated or otherwise verified the information set forth in this Official Statement, or any other information that may be available to the Authority, with respect to appropriateness, accuracy and completeness of disclosure of such information or other information, and no guaranty, warranty or other representation is made by the Financial Consultant respecting such accuracy and completeness of information or any other matter related to such information and the Official Statement.

RATINGS

Standard & Poor’s Rating Services (“S&P”) and Fitch, Inc. (“Fitch”) have assigned their long-term municipal ratings of “AAA” and “AAA,” respectively, to the Series 2016 Bonds. S&P has upgraded its rating of the Authority’s Outstanding Senior Lien Bonds to “AAA.” Fitch has affirmed its “AAA” rating of the Authority’s Outstanding Senior Lien Bonds. Such ratings reflect only the views of such organizations, and an explanation of the significance of such ratings may be obtained from: Standard & Poor’s Rating Services, 25 Broadway, New York, New York 10004 and Fitch, Inc., One State Street Plaza, New York, New York 10004. Generally, each rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that any such rating will continue for any given period of time or that it will not be revised, suspended or withdrawn entirely by such rating agency if in its judgment circumstances so warrant. A revision, suspension or withdrawal of any such ratings may have an effect on the market price of the Series 2016 Bonds.

INDEPENDENT AUDITORS

The financial statements of the Authority for the fiscal year ended May 31, 2016, which are included as Appendix B to this Official Statement, have been audited by KPMG LLP, independent auditors, as stated in their report which appears therein.

KPMG LLP, our independent auditors, has not been engaged to perform and has not performed any procedures on any financial statements of the County of Suffolk, New York or on any Official Statement of the County of Suffolk, including the Official Statement of the County of Suffolk, dated June 21, 2016, relating to the County of Suffolk New York \$49,150,000 Public Improvement Serial Bonds – 2016 Series A, (Suffolk County Official Statement) that has been incorporated by reference into this Official Statement.

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CERTIFICATION AS TO OFFICIAL STATEMENT

The Authority will confirm to the successful underwriting bidders of the Series 2016 Bonds, by a certificate signed on its behalf by its Chairman and dated and delivered on the date of delivery of and payment of the Series 2016 Bonds, that on the date of this Official Statement and on the date of such certificate (i) the descriptions and statements of or pertaining to the Authority contained in this Official Statement were and are true and correct in all material respects; and (ii) insofar as the Authority and its affairs, including its financial affairs, are concerned, this Official Statement did not and does not contain an untrue statement of a material fact or omit any statement of a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, except that no representation is made as to statements in this Official Statement ascribed to sources other than the Authority, although the Authority has no reason to believe and does not believe that such information is materially inaccurate or misleading.

The references herein to the Act, the General Resolution, the Supplemental Resolutions and the Series 2016 Bonds are made subject to all of the respective provisions thereof, to which reference is hereby made for further information. The references thereto in this Official Statement do not purport to be complete statements thereof. The agreement of the Authority with the holders of the Series 2016 Bonds is fully set forth in the Resolution, and neither any advertisement of such Series 2016 Bonds nor this Official Statement is to be construed as a contract with the purchasers of such Series 2016 Bonds. All appendices to this Official Statement are hereby incorporated as integral parts of this Official Statement. So far as any statements are made in the Official Statement involving matters of opinion or estimate, whether or not expressly so stated, they are intended merely as such and not as presentations of fact. Copies of the documents mentioned in this paragraph are on file at the offices of the Authority and of the Bond Fund Trustee.

This Official Statement is being issued by the Authority in two editions: (1) a preliminary edition dated October 5, 2016 and issued for purposes of public sale of all of the Series 2016 Bonds on October 18, 2016 pursuant to the Authority’s Official Notices of Sale requesting electronic bids and (2) a final edition dated October 18, 2016 and issued, in connection with the public sale, to contain the actual interest rates to be borne by the Series 2016 Bonds upon issuance thereof and the resulting annual debt service.

SUFFOLK COUNTY WATER AUTHORITY

By: /s/James F. Gaughran
James F. Gaughran
Chairman

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APPENDIX A

SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

The following is a summary of certain provisions contained in the Resolution which does not purport to be complete. This summary is qualified by reference to the Resolution copies of which may be examined at the offices of the Authority and the Bond Fund Trustee. In particular, investors and other interested parties, should refer to the complete Resolution for a description of the nature and extent of (i) the security for the Series 2016 Bonds, and of any bonds heretofore and hereafter issued under the General Resolution (all of such bonds being herein collectively called the “Bonds”), (ii) the revenues pledged to the payment of the Series 2016 Bonds, (iii) the nature and extent and manner of enforcement of the pledge, the rights and remedies of the holders of the Series 2016 Bonds with respect thereto, (iv) the terms and conditions upon which the Series 2016 Bonds are issued, and (v) a statement of rights, duties, immunities and obligations of the Authority.

The following are definitions of certain terms contained in the Resolution and used herein.

Definitions of Certain Terms

“Additional Security” means a letter of credit, line of credit, insurance policy, standby purchase agreement or similar obligation or instrument or any combination of the foregoing.

“Authorized Denominations” means a minimum of \$5,000 and any \$5,000 integral multiple thereof.

“Authorized Officer” when used with reference to the Authority means the Chairman, the Secretary, the Director of Finance, the Assistant Secretary, the Executive Director thereof or other officer designated by resolution of the Authority.

“Bond Anticipation Notes” means obligations issued pursuant to Section 3.7 of the Resolution.

“Bond Counsel” means Harris Beach PLLC, or such other attorney or firm of attorneys, designated by the Authority, of nationally recognized standing in matters pertaining to the tax-exempt nature of interest on bonds issued by states and their political subdivisions, duly admitted to the practice of law before the highest court of any state of the United States of America.

“Bond Fund” means the Bond Fund created in Section 6.4 of the Resolution and to be held and administered by the Bond Fund Trustee.

“Bond Fund Trustee” means the trustee appointed pursuant to Section 7.1 of the Resolution and its successor or successors and any other corporation which may be substituted in its place pursuant to the Resolution.

“Bonds” means Water System Revenue Bonds issued from time to time pursuant to and under authority of Section 3.1 of the Resolution and which shall be designated by the Supplemental Resolution authorizing the issuance thereof as either Senior Lien Bonds or Subordinate Lien Bonds.

“Capital Appreciation Bonds” means Bonds issued pursuant to Section 3.10 of the Resolution.

“Certificate of Determination” means the certificate or certificates of the Chairman of the Authority, dated November 15, 2016, determining certain terms of the Series 2016 Bonds.

“Compound Accreted Value” means an amount determined in accordance with Section 3.11 of the Resolution.

“Compounded Amount” means, as of any date of computation, the principal amount of any Capital Appreciation Bond plus the interest accrued on such Bond compounded on the interest payment dates and at the rate provided in the applicable Supplemental Resolution to such date of computation, if an interest payment date, or otherwise to the next preceding interest payment date.

“Construction Fund” means any Construction Fund created pursuant to Section 6.5 of the Resolution.

“Construction Fund Trustee” means a construction fund trustee appointed pursuant to Section 7.1 of the Resolution, its successor or successors and any other corporation which may at any time be substituted in its place pursuant to the Resolution.

“Consulting Engineer” means the engineer or engineering firm or corporation retained by or on behalf of the Authority pursuant to Section 8.5 of the Resolution to perform the acts and carry out the duties provided for such Consulting Engineer in the Resolution.

“Cost of Acquisition and Construction” means all costs of determining the feasibility of, and acquiring, constructing, financing, carrying out and placing in operation additions, improvements, enlargements, extensions, expansions and betterments to the Water System, and shall include, but shall not be limited to, moneys required for:

(i) working capital and reserves in such amounts as may be deemed necessary by the Authority;

(ii) interest accruing in whole or in part on Bonds after the date such Bonds are issued, but only if, and to such extent as, the Authority may reasonably determine;

(iii) deposits from the proceeds of Bonds in any fund or account established pursuant to the Resolution to meet reserve requirements for Bonds;

(iv) deposits from the proceeds of Bonds in any funds or accounts established pursuant to the Resolution as reserves for renewals, repairs, replacements, modifications, betterments, additions and contingencies; and

(v) preliminary survey, investigation and development costs, engineering fees, contractors’ fees, cost of permits, licenses and approvals, labor, materials, equipment, lands, rights of way, franchises, easements and other interests in land, utility services and supplies, payments to other public agencies, training and testing costs, insurance premiums, principal of and interest on notes issued in anticipation of Bonds, fees and expenses of trustees and paying agents, legal and financing costs, administrative and general costs, and all other costs incurred by the Authority and properly allocable to the Water System.

“Debt Service” means, as of any particular date of computation, with respect to any Bonds and with respect to any period, the aggregate of the amounts to be paid or set aside in such period for the payment (or retirement) of the principal of, premium, if any, and interest (to the extent not capitalized) on such Bonds.

“Direct Participant” has the meaning given such term in the letter of representations between the Authority and DTC.

“Favorable Opinion of Bond Counsel” means an opinion of Harris Bach PLLC, or other Bond Counsel, addressed to the Authority, the Paying Agent, to the effect that the action proposed to be taken is authorized or permitted by the laws of the State of New York and the United States, the General Resolution and the Supplemental Resolutions and will not adversely affect any exclusion from gross income for federal income tax purposes of interest on the Series 2016 Bonds.

“Fiscal Year” means the twelve month period established by the Authority or provided by law from time to time as its fiscal year, and which, as of the date of adoption of the Resolution, is the twelve month period commencing on June 1 of any year and ending on May 31 of the following year.

“Fitch” means Fitch Inc., its successors and their assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “Fitch” shall be deemed to refer to any other nationally recognized securities rating agency (other than S&P) designated by the Authority, by notice to the Paying Agent.

“General Fund” means the General Fund created in Section 6.4 of the Resolution and to be held and administered by the Authority.

“Investment Securities” means any of the following, if and to the extent that the same are legal for the investment of funds of the Authority:

(i) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America;

(ii) bonds, debentures, notes, participation certificates or other evidences of indebtedness issued or guaranteed by the Bank for Cooperatives; Federal Intermediate Credit Bank; Federal Home Loan Bank System; Export-Import Bank of the United States; Federal Land Banks; Federal National Mortgage Association; United States Postal Service; Government National Mortgage Association; Federal Financing Bank, Farmers Home Administration, Federal Home Loan Mortgage Association or any agency or instrumentality of the United States of America or any other corporation wholly-owned by the United States of America;

(iii) New Housing Authority Bonds issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an annual contributions contract or contracts with the United States of America or any agency thereof; or Project Notes issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America or any agency thereof;

(iv) direct and general obligations, to the payment of the principal of and interest on which the full faith and credit of the issuer is pledged, of any of the following: any state of the United States, or any political subdivision of any such state; provided that (a) as to such obligations of a political subdivision, all the taxable real property within such political subdivision shall be subject to taxation thereby to pay such obligations and the interest thereon, without limitation as to the rate or amount, and (b) at the time of their purchase under the Resolution, such obligations of any such state or political subdivision are rated in either of the two highest rating categories by two nationally recognized bond rating agencies;

(v) bank time deposits evidenced by certificates of deposit and bankers' acceptances issued by any bank or trust company (which may include the Bond Fund Trustee or any Construction Fund Trustee) which is a member of the Federal Deposit Insurance Corporation, provided that such time deposits and bankers' acceptances (a) do not exceed at any one time in the aggregate five percent (5%) of the total of the capital and surplus of such bank or trust company, or (b) are secured by obligations described in items (i), (ii) or (iii) of this definition of Investment Securities, which such obligations at all times have a market value (exclusive of accrued interest) at least equal to such time deposits so secured;

(vi) repurchase agreements with any bank or trust company (which may include the Bond Fund Trustee or any Construction Fund Trustee) which is a member of the Federal Deposit Insurance Corporation, which such agreements are secured by securities which are obligations described in items (i), (ii) or (iii) of this definition of Investment Securities provided that each such repurchase agreement (A) is in commercially reasonable form and is for a commercially reasonable period, and (B) results in transfer to the Bond Fund Trustee or the Authority of legal title to, or the grant to the Bond Fund Trustee or the Authority of a prior perfected security interest in, identified securities referred to in items (i), (ii) or (iii) above which are free and clear of any claims by third parties and are segregated in a custodial or trust account held by a third party (other than the repurchaser) as the agent solely of, or in trust solely for the benefit of, the Bond Fund Trustee or the Authority; provided that such securities acquired pursuant to such repurchase agreements shall be valued at the lower of the then current market value of such securities or the repurchase price thereof set forth in the applicable repurchase agreement;

(vii) obligations consisting of notes, bonds and debentures which are direct obligations of a solvent corporation existing under the laws of the United States or any state thereof, provided that such investments shall be rated in the two highest rating categories established by at least two nationally recognized bond rating agencies;

(viii) certificates or other obligations that evidence ownership of the right to payments of principal of or interest on obligations of the United State of America or any state of the United States of America or any political subdivision thereof or any agency or instrumentality of the United States of America or any state or political subdivision, provided that such obligations shall be held in trust by a bank or trust company or a national banking association meeting the requirements for a Bond Fund Trustee under Section 7.1 of the Resolution, and provided further that, in the case of certificates or other obligations of a state or political subdivision, the payments of all principal of and interest on such certificates or such obligations shall be fully insured or unconditionally guaranteed by, or otherwise unconditionally payable pursuant to a credit

support arrangement provided by, one or more financial institutions or insurance companies or associations which shall be rated in the highest rating category by Moody's Investors Service, Inc. and Standard & Poor's Corporation, or, in the case of an insurer providing municipal bond insurance policies insuring the payment, when due, of the principal of and interest on municipal bonds, such insurance policy shall result in such municipal bonds being rated in the highest rating category by Moody's Investors Service, Inc. and Standard & Poor's Corporation; and

(ix) investment agreements rated or the issuer of which is rated, in one of the two highest rating categories by at least two nationally recognized rating agencies and if rated by Moody's Investors Service or Standard & Poor's Corporation such investment agreements or the long term unsecured debt obligations of the issuer thereof must be rated in one of the two highest rating categories by the respective agency rating such investment agreements.

"Net Revenues" means, with respect to any period, the Revenues during such period less the Operation and Maintenance Expenses during such period.

"New Construction Fund" means the New Construction Fund created in Section 6.9 of the Resolution and to be held and administered by the Authority.

"Operating Fund" means the Operating Fund created in Section 6.2 of the Resolution and to be held and administered by the Authority.

"Operation and Maintenance Expenses" means the cost and expenses of operating and maintaining the Water System, including, without limiting the generality of the foregoing, (i) all expenses includable in the operation and maintenance expense accounts of the Authority relating to the Water System according to generally accepted accounting principals, exclusive of depreciation and amortization of property values or losses, and (ii) to the extent not included in the preceding clause (i) or paid from Bond proceeds or otherwise, the Authority's share of the costs and expenses of operating and maintaining any plants and properties jointly owned with others.

"Original Issue Discount Bonds" means Bonds of a Series which are originally reoffered to the public at a price (excluding accrued interest) of less than 98% of their principal amount.

"Outstanding" or "outstanding" means, (i) when used with reference to Bonds as of any date, Bonds theretofore or thereupon issued or authorized pursuant to the Resolution, except: (a) Bonds cancelled by a Paying Agent or paid at or prior to such date; (b) Bonds in lieu of or in substitution for which other Bonds shall have been delivered pursuant to the Resolution; and (c) Bonds deemed to be no longer outstanding as provided in Section 13.1 of the Resolution and (ii) when used with reference to Notes, or "Notes Outstanding" means all Notes which have been issued and delivered by the Paying Agent under the Supplemental Resolution, except: (a) Notes canceled or purchased by or delivered to the Paying Agent for cancellation, (b) Notes that have become due (at maturity or on redemption) the payment, including interest accrued to the due date, of which sufficient moneys have been set aside by the Authority, and (c) Notes in lieu of which others have been issued hereunder.

"Paying Agent" means, (i) as to the Series 2016A Bonds, The Bank of New York Mellon, or any successor thereto, as paying agent and registrar for the Series 2016A Bonds under the Series 2016A Supplemental Resolutions relating to the Series 2016A Bonds, (ii) as to the Series 2016B Bonds, The Bank of New York Mellon, or any successor thereto, as paying agent and registrar for the Series 2016B Bonds under the Series 2016B Supplemental Resolutions relating to the Series 2016B Bonds, (iii)

as to the Series 2016 Refunding Bonds, The Bank of New York Mellon, or any successor thereto, as paying agent and registrar for the Series 2016 Refunding Bonds under the Series 2016 Refunding Supplemental Resolution relating to the Series 2016 Refunding Bonds and (iv) as to Bonds of any particular Series, the bank or trust company designated for the payment of the principal of, premium, if any, and interest on the Bonds of such Series in the Supplemental Resolution providing for the issuance of such Series of Bonds.

“Projects” means the Cost of Acquisition and Construction of improvements and additions to the Water System.

“Rebate Fund” means any Rebate Fund created pursuant to Section 6.8 of the Resolution.

“Record Date” means the last Business Day prior to each Interest Payment Date on the Series 2016 Bonds.

“Refunded Municipal Obligations” means obligations of any state, the District of Columbia or possession of the United States or any political subdivision thereof which obligations are rated in the highest rating category by Moody’s Investor’s Service and Standard & Poor’s Corporation and provision for the payment of the principal of and interest on which shall have been made by deposit with a trustee or escrow agent of direct obligations of the United States of America, which are held by a bank or trust company organized and existing under the laws of the United States of America or any state, the District of Columbia or possession thereof in the capacity as custodian, the maturing principal of and interest on which direct obligations of the United States of America when due and payable shall be sufficient to pay when due the principal of and interest on such obligations of such state, the District of Columbia, possession, or political subdivision.

“Reserve Account Requirement” means, with respect to a Series of Bonds, the amount, if any, prescribed by the Supplemental Resolution authorizing such Series of Bonds.

“Resolution” means the Authority’s Water System Revenue Bonds Bond Resolution, adopted by the Authority on September 27, 1988, as amended on October 27, 1988 and as further amended on March 30, 1993 and November 29, 1994 and from time to time supplemented by one or more Supplemental Resolutions.

“Revenues” means and includes all income, fees, charges, receipts, profits and other moneys derived by the Authority from its ownership or operation of the Water System, including, without limiting the generality of the foregoing, (i) all income, fees, charges, receipts, profits and other moneys derived from the sale of water and from the furnishing or supplying of the services, facilities and commodities through the Water System; and (ii) all income from investments of moneys held under the Resolution including investment income on any Construction Fund but not including any earnings on the Rebate Fund. “Revenues” shall not include deposits subject to refund until such deposits have become the property of the Authority; and income, fees, charges, receipts, profits or other moneys derived by the Authority from its ownership or operation of any separate utility system or any gifts, grants, donations or other moneys received by the Authority from any State or Federal agency or other person if such gifts, grants, donations or other money are the subject of any limitation or reservation (i) imposed by the donor or grantor or (ii) imposed by law or administrative regulation to which the donor or grantor is subject, limiting the application of such funds.

“S&P” means Standard & Poor’s Ratings Services, a division of McGraw Hill Incorporated, its successors and their assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “S&P” shall be deemed to refer to any

other nationally recognized securities rating agency (other than Fitch) designated by the Authority, by notice to the Paying Agent.

“Secondary Bond Fund” means the Secondary Bond Fund created in Section 6.11 of the Resolution and to be held and administered by the Bond Fund Trustee.

“Secondary Revenues” means all Revenues, after taking into account all transfers and deductions required by Sections 6.1 (1), (2) and (3), 6.2 and 6.3 of the Resolution.

“Senior Lien Bonds” means the Outstanding Water System Revenue Bonds, Series 1988 Refunding, dated October 1, 1988, Water System Revenue Bonds, Series 1989, dated November 1, 1989, Water System Revenue Bonds, Series 1990, dated June 1, 1990, Water System Revenue Bonds, Series 1991, dated March 15, 1991, Water System Revenue Bonds, Series 1992A, dated July 15, 1992, Water System Revenue Bonds, Series 1992B, dated July 15, 1992 and Water System Revenue Bonds, Series 1992C, dated September 15, 1992 and any and all other Bonds issued from time to time and designated by a Supplemental Resolution authorizing the issuance thereof as Senior Lien Bonds.

“Serial Bonds” means Bonds which are not Term Bonds.

“Series of Bonds” or “Bonds of a Series” means all Bonds designated as being of the same series issued and delivered on original issuance in a simultaneous transaction, and any Bonds thereafter delivered in lieu thereof or in substitution therefor pursuant to the Resolution.

“Series 2016A Supplemental Resolution” means, collectively, that certain supplemental resolution adopted by the Authority on September 28, 2015 and the supplemental resolution adopted by the Authority on September 26, 2016, authorizing and providing for certain terms and provisions of the Series 2016A Bonds.

“Series 2016B Supplemental Resolution” means, that certain supplemental resolution adopted by the Authority September 26, 2016, authorizing and providing for certain terms and provisions of the Series 2016B Bonds.

“Series 2016 Refunding Supplemental Resolution” means, that certain supplemental resolution adopted by the Authority on September 26, 2016, authorizing and providing for certain terms and provisions of the Series 2016 Refunding Bonds.

“Subordinate Lien Bonds” means all Bonds other than Senior Lien Bonds.

“Supplemental Resolution” means any resolution adopted by the Authority pursuant to and in compliance with the provisions of Article III of the Resolution providing for the issuance of Bonds, and shall also mean any other resolution adopted by the Authority pursuant to and in compliance with the provisions of Article X of the Resolution which amends or supplements the provisions of the Resolution. When used with reference to this Official Statement, Supplemental Resolutions shall mean, collectively, the Series 2016A Supplemental Resolution, the Series 2016B Supplemental Resolution and the Series 2016 Refunding Supplemental Resolution.

“Water Revenue Fund” means the Water Revenue Fund created in Section 6.1 of the Resolution to be held and administered by the Authority.

“Water System” means all plants and properties, both real and personal and tangible and intangible, now or hereafter existing, of the Authority, used for or pertaining to the supplying,

purification, filtration, transmission and distribution of water or incidental or necessary to the preservation of the Authority's wells and water supply and the integrity thereof. Without limiting the generality of the foregoing, said term shall include: (1) the existing plants and properties comprising the Water System of the Authority, as of the date of adoption of the Resolution; and (2) all additions, improvements, enlargements, extensions, expansions, and betterments to the Water System of the Authority hereafter constructed or otherwise acquired, including, without limitation, water properties acquired by annexations or water properties acquired through the Authority's participation in any regional water system, purchase of water, conservation projects and appliances.

Pledge of Revenues, Funds and Other Moneys. The Bonds are payable solely from and secured by the funds pledged therefor.

(a) The Resolution pledges as security for the payment of the principal of, premium, if any, and interest on the Senior Lien Bonds in accordance with their terms and the provisions of the Resolution, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution (i) the proceeds of sale of the Senior Lien Bonds pending application thereof in accordance with the provisions of the Resolution or of a Supplemental Resolution, (ii) the Revenues, and (iii) all funds and accounts established by the Resolution other than the Rebate Fund, including the investments, if any, thereof; and the Senior Lien Bondholders shall have a lien on, and a security interest in, such proceeds, Revenues and funds and accounts for such purpose and subject to such provisions of the Resolution. Such pledge and the Senior Lien Bonds shall be subordinate to and inferior to the cost of operation and maintenance of the Water System.

The Senior Lien Bonds of each Series issued under the Resolution shall be equally and ratably payable and secured under the Resolution without priority by reason of date of adoption of the Supplemental Resolution providing for their issuance or by reason of their Series, number or date, date of issue, execution, authentication or sale thereof, or otherwise.

(b) The Resolution pledges as security for the payment of the principal of, premium, if any, and interest on the Subordinate Lien Bonds in accordance with their terms and the provisions of the Resolution, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution (i) the proceeds of sale of the Subordinate Lien Bonds pending application thereof in accordance with the provisions of the Resolution or of a Supplemental Resolution, (ii) the Secondary Revenues, and (iii) all funds and accounts established by the Resolution other than the Bond Fund and the Rebate Fund, including the investments, if any, thereof; and the Subordinate Lien Bondholders shall have a lien on, and a security interest in, such proceeds, Secondary Revenues and funds and accounts for such purpose and subject to such provisions of the Resolution. Such pledge and the Subordinate Lien Bonds shall be subordinate to and inferior to the cost of operation and maintenance of the Water System and the Resolution in favor of the Senior Lien Bonds.

The Subordinate Lien Bonds of each Series issued under the Resolution shall be equally and ratably payable and secured under the Resolution without priority by reason of date of adoption of the Supplemental Resolution providing for their issuance or by reason of their Series, number or date, date of issue, execution, authentication or sale thereof, or otherwise.

(c) (i) The principal of, premium, if any, and interest on the Senior Lien Bonds shall not be payable from any funds of the Authority other than the Bond Fund nor shall the Senior Lien Bonds create a charge upon any other revenues of the Authority, except the Revenues and other moneys and securities pledged under the Resolution.

(ii) The principal of, premium, if any, and interest on the Subordinate Lien Bonds shall not be payable from any funds of the Authority other than the Secondary Bond Fund nor shall the Subordinate Lien Bonds create a charge upon any other revenues of the Authority, except the Secondary Revenues and other moneys and securities pledged under the Resolution.

The Bonds shall not constitute a general obligation of the Authority. Neither the faith and credit nor the taxing power of the State of New York or of any political subdivision thereof are pledged for the payment of the principal of, premium, if any, or interest on the Bonds, and no holder of the Bonds shall have the right to compel the exercise of the taxing power of the State of New York or of any political subdivision thereof in connection with any default with respect to the Bonds. The Bonds are not a debt of the State of New York or of Suffolk County or of any municipality in Suffolk County, neither the State nor Suffolk County nor any municipality in Suffolk County is liable for the payment of the Bonds, nor are the Bonds payable out of any funds other than those of the Authority pledged for the payment of the Bonds under the Resolution. (Res. Section 3.2)

Issuance of Bonds Other Than Refunding Bonds. Bonds may be issued under the Resolution at any time and from time to time for any corporate use or purpose relating to the Water System, including, without limitation, payment of all or a portion of the Cost of Acquisition and Construction, subject to the following limitations:

A. The first installment of principal of such Series of Bonds shall be payable at such time as the Authority shall determine in accordance with the Resolution.

B. An Authorized Officer of the Authority shall certify at the time of issuance of such Series of Bonds that there does not exist an Event of Default as defined in the Resolution.

C. There shall be filed with the Authority and the Bond Fund Trustee at the time of issuance of such Series of Bonds a certificate signed by an Authorized Officer based (i) on audited figures or (ii) to the extent audited figures are not available on figures taken by an independent certified public accountant from the Authority's books and records, showing that:

(1) the average of the Net Revenues for any consecutive twenty-four months' period out of thirty-six months immediately preceding the month in which such Bonds are issued were equal to not less than one hundred ten per cent (110%) of the average annual Debt Service on the Bonds (including the Series of Bonds then being issued) for the then current and all future Fiscal Years; or

(2) there shall be filed with the Authority and the Bond Fund Trustee at the time of issuance of such Series of Bonds a certificate of the Consulting Engineer showing that the estimated Net Revenues of the Water System together with other moneys lawfully available therefor as estimated by the Consulting Engineer (as provided in the Resolution) for each of the five Fiscal Years, commencing with the first Fiscal Year in which the Series of Bonds then being issued is delivered, shall be at least equal to one and twenty-five hundredths (1.25) times the Debt Service for such Fiscal Year on all outstanding Bonds, including the Bonds then being issued.

The term “Debt Service” shall not include interest on Bonds to the extent it is to be paid from amounts on deposit in the Construction Interest Account in the Construction Fund, amounts on deposit in the Interest Account in the Bond Fund or any other provisions made for the payment of interest.

Issuance of Refunding Bonds. Without complying with the provisions set forth above under “Issuance of Bonds Other Than Refunding Bonds,” the Authority by means of a Supplemental Resolution may issue refunding Bonds at any time for the purpose of refunding (including by purchase) at any time all or any portion of Bonds outstanding, including amounts to pay principal, redemption premium and interest to the date of maturity or redemption (or purchase) and the expense of issuing the refunding Bonds and effecting such refunding. (Res. Section 3.6)

Bond Anticipation Notes. Bond anticipation notes may be issued by the Authority at such time as the Authority shall have by resolution authorized the issuance of bonds under the Act. Such note or notes may bear interest at a fixed, variable, adjustable, convertible or other similar rate or rates as may be determined by the Authority. If the Authority determines to issue bond anticipation notes with variable, adjustable, convertible or other similar rate or rates of interest, the Authority shall specify: (1) the manner of determining the interest rate or rates and the frequency of change thereof, (2) the maximum rate or rates, if any, at which the Notes may bear interest, (3) the interest payment dates or the manner of determining interest payment dates and (4) provisions, if any, with respect to the conversion of such Notes to Notes bearing a fixed rate of interest and the reconversion of such Notes to bear interest at a variable rate. The method or methods for determining the interest rates on Notes bearing interest at variable, adjustable, convertible or other similar rates of interest may include the selection of such rates by a rate determination agent as may be provided in an agreement between the Authority and such agent, the utilization of an index or indices as may be determined by the Authority, or such other standard or combination of standards as may be determined by the Authority. The Authority may provide the holders of the Notes with rights to tender the Notes for purchase, and may require the holders of the Notes to tender the same for purchase, the purchase price in each case to be provided from the proceeds of the remarketing of the Notes so tendered; the Authority may enter into one or more agreements with banks, investment banks, insurance companies or other financially responsible parties to provide letters of credit, insurance policies, standby note purchase agreements or other similar commitments or liquidity facilities the proceeds of which will be available to purchase Notes tendered for purchase or required to be tendered for purchase in the event that proceeds of remarketing such Notes are not available in amounts sufficient or timely to pay the purchase price of such Notes. The maximum maturity of such bond anticipation notes, including the renewals thereof, shall not exceed five years from the date of the original bond anticipation note. Such note or notes may be secured in the manner provided by the Act; provided that such bond anticipation note or notes shall be secured by a lien and pledge on the Revenues junior and inferior and subject to the lien and pledge on the Revenues created in the Resolution for the payment and security of the Bonds, and any resolution authorizing the issuance of such bond anticipation notes shall provide for the payment thereof after the required payments to the Operating Fund, to the Bond Fund and the Secondary Bond Fund. Such bond anticipation note or notes shall be discharged and paid through the issuance of bonds in anticipation of which they were issued, or, subject to rights of the holders of any Bonds Outstanding, from the proceeds of Bonds of the Authority. The principal amount of any bond anticipation notes may not exceed the principal amount of the series of bonds in anticipation of which said notes are to be issued. (Res. Section 3.7)

Subordinate Lien Obligations. Nothing contained in the Resolution shall prohibit or prevent, or be deemed or construed to prohibit or prevent, the Authority from authorizing and issuing bonds, notes, certificates, warrants or other evidences of indebtedness for any corporate use or purpose relating to the Water System payable as to principal and interest from the Revenues subject and subordinate to the deposits and credits required to be made to the Operating Fund, and to the Bond Fund, or from securing such bonds, notes, certificates, warrants or other evidences of indebtedness and the

payment thereof by a lien and pledge on the Revenues junior and inferior to the lien and pledge on the Revenues created in the Resolution for the payment and security of the Bonds. (Res. Section 3.8)

Separate Utility Systems. Nothing contained in the Resolution shall prevent the Authority from authorizing and issuing bonds, notes, warrants, certificates or other obligations or evidences of indebtedness, other than Bonds, to acquire or construct facilities for the collection, treatment or disposal of sewage, and any incidental properties to be constructed or acquired in connection therewith, which facilities shall be a separate utility system and which bonds or other obligations or evidences of indebtedness shall be payable solely from the revenues or other income derived from the ownership or operation of such separate system; provided, however, that the Authority will not issue bonds, notes, warrants, certificates or other obligations or evidences of indebtedness for the purpose of acquiring or constructing such a separate utility system unless and until a report of the Consulting Engineer shall be delivered to the Bond Fund Trustee to the effect that (i) the plan for developing the separate utility system is consistent with sound planning, and the separate utility system is of such character that it would be useful to the Authority, (ii) the separate utility system can be economically and effectively utilized by the Authority, (iii) the cost of the services of the separate utility system is reasonable in comparison to alternative sources and (iv) in the opinion of the Consulting Engineer, the acquisition, construction or operation of such separate utility system will not result in a reduction of the Revenues below the amount covenanted by Section 8.2 of the Resolution to be maintained. (Res. Section 3.9)

Capital Appreciation Bonds. A Supplemental Resolution providing for the issuance of a Series of Bonds may provide that the payment of interest on any specified Bonds of the Series shall only be made at maturity or at a specified time or times prior to maturity or upon earlier redemption, by sinking fund installment or otherwise. Any such Supplemental Resolution shall specify the Compounded Amount of such Bonds as of each interest payment date on the Bonds from the date of issue to maturity. The principal of any such Capital Appreciation Bonds shall be deemed to be their Compounded Amount for all purposes of the Resolution, including, for purposes of determining the Reserve Account Requirement and the provisions relating to redemption, acceleration and actions by Bondholders (Res. Section 3.10)

Original Issue Discount Bonds. A Supplemental Resolution providing for the issuance of a Series of Bonds may provide that specified Bonds of the Series be originally reoffered to the public as Original Issue Discount Bonds. For the purposes of provisions of the Resolution relating to redemption, acceleration and actions by Bondholders, the principal amount of Original Issue Discount Bonds shall be deemed to be their Compound Accreted Value, whether or not expressly stated in such provisions. For all other purposes of the Resolution, the principal amount of Original Issue Discount Bonds shall be deemed to be their face amount. Compound Accreted Value shall be determined as follows: the original offering price of an Original Issue Discount Bond is its initial Compound Accreted Value. On each interest payment date, until the Bond comes due, there will be a new Compound Accreted Value, equal to the prior Compound Accreted Value plus an accretion from the date as of which the prior Compound Accreted Value was calculated at a rate per annum equal to the yield to maturity on the original offering price, less the interest coming due on the interest payment date. Between interest payment dates (or prior to the first interest payment date) the difference between the most recent Compound Accreted Value and the next Compound Accreted Value will accrue linearly in the same manner as interest accrues and, if it becomes necessary to determine the Compound Accreted Value in the interim, it will include the accrual. From and after the date on which an Original Issue Discount Bond comes due, whether at maturity or by acceleration or redemption, its Compound Accreted Value will remain constant. The original offering price, the date as of which it was calculated and the yield to maturity (compounded on the interest payment dates) shall be established by a certificate of the underwriters for the Series of Bonds filed with the Bond Fund Trustee which, upon acceptance by the Bond Fund Trustee, shall be conclusive. (Res. Section 3.11)

Put Bonds. A Supplemental Resolution providing for the issuance of a Series of Bonds may provide for their repurchase or redemption, at the option of the holders, by the Authority or its designee or by the Bond Fund Trustee on a date or dates and with such notice as specified in the applicable Supplemental Resolution. A repurchase or redemption pursuant to such provision shall not cause any bond so repurchased or redeemed to lose the benefit of any security under the Resolution or to be no longer deemed to be outstanding pursuant to the Resolution. The repurchase or redemption price shall be financed by the proceeds of resale of the repurchased Bonds, by the issuance of refunding Bonds, by using moneys available therefor in the Bond Retirement Account, or by any other lawful means, or by a combination of the foregoing. To the extent permitted by law and the Supplemental Resolution, the Authority, the Bond Fund Trustee or an agent appointed by the Authority for such purpose may resell the repurchased bonds and the Authority may issue Bonds (which shall be treated under the Resolution as refunding Bonds) for the purpose of financing any loss incurred by the repurchase and resale. The repurchase or redemption price shall not be treated as Debt Service for the purpose of calculating payments into the Bond Fund but shall be treated as principal, interest or redemption price, as the case may be, for the purposes of certain provisions of the Resolution. If Bonds of a Series are made subject to repurchase or redemption pursuant to Section 3.12 of the Resolution, Debt Service shall be calculated by using the schedule of Debt Service which would apply if the option were not exercised except to the extent the option has been exercised and the option price has been paid (or provision for payment has been made pursuant to the Resolution). Nothing in this paragraph shall be deemed to preclude any repurchase or redemption of Bonds otherwise required or permitted by the terms of the Resolution. (Res. Section 3.12)

Variable Rate Bonds. A Supplemental Resolution providing for the issuance of a Series of Bonds may provide for the Bonds to bear interest at a variable, adjustable, convertible or other similar rate or rates of interest. Any such Supplemental Resolution shall specify: (1) the manner of determining the interest rate or rates and the frequency of change thereof, (2) the maximum rate or rates, if any, at which the Bonds may bear interest and (3) provisions, if any, with respect to the conversion of such Bonds to Bonds bearing a fixed rate of interest and the reconversion of such Bonds to bear interest at a variable rate. The method or methods for determining the interest rate on Bonds bearing interest at a variable or similar rate of interest may include the selection of such rate by a rate determination agent as provided in an agreement between the Authority and such agent, the utilization of an index or indices as described in the applicable Supplemental Resolution, or such other standard or combination of standards set forth in the Supplemental Resolution.

In connection with the issuance of any Bonds bearing interest at a variable, adjustable, convertible or similar rate, the Authority shall obtain a certificate from the underwriters for such Bonds setting forth the Certified Interest Rate, which means the rate of interest which would have been borne by such Bonds had they been issued at a fixed interest rate, assuming the same maturity dates, terms and provisions (other than interest rate or any repurchase or redemption by the Authority at the option of the holder) as the Bonds assuming the same credit rating or ratings of the Authority and making any other assumptions deemed necessary and proper, as determined by the underwriters. Such certificate shall contain or have attached thereto data and factual information supporting such Certified Interest Rate; and such certificate, when accepted by the Authority, shall be conclusive.

Debt Service for any Variable Rate Bonds shall be calculated for purposes of the definition of Reserve Account Requirement by using the Certified Interest Rate. For purposes of calculating the payments into the Interest Account in the Bond Fund the interest accrued or estimated to accrue during the calendar month in which the payment is to be made shall be the amount of the required payment, subject in the case of an estimate to an adjustment at the end of the month. (Res. Section 3.13)

Additional Security. To the extent permitted by law, a Supplemental Resolution providing for the issuance of a Series of Bonds may provide that the Authority obtain or cause to be obtained Additional Security providing for payment of all or a portion of the purchase price or principal, premium, if any, or interest due or to become due on specified Bonds of such Series, or providing for the purchase of such Bonds or a portion thereof by the issuer of the Additional Security, or providing, in whole or in part, for the funding of the Reserve Account. In connection therewith, the Authority may enter into agreements with the issuer of the Additional Security to provide the terms and conditions thereof, including the security, if any, to be provided to the issuer. The Authority may secure the Additional Security by an agreement providing for the purchase of the Bonds secured thereby with such adjustments to the rate of interest, method of determining interest, maturity, or redemption provisions as specified in the Supplemental Resolution. Debt Service with respect to any Bonds so secured shall be calculated for purposes of the definition of Reserve Account Requirement by using the rate of interest or Certified Interest Rate, if applicable, on the Bonds prior to adjustment under such agreement. The Authority may also agree to reimburse directly the issuer of the Additional Security for any amounts paid thereunder together with interest thereon. (Res. Section 3.14)

Revenue Fund. The Resolution establishes a special fund of the Authority to be maintained in trust by the Authority and to be known as the “Water Revenue Fund.” The Authority will pay or cause to be paid into the Water Revenue Fund, as promptly as practicable after receipt thereof, all of the Revenues and all other moneys required to be paid into the Water Revenue Fund pursuant to the Resolution (other than the Revenues and other amounts expressly required or permitted by the Resolution to be credited to, or deposited in, any other fund or account).

Moneys in the Water Revenue Fund shall be applied in the following order of priority:

1. The amounts required to pay Operation and Maintenance Expenses shall be transferred to the Operating Fund as required by Section 6.2 of the Resolution;
2. The amounts required to be deposited to the Bond Fund shall be transferred as set forth in Section 6.3 of the Resolution;
3. The amounts required to be deposited to the Secondary Bond Fund shall be transferred as set forth in Section 6.11 of the Resolution;
4. The balance remaining in the Water Revenue Fund at the end of each month, after making the transfers and allocations set forth above, shall be deposited into the General Fund, established pursuant to Section 6.4 of the Resolution. (Res. Section 6.1)

Operating Fund. The Resolution establishes a special fund of the Authority to be maintained in trust by the Authority, as long as any Bonds issued under the Resolution are outstanding, and to be known as the “Operating Fund.” All reasonable and necessary Operation and Maintenance Expenses shall be paid from the Operating Fund as the same become due and payable after transfers from the Water Revenue Fund and prior to any payment to other funds and accounts. (Res. Section 6.2)

Bond Fund. The Resolution establishes a special fund of the Authority to be maintained in trust and held by the Bond Fund Trustee as long as any Senior Lien Bonds issued under the Resolution are outstanding and unpaid, and to be known as the “Bond Fund.” The Bond Fund and the moneys deposited in such Fund shall, except as otherwise provided in paragraph D below, be used solely for the purpose of paying the principal of, premium, if any, and interest on the Senior Lien Bonds, and of retiring the Senior Lien Bonds prior to maturity in the manner provided in the Resolution. Each month, after making the transfers to the Operating Fund, the Authority shall transfer, to the extent not otherwise

provided, from the Water Revenue Fund to the Bond Fund Trustee for deposit into the Bond Fund amounts as follows and in the following order of priority:

A. Interest Account. Not later than the twenty-fifth (25th) day of the sixth (6th) month prior to the date upon which an installment of interest falls due on the Senior Lien Bonds of a Series, or if the first installment of interest on the Senior Lien Bonds of such Series shall fall due in less than six months, then on the twenty-fifth (25th) day of the month immediately succeeding the month in which the Senior Lien Bonds of such Series are delivered to the initial purchasers, and in any event prior to the date upon which such installment of interest falls due, and on or before the twenty-fifth day of each succeeding calendar month thereafter, the Authority shall pay to the Bond Fund Trustee, and the Bond Fund Trustee shall credit to the Interest Account an amount such that, if the same amount were so credited to the Interest Account on the twenty-fifth (25th) day of each calendar month thereafter prior to the next date upon which an installment of interest falls due on the Senior Lien Bonds of such Series, the aggregate of the amount so credited to the Interest Account would on such date be equal to the installment of interest then falling due on all Senior Lien Bonds of such Series. In order to provide for the payment of the interest on the Senior Lien Bonds of a Series with any frequency other than semi-annually, the Authority shall pay or cause to be paid from the Water Revenue Fund amounts in accordance with the provisions of the Supplemental Resolution pursuant to which such Series of Senior Lien Bonds is issued. Interest capitalized from the proceeds of the Senior Lien Bonds of a Series and any other transfers and credits otherwise made or required to be made to said Account shall be taken into consideration and allowed for in making the payments into the Interest Account.

B. Principal Account. Not later than the twenty-fifth (25th) day of the twelfth (12th) month prior to the date upon which an installment of principal of Serial Bonds of each Series of Senior Lien Bonds falls due, or if the first installment of principal of Serial Bonds of such Series shall fall due in less than twelve months, then on the twenty-fifth (25th) day of the month immediately succeeding the month in which the Senior Lien Bonds of such Series are delivered to the initial purchasers, and in any event prior to the date upon which such installment of principal falls due, and on or before the twenty-fifth (25th) day of each succeeding calendar month thereafter, the Authority shall pay to the Bond Fund Trustee, and the Bond Fund Trustee shall credit to the Principal Account an amount such that, if the same amount were so credited to the Principal Account on the twenty-fifth (25th) day of each calendar month thereafter, prior to the next date upon which an installment of principal falls due on the Serial Bonds of such Series of Senior Lien Bonds, the aggregate of the amounts so credited to the Principal Account would on such date be equal to the installment of principal then falling due on the Serial Bonds of such Series of Senior Lien Bonds. Any earnings on moneys in said Account shall be taken into consideration and allowed for in making payments into the Principal Account.

C. Bond Retirement Account. Not later than the twenty-fifth (25th) day of the twelfth (12th) month prior to the date upon which a sinking fund installment of Term Bonds of each Series of Senior Lien Bonds falls due, or if the first sinking fund installment of the Term Bonds of such Series of Senior Lien Bonds shall fall due in less than twelve months, then on the twenty-fifth (25th) day of the month immediately succeeding the month in which the Bonds of such Series of Senior Lien Bonds are delivered to the initial purchasers, and in any event prior to the date upon which such Sinking Fund Installment falls due, and on or before the twenty-fifth (25th) day of each succeeding calendar month thereafter, the Authority shall pay to the Bond Fund Trustee, and the Bond Fund Trustee shall credit to the Bond Retirement Account an amount such that, if the same amount were so credited to the Bond Retirement Account on the twenty-fifth (25th) day of each calendar month thereafter, prior to the next date upon which a Sinking Fund Installment falls due on the Term Bonds of such Series of Senior Lien Bonds, the aggregate of the amounts so credited to the Bond Retirement Account for the purpose of retiring the Term Bonds of such Series of Senior Lien Bonds would on such date be equal to the Sinking Fund Installment then falling due on the Term Bonds of such Series of Senior Lien Bonds. In making the credits to the Bond Retirement Account, any earnings on moneys in said Account shall be taken into consideration and allowed for.

The Bond Fund Trustee shall without further authorization or direction apply the moneys on credit to the Bond Retirement Account on each date, if any, upon which a Sinking Fund Installment is due to the retirement of the Term Bonds of such Series of Senior Lien Bonds in accordance with the Supplemental Resolution providing for the issuance of such Series of Senior Lien Bonds, or, if so directed in writing by the Authority, semi-annually on both such due date and the day six months prior to such due date, in the respective principal amounts on credit to the Bond Retirement Account on such dates for such Term Bonds, so that the aggregate amounts so applied will equal the respective principal amounts required to be credited to the Bond Retirement Account on such sinking fund installment dates by the Supplemental Resolution providing for their issuance; provided, however, that if the last Sinking Fund Installment for such Term Bonds falls due on the stated maturity date thereof, the amount of such installment shall not be applied to the redemptions of such Term Bonds but shall be applied to the payment thereof at such maturity date in the same manner as amounts are applied from the Principal Account for the payment of Serial Bonds at maturity. The Bond Fund Trustee shall give notice of all such redemptions, in the name and on behalf of the Authority, in accordance with the Resolution. The Bond Fund Trustee may also, without further authorization or direction, apply the moneys credited to the Bond Retirement Account for the retirement of the Term Bonds of a particular Series of Senior Lien Bonds to the purchase of such Senior Lien Bonds, at a purchase price (including accrued interest and any brokerage or other charge) not to exceed the redemption price then applicable upon the redemption of such Senior Lien Bonds from Sinking Fund Installments, plus accrued interest, in which event the principal amount of such Senior Lien Bonds required to be redeemed on the next respective ensuing Sinking Fund Installment date shall be reduced by the principal amount of the Senior Lien Bonds so purchased; provided, however, that no Senior Lien Bonds of such Series shall be purchased during the interval between the date on which notice of redemption of said Senior Lien Bonds from Sinking Fund Installments is given and the date of redemption set forth in such notice, unless the Senior Lien Bonds so purchased are Senior Lien Bonds called for redemption in such notice or are purchased from moneys other than those credited to the Bond Retirement Account with respect to Sinking Fund Installments.

In the event that moneys in the Bond Retirement Account, other than moneys credited thereto as Sinking Fund Installments pursuant to a Supplemental Resolution, are to be applied to the retirement of a Series of Senior Lien Bonds, the Authority may direct the Bond Fund Trustee within thirty (30) days of the deposit of such moneys to apply such moneys to the purchase of Senior Lien Bonds of such Series. The price payable on any such purchase (including any brokerage or other charge) shall not exceed the highest redemption price applicable at the time or any time thereafter with respect to such Series of Senior Lien Bonds, plus accrued interest. Any such moneys not applied to the purchase of

Senior Lien Bonds shall be applied to the redemption of Senior Lien Bonds of each Series then subject to redemption from such moneys in the proportion, as nearly as practicable, which the principal amount of Senior Lien Bonds of such Series then outstanding and unpaid and so subject to redemption bears to the total principal amount of Senior Lien Bonds then outstanding and unpaid and so subject to redemption.

Except for the redemption of Term Bonds from moneys credited to the Bond Retirement Account as sinking fund installments, not less than One Hundred Thousand Dollars (\$100,000) aggregate principal amount of Senior Lien Bonds shall be called for redemption at any one time pursuant to part C of Section 6.3 of the Resolution unless the Authority directs the purchase or redemption of a lesser amount. The Bond Fund Trustee shall give notice of all such redemptions, in the name and on behalf of the Authority, in accordance with the provisions of the Resolution.

Any purchase of Senior Lien Bonds as described herein may be made with or without tenders of Senior Lien Bonds and at either public or private sale. All Senior Lien Bonds purchased, redeemed or retired as described herein shall be cancelled and shall not be reissued. The accrued interest to be paid on the purchase or redemption of Senior Lien Bonds shall be paid from the Interest Account.

In the event of the purchase or redemption of Term Bonds of a particular Series of Senior Lien Bonds as described herein or otherwise, except from moneys credited to the Bond Retirement Account as Sinking Fund Installments, or if such Term Bonds to be so redeemed are deemed to be no longer outstanding and unpaid pursuant to the Resolution, the amount required to be credited to the Bond Retirement Account on such Sinking Fund Installment date thereafter, as specified in the Supplemental Resolution providing for the issuance thereof, shall be reduced in the proportion, as nearly as practicable, which the principal amount of such Sinking Fund Installment bears to the total principal amount of all Sinking Fund Installments so specified for the Term Bonds of such Series of Senior Lien Bonds.

All expenses in connection with the purchase, redemption or payment of Senior Lien Bonds as described herein shall be paid by the Authority from the Water Revenue Fund.

D. Reserve Account. The Bond Fund Trustee shall create a separate Account for each series of Senior Lien Bonds. The Reserve Account Requirement for each Series of Senior Lien Bonds shall be that amount, if any, provided in the Supplemental Resolution providing for the issuance of such Series of Senior Lien Bonds. In the event a Reserve Account Requirement is prescribed, the Supplemental Resolutions providing for the issuance of a Series of Senior Lien Bonds shall provide either (i) for deposits from the moneys in the Water Revenue Fund into the Bond Fund for credit to the appropriate Reserve Account, (ii) for payments into the Bond Fund for credit to the appropriate Reserve Account from the proceeds of Senior Lien Bonds or from any moneys lawfully available therefor, or (iii) for deposit with the Bond Fund Trustee of a surety bond, an insurance policy or letter of credit unconditionally payable on demand to or for the benefit of the Bond Fund Trustee for the benefit of the holders of the Series of Senior Lien Bonds for which the Reserve Account was created, all as shall be determined and provided in the Supplemental Resolution. The moneys in the Bond Fund on credit to a Reserve Account shall be used and applied solely for the purpose of paying the principal of, premium, if any, and interest on the respective Series of Senior Lien Bonds for which the account was created when due, whether at their maturity or upon the redemption or purchase thereof from moneys credited to the Bond Retirement Account, and shall be so used and applied whenever there are insufficient moneys on credit to the Interest Account, Principal Account and Bond Retirement Account for such purposes. No Senior Lien Bonds other than the Series of Senior Lien Bonds for which such account has been created shall have any right to be paid from such account.

When a Series of Senior Lien Bonds is refunded in whole or in part or is otherwise paid within the meaning of the Resolution, moneys may be withdrawn from the Reserve Account for such

Series to pay or provide for the payment of such Senior Lien Bonds or refunded Senior Lien Bonds, as the case may be, or may be transferred and applied to any reserve fund or account established for the refunding bonds issued to refund such refunded Senior Lien Bonds; provided that immediately after such withdrawal or transfer there shall be on credit to the Reserve Account for those Senior Lien Bonds of the Series of Senior Lien Bonds not refunded an amount equal to the Reserve Account Requirement for such Series.

E. Moneys on deposit in the Bond Fund shall be transmitted by the Bond Fund Trustee to any Paying Agent at such times as shall be necessary prior to the date upon which any installment of interest or principal is due on the Senior Lien Bonds (either at the maturity date thereof or redemption date prior to maturity), and in amounts sufficient to meet such installments of, principal of, premium, if any, and interest on the Senior Lien Bonds, then due. In the event that there shall be a deficiency in the Interest Account, Principal Account or Bond Retirement Account three business days before any interest, principal or sinking fund payment is due on a Series of Senior Lien Bonds, the Bond Fund Trustee shall promptly make up such deficiency from the Reserve Account for such Series by the withdrawal of cash therefrom for that purpose or by the sale or redemption of Investment Securities held in the Reserve Account, if necessary, in such amounts as will provide cash in the Reserve Account sufficient to make up any such deficiency or by the transfer of Investment Securities (or undivided interests therein) in which moneys in the Interest Account, Principal Account or Bond Retirement Account, as the case may be, may be invested, or by taking such steps as may be necessary to realize the benefit of any surety bond, insurance policy or letter of credit deposited in the Reserve Account for such Series.

Moneys set aside from time to time with any Paying Agent for the purpose of paying the principal of, premium, if any, and interest on the Senior Lien Bonds shall be held in trust for the holders of the Senior Lien Bonds in respect of which the same shall have been so set aside. Until so set aside, all moneys in the Bond Fund shall be held in trust for the benefit of the holders of all Senior Lien Bonds at the time outstanding, equally and ratably.

Whenever the amounts on deposit in the Bond Fund (regardless of the account therein to which such amounts are credited) shall be sufficient to provide moneys to retire all Senior Lien Bonds then Outstanding, including such interest thereon as thereafter may become due and payable and any premiums upon redemption thereof, no further deposits need be made by the Authority into the Bond Fund, and without further authorization or direction the Bond Fund Trustee shall call, except in the event of the final maturity of all Senior Lien Bonds then Outstanding, all Senior Lien Bonds which may be redeemed by their terms, for redemption on the next succeeding redemption date for which the required notice of redemption can practicably be given, and shall apply such moneys to such retirement or redemption. (Res. Section 6.3)

General Fund. The Resolution establishes a special fund of the Authority to be maintained by the Authority, as long as any Bonds are Outstanding, and to be known as the "General Fund." Moneys in the General Fund may be used for any lawful purpose of the Authority, including transfers from time to time to the New Construction Fund. (Res. Section 6.4)

Construction Fund. The Supplemental Resolution providing for the issuance of any Series of Bonds (exclusive of refunding Bonds) may create and establish (unless theretofore created and established with respect to such purpose) a separate special trust fund to be known as the "Construction Fund, _____," or such other designation as may be appropriate (the blank to be completed with the year in which the fund is created). The Construction Fund may be held in trust by the Authority or by a Construction Fund Trustee for the benefit of the Authority and the holders of the Bonds, as their interests may appear, pending application thereof. In the event any interest on such Bonds is to be capitalized from

the proceeds of such Bonds, there shall be created in the Construction Fund a special account to be known as the "Construction Interest Account," or such other designation as may be appropriate.

A. From the proceeds derived from the sale of such Bonds there shall be deposited:

1. With the Authority or the Construction Fund Trustee, as the case may be, for credit to the Construction Interest Account (if any, otherwise with the Bond Fund Trustee for deposit in the Bond Fund for credit to the Interest Account), an amount equal to the accrued interest on the Bonds paid as part of the purchase price;

2. With the Authority or the Construction Fund Trustee, as the case may be, for credit of such Construction Interest Account if any, otherwise with the Bond Fund Trustee for deposit in the Bond Fund for credit to the Interest Account, the amount, if any, equal to the interest on the Bonds being capitalized from the proceeds thereof;

3. With the Bond Fund Trustee for payment into the Bond Fund for credit to the applicable Reserve Account the amount prescribed in the applicable Supplemental Resolution;

4. With the Authority or the Construction Fund Trustee, as the case may be, for credit to the applicable Construction Fund the balance of the Bond proceeds which shall be applied to the payment of the cost as shall be specified in the applicable Supplemental Resolution. Any balance remaining in such Construction Fund upon completion of payment of such costs shall be deposited in the New Construction Fund or used for any lawful purpose of the Authority, provided that in either event the Authority shall have obtained a written opinion of nationally recognized bond counsel acceptable to the Bond Fund Trustee that such application will not impair the exemption from federal income taxation of interest on any of the Bonds.

B. Moneys credited to the Construction Interest Account shall be used for the purpose of paying interest on the Bonds. On or before the 25th day of the month next preceding the maturity of an installment of interest on the Bonds for the payment of which moneys have been credited to the Construction Interest Account, the Authority or the Construction Fund Trustee, as the case may be, shall transfer from the Construction Interest Account to the Bond Fund Trustee for deposit in the Bond Fund for credit to the Interest Account an amount which, together with any moneys theretofore received or held by the Bond Fund Trustee for that purpose, shall be sufficient to pay such next maturing installment of interest. (Res. Section 6.5)

Lien on Moneys in the Construction Fund. The proceeds of Bonds in any Construction Fund, pending their application as provided in the Resolution and Supplemental Resolution, shall be subject to a prior and paramount lien and charge in favor of the holders of the Bonds, and the holders of the Bonds shall have a valid claim on such moneys for the further security of the Bonds until paid out or transferred as provided in the Resolution. (Res. Section 6.7)

Rebate Fund. If and to the extent necessary to comply with any covenant established in a Supplemental Resolution with respect to a Series of Bonds regarding maintaining the exemption of interest on such Bonds from federal income taxation, the Authority shall establish in the Supplemental Resolution providing for the issuance thereof of a Rebate Fund and an account in the Rebate Fund with respect to such Series of Bonds. The Authority shall establish in said Supplemental Resolution such terms and provisions regarding deposits or credits to and withdrawals from said account, the calculation of amounts to be deposited or credited thereto, investment of amounts on deposit therein, if any, and such other terms and provisions the Authority deems necessary to ensure compliance with the provisions of any such covenant. The Authority shall establish separate accounts in the Rebate Fund for each

subsequent Series of Bonds, if required for such Series of Bonds. Moneys in the Rebate Fund and the accounts therein are not available for the benefit of the holders of the Bonds and are not pledged to payment of the Bonds or the interest thereon. (Res. Section 6.8)

New Construction Fund. The Resolution establishes a special fund of the Authority to be maintained by the Authority and to be known as the “New Construction Fund.” Moneys in the New Construction Fund may be used to finance the Cost of Acquisition and Construction of improvements to the Water System or the payment of notes in respect of which renewal notes are issued. Any non-exempt project for which moneys in such Construction Fund, may be applied shall be reviewed under the New York State Environmental Quality Review Act (Article Eight of the Environmental Conservation Law) (“SEQRA”), prior to adoption of any decision, order or resolution committing the Authority or applicable agency to undertake such project. The Authority’s authorizations contained herein are predicated on compliance with SEQRA and are limited to conducting contemporaneous environmental, engineering, economic, feasibility and other studies and preliminary planning and budgetary processes necessary to formulate a proposal for action. Notwithstanding any authorization included above, the activities so authorized do not commit the Authority to commence, engage in or approve the Projects. No final action may be taken before the Authority has complied with the requirements of SEQRA. (Res. Section 6.9)

Investment of Funds. Moneys in the Interest Account, Principal Account and Bond Retirement Account in the Bond Fund and moneys in the Secondary Interest Account, Secondary Principal Account and Secondary Bond Retirement Account in the Secondary Bond Fund shall, to the fullest extent practicable and reasonable, be invested and reinvested by the Bond Fund Trustee (at the direction of the Authority) in investments specified in items (i), (ii), (iii), (iv), (v)(b) and (vi) of the definition of Investment Securities and which shall mature or be subject to redemption at the option of the holder thereof on or prior to the respective dates when the moneys in such accounts will be required for the purposes intended. Moneys in each of the Reserve Account of the Bond Fund and the Secondary Reserve Account of the Secondary Bond Fund not required for immediate disbursement for the purpose for which said Account is created shall, to the fullest extent practicable and reasonable, be invested and reinvested by the Bond Fund Trustee at the direction of the Authority in investments specified in items (i), (ii), (iii), (iv), (v)(b) and (vi) of the definition of Investment Securities and which shall mature at or prior to ten years from the date of investment thereof. The Bond Fund Trustee shall not be liable for any depreciation in the value of any such investments.

Moneys in the Water Revenue Fund not required for immediate disbursement for the purpose for which said Fund is created shall, to the fullest extent practicable and reasonable, be invested and reinvested by the Authority, to the extent allowed by law, in Investment Securities which shall mature or be subject to redemption at the option of the holder thereof, not later than such times as shall be necessary to provide moneys when needed to provide payment from such Fund.

Moneys in the Construction Fund, including a Construction Interest Account therein not required for immediate disbursement for the purposes for which said Fund and Account is created, shall, to the fullest extent practicable and reasonable, be invested and reinvested by the Authority or the Construction Fund Trustee, as the case may be, for such Fund and Account, to the extent allowed by law, in Investment Securities which shall mature or be subject to redemption at the option of the holder thereof not later than such times as shall be necessary to provide moneys when needed to provide payments from such Fund and Account.

To the extent permitted in the Resolution, all income received from the investment or reinvestment of moneys in the Funds established thereunder shall be deposited in the respective Funds from which such investments are made to the extent of any deficiencies therein and otherwise to the Water Revenue Fund; provided, however, that, at the direction of the Authority, all or a portion of the

income received from the investment or reinvestment of moneys in any such Fund may be deposited in the Construction Fund, including the Construction Interest Account therein. All income received from the investment or reinvestment of moneys in a Construction Fund shall be deposited in said Fund.

Nothing in the Resolution shall prevent any Investment Securities acquired as investments of funds held under the Resolution from being issued or held in book-entry form. (Res. Section 6.10)

Secondary Bond Fund. The Resolution establishes a special fund of the Authority to be maintained in trust and held by the Bond Fund Trustee, as long as any Subordinate Lien Bonds issued under the Resolution are Outstanding and unpaid, and to be known as the “Secondary Bond Fund.” The Secondary Bond Fund and the moneys deposited in such Fund shall, except as otherwise provided in paragraph D below, be used solely for the purpose of paying the principal of, premium, if any, and interest on the Subordinate Lien Bonds, and of retiring the Subordinate Lien Bonds prior to maturity in the manner provided in the Resolution. Each month, after making the transfers to the Operating Fund and to the Bond Fund, the Authority shall transfer, to the extent not otherwise provided, from the Water Revenue Fund to the Bond Fund Trustee for deposit into the Secondary Bond Fund amounts as follows and in the following order of priority, to wit:

A. **Secondary Interest Account.** Not later than the twenty-fifth (25th) day of the sixth (6th) month prior to the date upon which an installment of interest falls due on the Subordinate Lien Bonds of a Series, or if the first installment of interest on the Subordinate Lien Bonds of such Series shall fall due in less than six months, then on the twenty-fifth (25th) day of the month immediately succeeding the month in which the Subordinate Lien Bonds of such Series are delivered to the initial purchasers, and in any event prior to the date upon which such installment of interest falls due, and on or before the twenty-fifth (25th) day of each succeeding calendar month thereafter, the Authority shall pay to the Bond Fund Trustee, and the Bond Fund Trustee shall credit to the Secondary Interest Account an amount such that, if the same amount were so credited to the Secondary Interest Account on the twenty-fifth (25th) day of each calendar month thereafter prior to the next date upon which an installment of interest falls due on the Subordinate Lien Bonds of such Series, the aggregate of the amounts so credited to the Secondary Interest Account would on such date be equal to the installment of interest then falling due on all Subordinate Lien Bonds of such Series. In order to provide for the payment of the interest on the Subordinate Lien Bonds of a Series with any frequency other than semi-annually, the Authority shall pay or cause to be paid from Secondary Revenues, amounts in accordance with the provisions of the Supplemental Resolution pursuant to which such Series of Subordinate Lien Bonds is issued. Interest capitalized from the proceeds of the Subordinate Lien Bonds of a Series and any other transfers and credits otherwise made or required to be made to said Account shall be taken into consideration and allowed for.

B. **Secondary Principal Account.** Not later than the twenty-fifth (25th) day of the twelfth (12th) month prior to the date upon which an installment of principal of Serial Bonds of each Series of Subordinate Lien Bonds falls due, or if the first installment of principal of Serial Bonds of such Series shall fall due in less than twelve months, then on the twenty-fifth (25th) day of the month immediately succeeding the month in which the Subordinate Lien Bonds of such Series are delivered to the initial purchasers, and in any event prior to the date upon which such installment of principal falls due, and on or before the twenty-fifth (25th) day of each succeeding calendar month thereafter, the Authority shall pay to the Bond Fund Trustee, and the Bond Fund Trustee shall credit to the Secondary Principal Account an amount such that, if the same amount were so credited to the Secondary Principal Account on the twenty-fifth (25th) day of each calendar month thereafter, prior to the next date upon which an installment of principal falls due on the Serial Bonds of such Series of Subordinate Lien Bonds, the aggregate of the amounts so credited to the Secondary Principal Account would on such date be equal

to the installment of principal then falling due on the Serial Bonds of such Series of Subordinate Lien Bonds. Any earnings on moneys in said Account shall be taken into consideration and allowed for.

C. Secondary Bond Retirement Account. Not later than the twenty-fifth (25th) day of the twelfth (12th) month prior to the date upon which a Sinking Fund Installment of Term Bonds of each Series of Subordinate Lien Bonds falls due, or if the first Sinking Fund Installment of the Term Bonds of such Series of Subordinate Lien Bonds shall fall due in less than twelve months, then on the twenty-fifth (25th) day of the month immediately succeeding the month in which the Bonds of such Series of Subordinate Lien Bonds are delivered to the initial purchasers, and in any event prior to the date upon which such Sinking Fund Installment falls due, and on or before the twenty-fifth (25th) day of each succeeding calendar month thereafter, the Authority shall pay to the Bond Fund Trustee, and the Bond Fund Trustee shall credit to the Secondary Bond Retirement Account an amount such that, if the same amount were so credited to the Secondary Bond Retirement Account on the twenty-fifth (25th) day of each calendar month thereafter, prior to the next date upon which a Sinking Fund Installment falls due on the Term Bonds of such Series of Subordinate Lien Bonds, the aggregate of the amounts so credited to the Secondary Bond Retirement Account for the purpose of retiring the Term Bonds of such Series of Subordinate Lien Bonds would on such date be equal to the Sinking Fund Installment then falling due on the Term Bonds of such Series of Subordinate Lien Bonds. In making the credits required by this paragraph any earnings on moneys in said Account shall be taken into consideration and allowed for.

The Bond Fund Trustee shall without further authorization or direction apply the moneys on credit to the Secondary Bond Retirement Account on each date, if any, upon which a Sinking Fund Installment is due to the retirement of the Term Bonds of such Series of Subordinate Lien Bonds in accordance with the Supplemental Resolution providing for the issuance of such Series of Subordinate Lien Bonds, or, if so directed in writing by the Authority, semi-annually on both such due date and the day six months prior to such due date, in the respective principal amounts on credit to the Secondary Bond Retirement Account on such dates for such Term Bonds, so that the aggregate amounts so applied will equal the respective principal amounts required to be credited to the Secondary Bond Retirement Account on such Sinking Fund Installment dates by the Supplemental Resolution, providing for their issuance; provided, however, that if the last Sinking Fund Installment for such Term Bonds falls due on the stated maturity date thereof, the amount of such installment shall not be applied to the redemptions of such Term Bonds but shall be applied to the payment thereof at such maturity date in the same manner as amounts are applied from the Secondary Principal Account for the payment of Serial Bonds at maturity. The Bond Fund Trustee shall give notice of all such redemptions, in the name and on behalf of the Authority, in accordance with the Resolution. The Bond Fund Trustee may also, without further authorization or direction, apply the moneys credited to the Secondary Bond Retirement Account for the retirement of the Term Bonds of a particular Series of Subordinate Lien Bonds to the purchase of such Subordinate Lien Bonds, at a purchase price (including accrued interest and any brokerage or other charge) not to exceed the redemption price then applicable upon the redemption of such Subordinate Lien Bonds from Sinking Fund Installments, plus accrued interest, in which event the principal amount of such Subordinate Lien Bonds required to be redeemed on the next respective ensuing Sinking Fund Installment date shall be reduced by the principal amount of the Subordinate Lien Bonds so purchased; provided, however, that no Subordinate Lien Bonds of such Series shall be purchased during the interval between the date on which notice of redemption of said Subordinate Lien Bonds from Sinking Fund Installments is given and the date of redemption set forth in such notice, unless the Subordinate Lien Bonds so purchased are Subordinate Lien Bonds called for redemption in such notice or are purchased from moneys other than those credited to the Secondary Bond Retirement Account with respect to Sinking Fund Installments.

In the event that moneys in the Secondary Bond Retirement Account, other than moneys credited thereto as Sinking Fund Installments pursuant to a Supplemental Resolution, are to be applied to the retirement of a Series of Subordinate Lien Bonds, the Authority may direct the Bond Fund Trustee

within thirty days of the deposit of such moneys to apply such moneys to the purchase of Subordinate Lien Bonds of such Series. The price payable on any such purchase (including any brokerage or other charge) shall not exceed the highest redemption price applicable at the time or any time thereafter with respect to such Series of Subordinate Lien Bonds, plus accrued interest. Any such moneys not applied to the purchase of Subordinate Lien Bonds shall be applied to the redemption of Subordinate Lien Bonds of each Series then subject to redemption from such moneys in the proportion, as nearly as practicable, which the principal amount of Subordinate Lien Bonds of such Series then outstanding and unpaid and so subject to redemption bears to the total principal amount of Subordinate Lien Bonds then outstanding and unpaid and so subject to redemption.

Except for the redemption of Term Bonds from moneys credited to the Secondary Bond Retirement Account as Sinking Fund Installments, not less than One Hundred Thousand Dollars (\$100,000) aggregate principal amount of Subordinate Lien Bonds shall be called for redemption at any one time pursuant to this part unless the Authority directs the purchase or redemption of a lesser amount. The Bond Fund Trustee shall give notice of all such redemptions, in the name and on behalf of the Authority, in accordance with the provisions of the Resolution.

Any purchase of Subordinate Lien Bonds as described herein may be made with or without tenders of Subordinate Lien Bonds and at either public or private sale. All Subordinate Lien Bonds purchased, redeemed or retired as described herein shall be cancelled and shall not be reissued. The accrued interest to be paid on the purchase or redemption of Subordinate Lien Bonds shall be paid from the Secondary Interest Account.

In the event of the purchase or redemption of Term Bonds of a particular Series of Subordinate Lien Bonds as described herein or otherwise, except from moneys credited to the Secondary Bond Retirement Account as Sinking Fund Installments, or if such Term Bonds to be so redeemed are deemed to be no longer outstanding and unpaid pursuant to the Resolution, the amount required to be credited to the Secondary Bond Retirement Account on such Sinking Fund Installment date thereafter, as specified in the Supplemental Resolution providing for the issuance thereof, shall be reduced in the proportion as nearly as practicable, which the principal amount of such Sinking Fund Installment bears to the total principal amount of all Sinking Fund Installments so specified for the Term Bonds of such Series.

All expenses in connection with the purchase, redemption or payment of Subordinate Lien Bonds as described herein shall be paid by the Authority from the Water Revenue Fund.

D. Secondary Reserve Account. The Bond Fund Trustee shall create a separate Account in the Secondary Bond Fund for each Series of Subordinate Lien Bonds. The Reserve Account Requirement for each Series of Subordinate Lien Bonds shall be that amount, if any, provided in the Supplemental Resolution providing for the issuance of such Series of Subordinate Lien Bonds. In the event a Reserve Account Requirement is prescribed, the Supplemental Resolution providing for the issuance of a Series of Subordinate Lien Bonds shall provide either (i) for deposits from Secondary Revenues into the Secondary Bond Fund for credit to the appropriate Secondary Reserve Account, (ii) for payments into the Secondary Bond Fund for credit to the appropriate Secondary Reserve Account from the proceeds of Subordinate Lien Bonds or from any moneys lawfully available therefor, or (iii) for deposit with the Bond Fund Trustee of a surety bond, an insurance policy or letter of credit unconditionally payable on demand to or for the benefit of the Bond Fund Trustee for the benefit of the holders of the Series of Subordinate Lien Bonds for which the Secondary Reserve Account was created, all as shall be determined and provided in the Supplemental Resolution. The moneys in the Secondary Bond Fund on credit to a Secondary Reserve Account shall be used and applied solely for the purpose of paying the principal of, premium, if any, and interest on the respective Series of Subordinate Lien Bonds

for which the account was created when due, whether at their maturity or upon the redemption or purchase thereof from moneys credited to the Secondary Bond Retirement Account, and shall be so used and applied whenever there are insufficient moneys on credit to the Secondary Interest Account, Secondary Principal Account and Secondary Bond Retirement Account for such purposes. No Subordinate Lien Bonds other than the Series of Subordinate Lien Bonds for which such account has been created shall have any right to be paid from such account.

When a Series of Subordinate Lien Bonds is refunded in whole or in part or is otherwise paid within the meaning of the Resolution, moneys may be withdrawn from the Secondary Reserve Account for such Series to pay or provide for the payment of such Subordinate Lien Bonds or refunded Subordinate Lien Bonds, as the case may be, or may be transferred and applied to any reserve fund or account established for the refunding bonds issued to refund such refunded Subordinate Lien Bonds; provided that immediately after such withdrawal or transfer there shall be on credit to the Secondary Reserve Account for those Subordinate Lien Bonds of the Series of Subordinate Lien Bonds not refunded an amount equal to the Reserve Account Requirement for such Series.

E. Moneys on deposit in the Secondary Bond Fund shall be transmitted by the Bond Fund Trustee to any Paying Agent at such times as shall be necessary prior to the date upon which any installment of interest or principal is due on the Subordinate Lien Bonds (either at the maturity date thereof or redemption date prior to maturity) and in amounts sufficient to meet such installments of, principal of, premium, if any, and interest on the Subordinate Lien Bonds, then due. In the event that there shall be a deficiency in the Secondary Interest Account, Secondary Principal Account or Secondary Bond Retirement Account three business days before any interest, principal or sinking fund payment is due on a Series of Subordinate Lien Bonds, the Bond Fund Trustee shall promptly make up such deficiency from the Secondary Reserve Account for such Series by the withdrawal of cash therefrom for that purpose or by the sale or redemption of Investment Securities held in the Secondary Reserve Account, if necessary, in such amounts as will provide cash in the Secondary Reserve Account sufficient to make up any such deficiency or by the transfer of Investment Securities (or undivided interests therein) in which moneys in the Secondary Interest Account, Secondary Principal Account or Secondary Bond Retirement Account, as the case may be, may be invested, or by taking such steps as may be necessary to realize the benefit of any surety bond, insurance policy or letter of credit deposited in the Secondary Reserve Account for such Series.

Moneys set aside from time to time with any Paying Agent for the purpose of paying the principal of, premium, if any, and interest on the Subordinate Lien Bonds shall be held in trust for the holders of the Subordinate Lien Bonds in respect of which the same shall have been so set aside. Until so set aside, all moneys in the Secondary Bond Fund shall be held in trust for the benefit of the holders of all Subordinate Lien Bonds at the time outstanding, equally and ratably.

Whenever the amounts on deposit in the Secondary Bond Fund (regardless of the account therein to which such amounts are credited) shall be sufficient to provide moneys to retire all Subordinate Lien Bonds then outstanding, including such interest thereon as thereafter may become due and payable and any premiums upon redemption thereof, no further deposits need be made by the Authority into the Secondary Bond Fund, and without further authorization or direction the Bond Fund Trustee shall call, except in the event of the final maturity of all Subordinate Lien Bonds then Outstanding, all Subordinate Lien Bonds which may be redeemed by their terms, for redemption on the next succeeding redemption date for which the required notice of redemption can practicably be given, and shall apply such moneys to such retirement or redemption. (Res. Section 6.11)

Covenants. The Authority covenants and agrees, among other covenants and agreements, in the Resolution as follows:

Rate Covenant. The Authority will fix, establish and collect, or cause to be fixed, established and collected, rates, tolls, rents and other charges for the water distributed by it and for any services or facilities sold, furnished or supplied by the Water System or any part thereof, which rates, tolls, rents and charges shall be sufficient in each Fiscal Year to produce revenues in such Fiscal Year which together with other moneys which lawfully may be applied to the purpose, will be equal to at least the sum of (A) Debt Service for such Fiscal Year on all Bonds, (B) the necessary expenses of operating, maintaining, renewing and replacing the Water System and maintaining the Reserve Accounts and the Secondary Reserve Accounts and (C) the additional amounts, if any, required to pay all other charges or liens whatsoever payable from the Revenues in such Fiscal Year. (Res. Section 8.2)

To Maintain the Properties of the Water System; To Keep the System in Good Repair. The Authority will (i) maintain, preserve and keep, or cause to be maintained, preserved and kept, the properties of the Water System and all additions and betterments thereto and extensions thereof, and every part and parcel thereof in good repair, working order and condition, (ii) from time to time make, or cause to be made, all necessary and proper repairs, renewals, replacements, additions, extensions and betterments thereto, so that at all times the business carried on in connection therewith shall be properly and advantageously conducted, and (iii) comply, or cause to be complied with the terms and conditions of any permit or license for the Water System or any part thereof issued by any federal or state governmental agency or body and with any federal or state law or regulation applicable to the construction, operation, maintenance and repair of the Water System or requiring a license, permit or approval thereof. (Res. Section 8.1)

Sale, Lease or Other Disposition of Properties of the Water System. The Authority will not sell, mortgage, lease or otherwise dispose of the properties of the Water System except as provided below.

(1) The Authority may sell, lease, or otherwise dispose of the properties comprising the Water System if simultaneously with such sale or other disposition thereof provision is made for the payment of all Bonds then outstanding and such Bonds are no longer deemed outstanding within the meaning of the Resolution.

(2) The Authority may sell, lease or otherwise dispose of any part of the properties comprising the Water System having a value of \$1,000,000 or less on such terms and conditions as may be prescribed by the Authority. The Authority may sell, lease or otherwise dispose of any part of the properties comprising the Water System having a value in excess of \$1,000,000 if the Consulting Engineer shall certify to the Authority in writing that such terms and conditions of the proposed sale, lease or other disposition of any such properties are fair and reasonable, and that the estimated Revenues to be derived from the remaining properties of the Water System after taking into consideration the use by the Authority of the proceeds of such proposed sale, lease or other disposition of such properties, will be sufficient to enable the Authority to comply with all covenants and conditions of the Resolution. A copy of such certificate shall be filed with the Bond Fund Trustee at least ten (10) days prior to any such transfer and the Bond Fund Trustee, in the absence of bad faith, shall be protected in relying thereon. Proceeds of any sale, lease or other disposition of any portion of the properties of the Water System pursuant to this paragraph shall be paid: (i) if such proceeds are not in excess of \$100,000, into the Water Revenue Fund, (ii) if such proceeds are in excess of \$100,000, (A) into the Bond Retirement Account in the Bond Fund and applied to the purchase or redemption of Bonds or (B) into the Water Revenue Fund and applied by the Authority for the purpose of constructing extensions, betterments or improvements to the Water System, as the Authority shall determine.

(3) The Authority may sell, lease, or otherwise dispose of surplus lands, crops, timber, buildings and any other portion of the works, plant and facilities of the Water System and real and personal property comprising a part thereof, which, in the opinion of the Authority, shall have become unserviceable, inadequate, obsolete, worn out, or unfit to be used in the operation of the Water System, or no longer necessary, material to, or useful in such operation. Proceeds of any such sale, lease or other disposition of any portion of the properties of the Water System pursuant to this paragraph shall be paid into the Water Revenue Fund.

(4) If permitted by the laws of the State of New York, the Authority may transfer without consideration the properties comprising the Water System to a public corporation or political subdivision of the State of New York, provided such corporation or subdivision assumes all of the Authority's obligations and duties under the Resolution.

(5) In the event that any part of the properties comprising the Water System shall be transferred from the Authority through the operation of law (including condemnation), any moneys received by the Authority as a result thereof shall be paid (i) if such proceeds are not in excess of \$100,000, into the Water Revenue Fund, or (ii) if such proceeds are in excess of \$100,000, (A) into the Bond Retirement Account in the Bond Fund and applied to the purchase or redemption of Bonds or (B) into the Water Revenue Fund and applied by the Authority for the purpose of constructing extensions, betterments or improvements to the Water System, as the Authority shall determine. (Res. Section 8.3)

Insurance. (A) Except as provided in paragraph (B) below, the Authority will keep, or cause to be kept, the works, plants and facilities comprising the properties of the Water System and the operations thereof insured to the extent available at reasonable cost with responsible insurers, with policies payable to the Authority, against risks of direct physical loss, damage to or destruction of the Water System, or any part thereof, at least to the extent that similar insurance is usually carried by utilities operating like properties against accidents, casualties or negligence, including liability insurance and employer's liability; provided, however, that any time while any contractor engaged in constructing any part of the Water System shall be fully responsible therefor, the Authority shall not be required to keep such part of the Water System insured. All policies of insurance shall be for the benefit of the holders of the Bonds and the Authority as their respective interests may appear.

In the event of any loss or damage to the properties of the Water System covered by insurance, the Authority (1) with respect to each such loss, shall promptly repair and reconstruct to the extent necessary to the proper conduct of the operations of the Water System the lost or damaged portion thereof and shall apply the proceeds of any insurance policy or policies covering such loss or damage for that purpose to the extent required therefor, unless, in case of loss or damage involving \$100,000 or more, the Authority shall determine that such repair and reconstruction not be undertaken, and (2) if the Authority shall not use the entire proceeds of such insurance to repair or reconstruct such lost or damaged property, the proceeds of such insurance policy or policies or any portion thereof not used for such repair or reconstruction, as the case may be, shall be paid into the Water Revenue Fund.

(B) If the Authority elects to self-insure or fails to carry insurance against any of the risks normally insured against by operators of facilities similar to the Water System, it must secure the concurrence of the Consulting Engineer. In making its decision whether to concur in such self-insurance, the Consulting Engineer shall (i) make an estimate of the added financial risks, if any, assumed by the Authority as a result of the self-insurance, (ii) consider the availability of commercial insurance, the terms upon which such insurance is available and the costs of such available insurance, and the effect of such

terms and costs upon the Authority's costs and charges for its services, (iii) determine whether the added financial risk, if any, being assumed by the Authority is prudent in light of the savings to be realized from such self-insurance or in light of the general availability of insurance. (Res. Section 8.4)

Consulting Engineer. The Authority will retain and appoint, as Consulting Engineer, an independent consulting engineer or engineering firm or corporation having special skill, knowledge and experience in analyzing the operations of water utility systems, preparing rate analyses, forecasting the loads and revenues of water utility systems, preparing feasibility reports respecting the financing of water utility systems and advising on the operation of water facilities, who shall be available to advise the Authority, upon request, and to make such investigations and determinations as may be necessary from time to time under the provisions of the Resolution. In addition to the other duties of the Consulting Engineer pursuant to the Resolution, the Consulting Engineer shall not later than 180 days following the end of every fifth calendar year from the date of the last such examination and report make an examination of and report on the properties and operations of the Water System. Each such report shall be in sufficient detail to show whether the Authority has satisfactorily performed and complied with the covenants, agreements and conditions set forth in the Resolution with respect to the management of the business of the Water System, the sufficiency of the amount being charged and collected for services under the requirements of the Resolution, the proper maintenance of the Water System, and the making of repairs, renewals, replacements, modifications, additions and betterments necessary or desirable to improve operating reliability or reduce costs and recommendations thereof. A copy of each such report shall be filed with the Authority and the Bond Fund Trustee and sent to any Bondholder filing with the Bond Fund Trustee a written request for a copy thereof. On the filing of such report, the Authority shall undertake a review of the management of the business of the Water System and shall cause the prompt taking of such action as shall be necessary to fully perform and comply with the covenants, agreements and conditions as to which the report specified such failure of performance or compliance. (Res. Section 8.5)

Books of Account; Annual Audit. The Authority will maintain and keep proper books of account relating to the Water System and in accordance with generally accepted accounting principles. Within one hundred twenty (120) days after the end of each Fiscal Year, the Authority will cause such books of account to be audited by an independent certified public accountant. A copy of each audit report and financial statements prepared in conformity with generally accepted accounting principles will be filed promptly with the Bond Fund Trustee and sent to any Bondholder filing with the Bond Fund Trustee a written request for a copy thereof. (Res. Section 8.6)

Not to Furnish Free Service; Enforcement of Accounts Due. So long as any Bonds issued pursuant to the Resolution are outstanding and unpaid, the Authority will not furnish or supply water or any other commodity, service or facility furnished by it or in connection with the operation of the Water System, free of charge to any person, firm or corporation, public or private, and the Authority will promptly enforce the payment of any and all accounts owing to the Authority by reason of the ownership and operating of the Water System. (Res. Section 8.12)

Arbitrage Covenant. The Authority covenants with the holders from time to time of the Bonds that (i) throughout the term of the Bonds and (ii) through the date that the final rebate, if any, must be made to the United States in accordance with Section 148 of the Internal Revenue Code of 1986, as amended (the "Code"), it will comply with the provisions of Section 103 and 141 through 150 of the Code and all regulations proposed and promulgated thereunder that must be satisfied in order that interest on the Bonds shall be and continue to be excluded from gross income for federal income tax purposes under said Section 103. (Res. Section 8.15)

Events of Default; Remedies. Each of the following events constitutes an “Event of Default” under the Resolution:

(a) if payment of the principal of or premium, if any, on any Bond shall not punctually be made when due and payable, whether at the stated maturity thereof or upon proceedings for the redemption thereof (whether by voluntary redemption or a mandatory sinking fund redemption or otherwise);

(b) if payment of the interest on any Bond shall not punctually be made when due;

(c) if the provisions of any Supplemental Resolution with respect to mandatory sinking fund installment payments or the redemption of Term Bonds therefrom, as the case may be, shall not punctually be complied with at the time and in the manner specified in such Supplemental Resolution;

(d) if the Authority shall fail to duly and punctually perform or observe any other of the covenants, agreements or conditions contained in the Resolution or in the Bonds, on the part of the Authority to be performed, and such failure shall continue for ninety (90) days after written notice thereof from the Bond Fund Trustee or the holders of not less than twenty percent (20%) of the Bonds then outstanding; provided that, if such failure shall be such that it cannot be corrected within such ninety (90) day period, it shall not constitute an Event of Default if corrective action is instituted within such period and diligently pursued until the failure is corrected;

(e) if an order, judgment, or decree shall be entered by any court of competent jurisdiction, with the consent or acquiescence of the Authority, or if such order, judgment or decree, having been entered without the consent or acquiescence of the Authority, shall not be vacated or set aside or discharged or stayed (or in case custody or control is assumed by said order, such custody or control shall not otherwise be terminated) within ninety (90) days after the entry thereof, and if appealed, shall not thereafter be vacated or discharged; (i) appointing a receiver, trustee or liquidator for the Authority or for the Water System or any part of the Water System; or (ii) assuming custody or control of the Water System or any part thereof under the provisions of any law for the relief or aid of debtors; or (iii) approving a petition filed against the Authority under provisions of Chapter IX of an Act to Establish a Uniform Law on the Subject of Bankruptcies II USC 901-946; or (iv) granting relief to the Authority under any amendment to said Bankruptcy Act, or under any other applicable Bankruptcy Act, which shall give relief substantially similar to that afforded by said Chapter IX; and

(f) if the Authority shall (i) admit in writing its inability to pay its debts generally as they become due; or (ii) file a petition in bankruptcy or seeking a composition of indebtedness; or (iii) make an assignment for the benefit of its creditors; or (iv) file a petition or any answer seeking relief under the Bankruptcy Act referred to in the preceding clause, or under any amendment thereto, or under any other applicable bankruptcy act which shall save relief substantially the same as that afforded by Chapter IX of said act; or (v) consent to the appointment of a receiver of the whole or any substantial part of the Water System; or (vi) consent to the assumption by any court of competent jurisdiction under the provisions of any other law for the relief of aid of debtors of custody or control of the Authority or of the whole or any substantial part of the Water System. (Res. Section 9.2)

Notice to Bondholders of Event of Default. The Bond Fund Trustee, within ninety (90) days after the occurrence of an Event of Default, shall give to the Bondholders, notice of all defaults known to the Bond Fund Trustee, unless such defaults shall have been cured before the giving of such notice (the term “default” or “defaults” for the purpose of this paragraph being defined to be any Event or Events of Default specified in the Resolution; provided that, except in the case of an Event of Default as described in subparagraphs (a) through (c) above, the Bond Fund Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee, or a trust committee of directors or a trust committee of other responsible officers or a trust committee of directors and other responsible officers of the Bond Fund Trustee in good faith determines that the withholding of such notice is in the interests of the Bondholders). (Res. Section 9.3)

Inspection of Books and Records. If an Event of Default (as defined in Section 9.2 of the Resolution) shall have happened and shall not have been remedied, the books of record and account of the Authority relating to the Water System and all other records relating thereto shall at all times be subject to the inspection and use of the Bond Fund Trustee and any persons holding at least twenty-five percent (25%) of the principal amount of Bonds outstanding and of their respective agents and attorneys or of any committee therefor. (Res. Section 9.4)

Payment of Funds to the Bond Fund Trustee; Application of Revenues in an Event of Default. If an Event of Default shall have happened and shall not have been remedied, upon demand of the Bond Fund Trustee, the Authority shall pay over to the Bond Fund Trustee and cause any Construction Fund Trustee to pay over to the Bond Fund Trustee (i) forthwith, all moneys, securities and funds then held by the Authority and pledged under the Resolution, and moneys, securities and funds then held by any Construction Fund Trustee, and (ii) as promptly as practicable after receipt thereof, all Revenues. (Res. Section 9.5)

During the continuance of an Event of Default as defined in items (a) through (c) above or of any other Event of Default resulting in an Event of Default as defined in said items (a) through (c), the Revenues received by the Bond Fund Trustee or by a Bondholders’ Committee pursuant to the provisions of the Resolution as the result of the taking of possession of the business and properties of the Water System, shall be applied by the Bond Fund Trustee or by the Bondholders’ Committee, as the case may be, firstly to the payment of all necessary and proper Operation and Maintenance Expenses of the Water System and all other proper disbursements or liabilities made or incurred by the Bond Fund Trustee or by the Bondholders’ Committee, as the case may be; secondly, to the then due and overdue payments into the Bond Fund, including the making up of deficiencies therein; and lastly, for any lawful purpose in connection with the Water System. (Res. Section 9.4)

In the event that at any time the funds held by the Bond Fund Trustee or the Bondholders’ Committee pursuant to the preceding paragraph shall be insufficient for the payment of the principal of, premium, if any, and interest then due on the Bonds, such funds (other than funds held for the payment or redemption of particular Bonds or coupons) and all Revenues of the Authority and other of its moneys received or collected for the benefit or for the account of holders of the Bonds by the Bond Fund Trustee shall be applied as follows:

- (1) Unless the principal of all of the Bonds shall have become due and payable,

First, to the payment of all necessary and proper operating expenses of the Water System and all other proper disbursements or liabilities made or incurred by the Bond Fund Trustee or by the Bondholders’ Committee, as the case may be;

Second, with respect to the Senior Lien Bonds, to the payment to the persons entitled thereto of all installments of interest then due (including any interest on overdue principal) in the order of the maturity of such installments, earliest maturities first, and if the amounts available shall not be sufficient to pay in full any installment or installments of interest maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference;

Third, with respect to the Senior Lien Bonds, to the payment to the persons entitled thereto of the principal and premium, if any, due and unpaid upon the Senior Lien Bonds at the time of such payment without preference or priority of any Senior Lien Bond over any other Senior Lien Bonds, ratably, according to the amounts due respectively for principal and redemption premium, without any discrimination or preference;

Fourth, with respect to the Subordinate Lien Bonds, to the payment to the persons entitled thereto of all installments of interest then due (including any interest on overdue principal) in the order of the maturity of such installments, earliest maturities first, and if the amounts available shall not be sufficient to pay in full any installment or installments of interest maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference;

Sixth, with respect to the Subordinate Lien Bonds, to the payment to the persons entitled thereto of the principal and premium, if any, due and unpaid upon the Subordinate Lien Bonds at the time of such payment without preference or priority of any Subordinate Lien Bond over any other Subordinate Lien Bonds, ratably, according to the amounts due respectively for principal and redemption premium, without any discrimination or preference;

(2) If the principal of all of the Bonds shall have become due and payable,

First, to the payment of all necessary and proper operating expenses of the Water System and all other proper disbursements or liabilities made or incurred by the Bond Fund Trustee or the Bondholders' Committee, as the case may be;

Second, to the payment of the principal and interest then due and unpaid upon the Senior Lien Bonds without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Senior Lien Bond over any other Senior Lien Bonds, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference; and

Third, to the payment of the principal and interest then due and unpaid upon the Subordinate Lien Bonds without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Subordinate Lien Bond over any other Subordinate Lien Bonds, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference.

If and whenever all overdue installments of interest on all Bonds, together with the reasonable and proper charges, expenses, and liabilities of the holders of the Bonds, their respective agents and attorneys, and all other sums payable by the Authority under the Resolution including the principal of and premium, if any, on all Bonds which shall then be payable, shall either be paid in full by or for the account of the Authority or provisions satisfactory to the Bond Fund Trustee shall be made for such payment, and all defaults under the Resolution or the Bonds shall be made good and secured to the satisfaction of the Bond Fund Trustee or provision deemed by the Bond Trustee to be adequate therefor, the Bond Fund Trustee or the Bondholders' Committee, as the case may be, shall pay over to the Authority all of its moneys, securities, funds and Revenues then remaining unexpended in the hands of the Bond Fund Trustee or the Bondholders' Committee, as the case may be (except moneys, securities, funds or Revenues deposited or pledged, or required by the terms of the Resolution to be deposited or pledged, with the Bond Fund Trustee or a Construction Fund Trustee), control of the business and possession of the property of the Authority shall be restored to the Authority, and thereupon the Authority and the Bond Fund Trustee shall be restored to their former positions and rights under the Resolution, and all Revenues shall thereafter be applied as provided in the Resolution. (Res. Section 9.5)

Possession of System by Bond Fund Trustee or Bondholders' Committee; Appointment of a Receiver. Upon the occurrence of an Event of Default and while such Event of Default shall be continuing, the Bond Fund Trustee or a Bondholders' Committee representing the holders of not less than a majority of the Bonds at the time outstanding, as a matter of right against the Authority, without notice or demand, and without regard to the adequacy of the security for the Bonds, shall, but only if and to the extent then permitted by law be entitled to take possession and control of the business and properties of the Water System. Upon taking such possession, the Bond Fund Trustee or such Bondholders' Committee shall operate and maintain the Water System, make any necessary repairs, renewals and replacements in respect thereof, prescribe rates and charges for water distributed through the facilities of the Water System and collect the Revenues of the Water System. (Res. Section 9.6)

Upon the occurrence of an Event of Default and at any time while such Event of Default shall be continuing, the Bond Fund Trustee or the holders of twenty-five percent (25%) or more in principal amount of the Bonds then Outstanding or at any committee therefor shall, but only if and to the extent then permitted by law, be entitled to the appointment of a receiver to take possession of the Water System, to manage, and receive and apply the Revenues. Notwithstanding the appointment of any receiver, the Bond Fund Trustee shall be entitled to retain possession and control of and to collect and receive income from any moneys, securities, funds and Revenues deposited or pledged with it under the Resolution or agreed or provided to be delivered to or deposited or pledged with it under the Resolution. (Res. Section 9.6)

Certain Powers and Rights of the Bond Fund Trustee. The Bond Fund Trustee is empowered to proceed forthwith to institute such suits, actions and proceedings to protect and enforce its rights and the rights of the holders of the Bonds under the Resolution or, to file such proof of debt, amendment of proof of debt, claim, petition or other document as may be necessary or advisable in order to have the claims of the Bond Fund Trustee and of the holders of the Bonds allowed in any equity, receivership, insolvency, bankruptcy, liquidation, readjustment, reorganization or other similar proceedings. (Res. Section 9.7)

Bondholders' Committee. Upon the occurrence of an Event of Default and at any time such Event of Default shall be continuing, the holders of not less than twenty percent (20%) in principal amount of the Bonds then Outstanding may call a meeting of the holders of Bonds for the purpose of electing a Bondholders' Committee. At such meeting the holders of not less than a majority of the principal amount of the Bonds then Outstanding must be present in person or by proxy in order to constitute a quorum for the transaction of business. A quorum being present at such meeting, the

Bondholders present in person or by proxy may, by the votes cast by the holders of a majority in principal amount of the Bonds so present in person or by proxy, elect one or more persons who may or may not be Bondholders to the Bondholders' Committee which shall act as trustee for all Bondholders. The Bondholder's Committee may, with the consent of the holders of not less than fifty percent (50%) of the principal amount of Bonds outstanding, remove the Bond Fund Trustee. After the removal of the Bond Fund Trustee and prior to the appointment of a successor Bond Fund Trustee the members of the Bondholders' Committee will be deemed to be trustees for the holders of all the Bonds then Outstanding, and may exercise in the name of the Bondholders' Committee, as trustee, all the rights and powers conferred on the Bond Fund Trustee or any Bondholder. (Res. Section 9.8)

Bondholders May Direct Proceedings; Suits by Individual Bondholders. The holders of not less than a majority in principal amount of the Bonds at the time outstanding shall be authorized and empowered (1) to direct the time, method, and place of conducting any proceeding for any remedy available to the holder of the Bonds or to the Bond Fund Trustee therefor, or of exercising any trust or power conferred upon the Bond Fund Trustee under the Resolution; or (2) on behalf of the holders of the Bonds then outstanding, to consent to the waiver of any Event of Default or its consequences, and the Bond Fund Trustee shall waive any Event of Default and its consequences upon the written request of the holders of such majority.

No holder of any of the Bonds shall have any right to institute any suit, action or proceeding at law or in equity for the enforcement of any provision of the Resolution or the execution of any trust under the Resolution or for any remedy under the Resolution, unless such holder shall have previously given to the Bond Fund Trustee written notice of the happening of an Event of Default and the holders of at least twenty percent (20%) in principal amount of the Bonds then Outstanding shall have filed a written request with the Bond Fund Trustee and shall have offered it reasonable opportunity either to exercise the power granted under the Resolution or to institute such action, suit or proceeding in its own name and unless such Bondholder shall have offered to the Bond Fund Trustee adequate security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Bond Fund Trustee for a period of sixty (60) days after the receipt by it of such notice, request and an offer of indemnity against costs shall have refused to comply with such request. (Res. Sections 9.9, 9.10)

Amending and Supplementing of Resolution. The Authority, at any time and without the consent or concurrence of any holder of any Bond, may adopt a resolution amendatory of, or supplemental to, the Resolution (herein a "Supplemental Resolution"), (i) for the purpose of issuing Additional Bonds; or (ii) if the rights of the holders of the Bonds then outstanding are not adversely affected, for any one or more of the following purposes: (1) to make any changes or corrections in the Resolution as to which the Authority shall have been advised by counsel that the same are verbal corrections or changes or are required for the purpose of curing or correcting any ambiguity or mistake contained in the Resolution, arising under the Resolution as are necessary or desirable; (2) to add additional covenants and agreements of the Authority for the purpose of further securing the payment of the Bonds; (3) to surrender any right, power or privilege reserved to or conferred upon the Authority by the terms of the Resolution; (4) to confirm as further assurance any lien, pledge or charge, or the subjection to any lien, pledge, or charge, created or to be created by the provisions of the Resolution; and (5) to grant or to confer upon the holders of the Bonds or to confer upon the Bond Fund Trustee for the benefit of the holders of the Bonds any additional rights, remedies, powers, authority or security that lawfully may be granted to or conferred upon them. (Res. Section 10.1)

With the consent of the holders of not less than a majority of the Bonds then Outstanding, the Authority may adopt a Supplemental Resolution for the purpose of adding any provisions to, or changing in any manner or eliminating any of the provisions of, the Resolution, or modifying or amending the rights and obligations of the Authority thereunder, or modifying or amending in any

manner the rights of the holders of the Bonds then Outstanding; provided, however, that, without the specific consent of the holder of each such Bond which would be affected thereby, no Supplemental Resolution amending or supplementing the provisions of the Resolution shall: (1) change the fixed maturity date for the payment of the principal of any Bond or the dates for the payment of interest thereon or the terms of the redemption thereof, or reduce the principal amount of any Bond or the rate of interest thereon or the redemption price (or the redemption premium) payable upon the redemption or prepayment thereof; or (2) reduce the aforesaid percentage of Bonds, the holders of which are required to consent to any Supplemental Resolution amending or supplementing the provisions of the Resolution; or (3) give to any Bond or Bonds any preference over any other Bond or Bonds secured by the Resolution; or (4) authorize the creation of any pledge of the Revenues and other moneys pledged under the Resolution, prior, superior or equal to the pledge of and lien and charge thereon created in the Resolution for the payment of the Bonds except to the extent provided in Article III of the Resolution; or (5) deprive any holder of the Bonds in any material respect of the security afforded by the Resolution; provided, further, however, that without the specific consents of the holders of not less than a majority in principal amount of the Term Bonds then Outstanding and affected thereby, no Supplemental Resolution amending or supplementing the provisions of the Resolution shall (a) change the amount of any sinking fund installments for the retirement of Term Bonds or the due dates of such installments or the terms for the purchase or redemption thereof from such installments or (b) reduce the aforesaid percentage of Term Bonds, the holders of which are required to consent to any such Supplemental Resolution. (Res. Section 10.2)

Defeasance. The obligations of the Authority under the Resolution and the liens, pledges, charges, trusts, covenants and agreements of the Authority therein made or provided for, shall be fully discharged and satisfied as to any Bond and such Bond shall no longer be deemed to be Outstanding thereunder, (i) when such Bond shall have been cancelled, or shall have been surrendered for cancellation or is subject to cancellation, or shall have been purchased by the Bond Fund Trustee from moneys held under the Resolution; or (ii) when payment of the principal of and premium, if any, on such Bond, plus interest on such principal to the due date thereof (whether such due date be by reason of maturity or upon redemption or prepayment, or otherwise) either (a) shall have been made or caused to be made in accordance with the terms thereof, or (b) shall have been provided for by irrevocably depositing with the Bond Fund Trustee or a Paying Agent for such Bonds, in trust, and irrevocably appropriating and setting aside exclusively for such payment, either (1) moneys sufficient to make such payment or (2) Refunded Municipal Obligations or Investment Securities (which shall include only those obligations described in items (i), (ii) and (iii) of the definition of Investment Securities) maturing as to principal and interest in such amount and at such times as will insure the availability of sufficient moneys to make such payment, whichever the Authority deems to be in its best interest, and all necessary and proper fees, compensation and expenses of the Bond Fund Trustee and the Paying Agents pertaining to the Bonds with respect to which such deposit is made shall have been paid or the payment thereof provided for to the satisfaction of the Bond Fund Trustee and said Paying Agents and proper notice of such redemption or prepayment shall have been previously published in accordance with the Resolution or provision satisfactory to the Bond Fund Trustee shall have been irrevocably made for the giving of such notice. (Res. Section 13.1)

APPENDIX B

Financial Statements of Authority with accompanying Independent Auditors' Report

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SUFFOLK COUNTY WATER AUTHORITY

Financial Statements and Required Supplementary Information

May 31, 2016

(With Independent Auditors' Report Thereon)

SUFFOLK COUNTY WATER AUTHORITY

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KPMG LLP
New Jersey Headquarters
51 John F. Kennedy Parkway
Short Hills, NJ 07078-2702

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 statement of net position as of May 31, 2016, and the related statement of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the Authority as of May 31, 2016, and the changes in its net position and its cash flows for the year then ended, in accordance with U.S. generally accepted accounting principles.



Emphasis of Matter

Adoption of New Accounting Pronouncements

As discussed in note 1 to the basic financial statements, as of June 1, 2015, the Authority adopted Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, Governmental Accounting Standards Board Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*, and Governmental Accounting Standards Board Statement No. 82, *Pension Issues – an Amendment of GASB Statements No. 67, No. 68, and No. 73*. Our opinion is not modified with respect to these matters.

Other Matter – Required Supplementary Information

U.S. generally accepted accounting principles require that the management’s discussion and analysis on pages 3 through 11 and the schedule of employer contributions, schedule of proportionate share of the net pension liability, and schedule of funding progress for the retiree healthcare plan as of May 31, 2016 on pages 36, 37, and 38, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

August 29, 2016

SUFFOLK COUNTY WATER AUTHORITY

Management's Discussion and Analysis (Unaudited)

May 31, 2016

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

The Financial Statements

The statement of net position provides 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 statement of revenues, expenses, and changes in net position reports how the Authority's net position changed during the year. 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 statement of cash flows provides 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.

The Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* (GASB 68), GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68* (GASB 71), and GASB Statement No. 82, *Pension Issues – an Amendment of GASB Statements No. 67, No. 68, and No. 73* (GASB 82). These statements address accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers. The Authority participates in the New York State and Local Employees' Retirement System (NYSLRS or the System), a cost-sharing multiple-employer retirement system. In accordance with the provisions of GASB 68, the Authority has reported its proportionate share of NYSLRS net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense. As a result of the implementation of GASB 68, beginning unrestricted net position was restated as of June 1, 2015, resulting in a decrease of \$5.4 million. Furthermore, the Authority recognized a deferred outflow of resources of \$23.7 million, a net pension liability of \$27.3 million, a deferred inflow of resources of \$4.1 million and current year pension expense of \$9.5 million within the accompanying financial statements.

SUFFOLK COUNTY WATER AUTHORITY

Management's Discussion and Analysis (Unaudited)

May 31, 2016

Management provides the following discussion and analysis of the Authority's financial activities and financial statements. This overview is provided for the fiscal year ended May 31, 2016 with comparative information for the year ended May 31, 2015. The reader should use the information contained in this analysis in conjunction with the information contained in the audited financial statements. The 2016 financial statements follow this narrative on the subsequent pages.

Summary of Revenues, Expenses, and Changes in Net Position

	<u>Year ended May 31</u>	
	<u>2016</u>	<u>2015</u>
	(In thousands)	
Operating revenues:		
Water service	\$ 155,479	147,915
Other	20,042	22,449
Total operating revenues	<u>175,521</u>	<u>170,364</u>
Operating expenses:		
Operations and maintenance	121,792	120,228
Depreciation and amortization	45,346	44,497
Total operating expenses	<u>167,138</u>	<u>164,725</u>
Operating income	<u>8,383</u>	<u>5,639</u>
Nonoperating revenues and expenses:		
Interest expense, net	(26,267)	(25,273)
Amortization of deferred amounts on refinancing	(1,153)	(3,568)
Income from investments	1,279	1,801
Costs to be recovered from future revenues	10,079	11,774
Capital reimbursement fees	9,394	7,334
Total nonoperating revenues and expenses, net	<u>(6,668)</u>	<u>(7,932)</u>
Change in net position	1,715	(2,293)
Net position, beginning of year (2016 restated*)	<u>614,042</u>	<u>621,717</u>
Net position, end of year	<u>\$ 615,757</u>	<u>619,424</u>

* 2016 beginning net position was restated to conform to GASB 68 presentation (see note 1(u) to the financial statements). The comparative amounts presented for 2015 were not restated for the effects of GASB 68.

Operating Revenues

Water service revenues increased \$7.6 million in 2016. This was the result of a 4.2% rate increase effective April 1, 2015, and a 4.2% increase effective April 1, 2016. In addition, there was an increase in annual pumpage of 1.4%.

Other operating revenues decreased \$2.4 million in 2016. This decrease is primarily attributable to a \$3.1 million decrease in revenue recognized in the sale of surplus property, \$0.3 million less in legal settlements, and \$0.1

SUFFOLK COUNTY WATER AUTHORITY

Management's Discussion and Analysis (Unaudited)

May 31, 2016

million in reimbursement of damages. This was offset by an increase of \$0.7 million in Antennae lease revenue and \$0.4 million in water district management fee revenue in 2016.

Operating Expenses

Operations and maintenance expense increased \$1.6 million or 1.3% from \$120.2 million in 2015 to \$121.8 million in 2016. The increase is mainly attributable to increases in transmission and distribution cost (\$0.4 million), and in accounting and collecting (\$0.1 million). Additionally, there was an increase of \$4.6 million in benefits attributable to the increase in health insurance premiums (\$0.5 million) and accelerated contributions for other post employment benefits (\$3.0 million), and additional pension costs related to the New York State and Local Employees' Retirement System (NYSLRS) (\$1.1 million), offset by decreases in maintenance of wells and pumping equipment (\$0.5 million), treatment expense (\$0.2 million), power purchase (\$1.1 million), and deferred postretirement benefits other than pensions (\$1.7 million).

Depreciation and amortization expenses were \$45.3 million in 2016, an increase of \$0.8 million or 1.9% from 2015. The increase is attributable to a 1.6% increase in Water Plant, resulting in an additional \$0.8 in depreciation expense.

Nonoperating Revenues and Expenses

Interest expense was \$26.3 million in 2016, an increase of \$1.0 million from 2015. The increase is mainly due to a \$1.2 million increase in interest paid on bond and notes payable, offset by \$0.2 million in amortization of debt discount/premium and issuance costs.

Income from investments was \$1.3 million in 2016, a decrease of \$0.5 million from 2015. The change in investment earnings was a result of an unfavorable interest rate environment.

Costs to be recovered from future revenues of \$10.1 million for the year ended May 31, 2016, represent the difference between the Authority's annual required contributions 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 2016. 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.

SUFFOLK COUNTY WATER AUTHORITY

Management's Discussion and Analysis (Unaudited)

May 31, 2016

Capital reimbursement fees were \$9.4 million in 2016, an increase of \$2.0 million or 28.1% during the current year. This is a result of an increase of projects placed in service.

Statement of Net Position Summary

	May 31	
	2016	2015
	(In thousands)	
Assets:		
Capital assets (water plant), net	\$ 1,107,715	1,090,018
Current assets	237,438	196,703
Other noncurrent assets	291,536	232,380
Total assets	<u>\$ 1,636,689</u>	<u>1,519,101</u>
Deferred outflows	<u>\$ 41,999</u>	<u>9,425</u>
Liabilities:		
Current liabilities	\$ 51,763	101,173
Other long-term liabilities	159,008	113,060
Long-term debt, net of current portion	848,078	694,830
Total liabilities	<u>\$ 1,058,849</u>	<u>909,063</u>
Deferred inflows	<u>\$ 4,082</u>	<u>39</u>
Net position:		
Net investment in capital assets	\$ 345,323	391,589
Restricted for debt service	88,088	85,154
Unrestricted	182,346	142,681
Total net position	<u>\$ 615,757</u>	<u>619,424</u>

2016 amounts reflect the adoption of GASB 68 (see note 1(u) to the financial statements). The comparative amounts presented for 2015 were not restated for the effects of GASB 68.

Capital Assets (Water Plant), Net

	May 31, 2015	Additions/ reclassifi- cations	Deletions/ reclassifi- cations	May 31, 2016
	(In thousands)			
Water plant in service	\$ 1,601,293	42,200	(8,205)	1,635,288
Less accumulated depreciation	(598,593)	(45,195)	8,205	(635,583)
Net water plant in service	1,002,700	(2,995)	—	999,705
Construction in progress	87,318	62,892	(42,200)	108,010
Water plant	<u>\$ 1,090,018</u>	<u>59,897</u>	<u>(42,200)</u>	<u>1,107,715</u>

SUFFOLK COUNTY WATER AUTHORITY

Management’s Discussion and Analysis (Unaudited)

May 31, 2016

There was a net increase in water plant in fiscal 2016 of \$17.7 million comprising an increase of \$54.7 million in gross water plant (including construction in progress) reduced by a net increase in accumulated depreciation of \$37.0 million.

Current Assets

	May 31	
	<u>2016</u>	<u>2015</u>
	(In thousands)	
Increases (decreases):		
Cash and cash equivalents	\$ 22,965	(8,067)
Investments	20,487	(50,100)
Accounts receivables, net	515	(1,535)
Accrued water services and fire protection revenues	(3,330)	5,745
Interest and other receivables	(86)	(38)
Materials and supplies	547	(84)
Prepayments and other current assets	(363)	117
Net change in current assets	<u><u>\$ 40,735</u></u>	<u><u>(53,962)</u></u>

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 to \$43.5 million at May 31, 2016 from May 31, 2015. This increase is attributable to funds generated from excess revenues to pay for debt, accrued operating and maintenance costs and water system capital improvements.

Accrued water services and fire protection revenues reflect revenue corresponding to water consumption, which has not been billed as of May 31, 2016. Water pumped in April and May 2016 was approximately 10.5 billion gallons, a 2.1 billion gallon decrease from 2015.

Materials and supplies at May 31, 2016 are valued at \$10.2 million. The \$0.5 million increase from May 31, 2015 is attributed primarily to the purchasing of meters to support the increase in the rate of installations done internally.

A decrease in prepayments and other current assets from 2015 to 2016 in the amount of \$0.4 million is due to a decrease in insurance premium costs.

Other Noncurrent Assets

Other noncurrent assets increased by \$59.2 million as of May 31, 2016. This was mainly the result of restricted investments increasing by \$32.8 million due to unspent 2015A Bond Anticipation Notes proceeds, an increase in Bond Anticipation Note receivable of \$16.5 million and a \$10.1 million increase in costs to be recovered from future revenues. This is offset by a reduction in Goodwill and other assets of \$0.3 million.

SUFFOLK COUNTY WATER AUTHORITY
Management's Discussion and Analysis (Unaudited)
May 31, 2016

Liabilities

Current Liabilities

	May 31	
	2016	2015
	(In thousands)	
Increase (decrease):		
Current maturities of bonds payable	\$ (443)	615
Current maturities of bond anticipation notes payable	(50,000)	—
Accounts payable	(275)	1,069
Accrued interest	(125)	500
Accrued employee welfare costs	2,207	1,481
Other accrued liabilities	(774)	(370)
	\$ (49,410)	3,295

Current Liabilities

In fiscal year 2016, \$50.0 million of the 2013A Bond Anticipation Notes matured and were redeemed with the proceeds from the Authority's Water System Revenue Bonds, Series 2015A on January 15, 2016.

The \$0.3 million decrease experienced in accounts payable from 2016 is attributable principally to the timing of processing invoices for work performed, completed, and paid for subsequent to May 31, 2016.

The decrease in accrued interest of \$0.1 million in 2016 from 2015 is attributable to the issuance of long-term debt offset by the retirement of certain Bond Anticipation Notes.

Accrued employee welfare costs represents the expected value of all vacation, sick leave, and other payroll-related benefits earned by employees to date. The increase in accrued employee welfare at May 31, 2016 is \$2.2 million and is principally attributable to additional sick and vacation leave earned.

Other accrued liabilities decreased by \$0.8 million in May 31, 2016. This decrease is principally the result of a decrease in the reserve for damage claims.

Other Long-Term Liabilities

Other long-term liabilities increased by \$45.9 million at May 31, 2016 as a result of a contribution increase for postemployment benefit other than pension (OPEB) costs of \$17.1 million, Advances for Construction for \$1.5 million, and the net pension liability of \$27.3 million as a result of the adoption of GASB 68.

GASB No. 45 establishes guidance for the financial reporting of OPEB cost over a period that approximates employees' years of service. Under GASB No. 45, based on an actuarial valuation, an annual required contribution (ARC) is determined by the Authority. The ARC is the sum of (a) the normal cost for the year (the present value of future benefits being earned by current employees) plus (b) amortization of the unfunded accrued liability (benefits already earned by current and former employees but not yet provided for), using an amortization period

SUFFOLK COUNTY WATER AUTHORITY

Management’s Discussion and Analysis (Unaudited)

May 31, 2016

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, 2016, the undedicated reserve is \$17.0 million. During the fiscal year ending May 31, 2016 the Authority contributed \$7.0 million to this reserve.

The financial statements at May 31, 2016, include a liability for postemployment benefits other than pension in the amount of \$126.7 million.

Long-Term Debt

The Authority’s long-term debt (including current maturities, excluding unamortized discounts and deferred amounts) increased in fiscal 2016 by \$47.2 million.

Water System Revenue and
Environmental Facilities Corporation Revenue Bonds

	(In thousands)	May 31	
		2016	2015
Balance, beginning		\$ 676,210	645,837
New issues:			
SCWA 2014A		—	65,000
SCWA 2014B		—	50,000
EFC 2014B Refunding		—	3,948
SCWA 2015A		49,105	—
SCWA 2015 Refunding		116,660	—
EFC 2015D Refunding		4,039	—
		<u>169,804</u>	<u>118,948</u>
Maturities, retirements, and defeasances:			
SCWA		(114,925)	(81,095)
EFC		(7,720)	(7,480)
		<u>(122,645)</u>	<u>(88,575)</u>
Net changes in long-term debt		<u>47,159</u>	<u>30,373</u>
Balance, ending		<u>\$ 723,369</u>	<u>676,210</u>

SUFFOLK COUNTY WATER AUTHORITY

Management’s Discussion and Analysis (Unaudited)

May 31, 2016

Investment ratings on debt issued by the Authority by Standard and Poor’s Ratings Services (S&P) and Fitch Ratings (Fitch) were reaffirmed and are as follows at May 31, 2016:

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

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

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.

During fiscal year ended May 31, 2015, the NYS EFC issued Series 2014B in the amount of \$3.9 million and along with unspent proceeds and debt service reserve funds in the amount of \$0.3 million refinanced \$4.2 million of 2004A Suffolk County Water Authority (EFC Series) Revenue Bonds.

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.

During the fiscal year ended May 31, 2015, the Authority issued \$115.0 million in Water System Revenue Bonds consisting of \$65.0 million Water System Revenue Bonds, Series 2014A and \$50.0 million Water System Revenue Bonds, Series 2014B. The Series 2014A 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 2014A. The 2014B Series were issued for the purpose of retiring \$50.0 million of the Authority’s outstanding Bond Anticipation Notes, 2013B.

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 and as of May 31, 2016, no advances have been made.

SUFFOLK COUNTY WATER AUTHORITY

Management's Discussion and Analysis (Unaudited)

May 31, 2016

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

Deferred outflows related to bond refunding increased to \$8.9 million at May 31, 2016 from May 31, 2015. The increase is due to the refunding of Suffolk County Water Authority Water System Revenue Bond Series 2006 and 2007A of \$10.1 million offset by \$1.2 million annual amortization of the deferred loss on refunding.

The deferred inflows related to bond refunding decreased by \$0.01 million at May 31, 2016 from May 31, 2015.

Deferred outflows of resources related to pensions increased \$23.7 million and deferred inflows of resources related to pensions increased \$4.0 million as a result of the adoption of 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 decrease of \$46.3 million from May 31 2015, is the result of an increase in water plant expenditures and funds available for construction offset by the net increase in debt balances.

Net Position – Restricted for Debt Service

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

The increase of \$2.9 million at May 31, 2016 is the result of the issuance of the Authority's Water System Revenue Bonds Series 2015A, Water System Revenue Bonds Series 2015 Refunding offset by the release of reserve funds from the refinancing of EFC Series 2005B, and the release of reserve funds for the defeasance of Revenue Bond Series 2006 and 2007A.

Net Position – Unrestricted

In 2016, net position – unrestricted increased from the May 31, 2015 restated balance in the amount of \$45.0 million as a result of operations, net of those changes that impact net investment in capital assets and net position restricted for debt service. The May 31, 2015 balance was restated resulting in a reduction of \$5.3 million due to the adoption of GASB 68.

Contacting the Authority's Financial Management

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

SUFFOLK COUNTY WATER AUTHORITY

Statement of Net Position

May 31, 2016

(In thousands)

Assets

Current assets:	
Cash and cash equivalents	\$ 132,501
Investments	60,038
Accounts receivable, less allowance for doubtful accounts of \$1,437	14,426
Accrued water services and fire protection revenues	18,441
Interest and other receivables	168
Materials and supplies, at average cost	10,231
Prepayments and other current assets	<u>1,633</u>
Total current assets	<u>237,438</u>
Restricted investments	161,044
Bond anticipation note receivable	16,538
Goodwill	2,727
Costs to be recovered from future revenues	109,744
Other assets	1,483
Capital assets, net	<u>1,107,715</u>
Total noncurrent assets	<u>1,399,251</u>
Total assets	\$ <u><u>1,636,689</u></u>

Deferred Outflows

Deferred outflows:	
Pension related	\$ 23,653
Deferred amounts due to bond refunding	<u>18,346</u>
Total deferred outflows	\$ <u><u>41,999</u></u>

Liabilities

Current liabilities:	
Current maturities of bonds payable	\$ 5,617
Accounts payable	7,568
Accrued interest	15,377
Accrued employee welfare costs	10,946
Other accrued liabilities	<u>12,255</u>
Total current liabilities	51,763
Bond anticipation notes payable	91,539
Bonds payable, less current portion and unamortized discounts	756,539
Net pension liability	27,345
Postemployment benefits other than pension	126,744
Advances for construction	<u>4,919</u>
Total liabilities	\$ <u><u>1,058,849</u></u>

Deferred Inflows

Deferred inflows:	
Pension related	\$ 4,054
Deferred amounts due to bond refunding	<u>28</u>
Total deferred inflows	\$ <u><u>4,082</u></u>

Net Position

Net position:	
Net investment in capital assets	\$ 345,323
Restricted for debt service	88,088
Unrestricted	<u>182,346</u>
Total net position	\$ <u><u>615,757</u></u>

See accompanying notes to financial statements.

SUFFOLK COUNTY WATER AUTHORITY

Statement of Revenues, Expenses, and Changes in Net Position

Year ended May 31, 2016

(In thousands)

Operating revenues:	
Water service	\$ 155,479
Other	20,042
	<hr/>
Total operating revenues	175,521
	<hr/>
Operating expenses:	
Operations	94,074
Maintenance	27,718
Depreciation and amortization	45,346
	<hr/>
Total operating expenses	167,138
	<hr/>
Operating income	8,383
	<hr/>
Nonoperating revenues and expenses:	
Interest expense, net	(26,267)
Amortization of deferred amounts on refinancing	(1,153)
Income from investments	1,279
Costs to be recovered from future revenues	10,079
Capital reimbursement fees	9,394
	<hr/>
Total nonoperating revenues and expenses, net	(6,668)
	<hr/>
Change in net position	1,715
	<hr/>
Net position:	
Beginning of year, as restated (see note 1(u))	614,042
	<hr/>
End of year	\$ 615,757
	<hr/> <hr/>

See accompanying notes to financial statements.

SUFFOLK COUNTY WATER AUTHORITY

Statement of Cash Flows

Year ended May 31, 2016

(In thousands)

Cash flows from operating activities:	
Cash receipts from customers	\$ 158,458
Other operating cash receipts	20,741
Cash payments to employees for services and benefits	(12,359)
Cash payments to suppliers of goods and services	(89,828)
Net cash provided by operating activities	<u>77,012</u>
Cash flows from capital and related financing activities:	
Additions to water plant	(61,306)
Proceeds from issuance of notes payable	81,252
Proceeds from issuance of long-term debt	181,732
Repayment of bond anticipation notes payable	(50,000)
Repayment of current maturities of bonds payable	(6,060)
Cost of issuance	(1,479)
Debt defeasance	(128,683)
Interest paid	(28,445)
Proceeds from advances for construction, net of refunds	10,918
Net cash used in capital and related financing activities	<u>(2,071)</u>
Cash flows from investing activities:	
Purchase of investments	(235,443)
Proceeds from sales and maturities of investments	182,143
Interest received	1,324
Net cash used in investing activities	<u>(51,976)</u>
Net increase in cash and cash equivalents	22,965
Cash and cash equivalents at beginning of year	<u>109,536</u>
Cash and cash equivalents at end of year	<u>\$ 132,501</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 8,383
Depreciation and amortization expense	45,346
(Increase) decrease in operating assets:	
Accounts receivable	(515)
Accrued water services and fire protection revenues	3,330
Materials and supplies and prepayments	(184)
Other assets	164
Increase (decrease) in operating liabilities:	
Accounts payable	(1,861)
Accrued employee welfare costs	2,207
Postemployment benefits other than pension	17,079
Other accrued liabilities	699
Net pension liability, net of deferred amounts	2,364
Net cash provided by operating activities	<u>\$ 77,012</u>
Noncash investing activities:	
Change in the fair value of investments	\$ 41

See accompanying notes to financial statements.

SUFFOLK COUNTY WATER AUTHORITY

Notes to Financial Statements

May 31, 2016

(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, 2016.

(d) *Capitalized Interest*

The Authority capitalizes interest on constructed assets during the period of construction. Interest cost capitalized during the year ended May 31, 2016 was approximately \$1.5 million.

(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.

SUFFOLK COUNTY WATER AUTHORITY

Notes to Financial Statements

May 31, 2016

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 statement of net position. Amounts in the debt service and bond funds are invested in U.S. Treasury Notes and U.S. government and U.S. government sponsored entity securities.

(g) *Investments Held for Construction*

In accordance with the Resolution, investments held for construction in the construction fund are for the costs of acquiring, constructing, and replacing the water system and are reported as restricted investments in the accompanying statement 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 statement 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 statement of revenues, expenses, and changes in net position when the construction is completed.

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

SUFFOLK COUNTY WATER AUTHORITY

Notes to Financial Statements

May 31, 2016

(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, 2016, the Authority had 11 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 2017 and 2030. The cumulative gross payments due for all of these water district contracts through their respective maturity dates at May 31, 2016 amount to approximately \$7.7 million. 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 statement of net position as of May 31, 2016.

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

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

SUFFOLK COUNTY WATER AUTHORITY

Notes to Financial Statements

May 31, 2016

(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 in the accompanying statement 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, 2016, the amounts of accrued employee welfare costs are \$10.9 million.

(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 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 as calculated under GASB Statement No. 45 (GASB No. 45), *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. In accordance with GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in the Pre-November 30, 1989 FASB and AICPA Pronouncements*, the Authority has deferred the excess of current annual required contribution over the amount paid, beginning in fiscal year 2010. The deferred costs will be recovered through future revenues in accordance with the Authority's rate model. The deferred amount as of and for the year ended May 31, 2016 was \$109.7 million.

SUFFOLK COUNTY WATER AUTHORITY

Notes to Financial Statements

May 31, 2016

(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) New Accounting Standards Adopted

The Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* (GASB 68). GASB 68 addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense related to pensions. Note disclosure and required supplementary information requirements about pensions also are addressed. For defined benefit pensions, this statement also identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. The Authority is a participating employer in the New York State and Local Employees' Retirement System (the System), cost-sharing, multiple-employer defined benefit pension plan administered by the New York State. In accordance with the provisions of GASB 68, the Authority has reported its proportionate share of the System's net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense. As a result of the implementation of GASB 68, beginning unrestricted net position as of June 1, 2015, was decreased by \$5,382.

The Authority also adopted GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68* (GASB 71). GASB 71 amends paragraph 137 of GASB 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the

SUFFOLK COUNTY WATER AUTHORITY

Notes to Financial Statements

May 31, 2016

measurement date of the beginning net pension liability. There were no contributions by the Authority to the plan subsequent to the measurement date.

The Authority also adopted GASB Statement No. 82, *Pension Issues – an Amendment of GASB Statements No. 67, No. 68, and No. 73*. GASB 82 addresses certain issues that have been raised with respect to GASB 67, GASB 68, and GASB 73. Specifically, GASB 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

The provisions of GASB 68, 73, and 82 have been applied to the beginning of the 2016 fiscal year net position. The following is a reconciliation of the total net position as of May 31, 2015 as previously reported and the restated June 1, 2015 net position:

Total net position as previously reported as of May 31, 2015	\$	619,424
Restatement to beginning year of net position		<u>5,382</u>
Total net position as of June 1, 2015	\$	<u><u>614,042</u></u>

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

In February 2015, the GASB issued 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. GASB 72 will be effective for periods beginning after June 15, 2015. The Authority is currently assessing the impact of this statement on its financial statements.

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 basic financial statements, in addition to requiring more extensive note disclosures and required supplementary information. GASB 75 will be effective for periods beginning after June 15, 2017. The Authority is currently assessing the impact of this statement on its financial statements.

SUFFOLK COUNTY WATER AUTHORITY

Notes to Financial Statements

May 31, 2016

(2) Capital Assets, Net

	<u>May 31, 2015</u>	<u>Additions/ reclassifi- cations</u>	<u>Deletions/ reclassifi- cations</u>	<u>May 31, 2016</u>
	(In thousands)			
Land and land rights	\$ 25,778	1,732	—	27,510
Distribution systems	944,795	16,311	(1,046)	960,060
Wells, reservoirs, and structures	301,631	7,976	(198)	309,409
Pumping and purification equipment	146,254	3,586	(146)	149,694
Meters	79,623	9,765	(6,571)	82,817
Compressors/backhoes	4,495	—	—	4,495
Computer equipment	23,850	944	—	24,794
Equipment	29,548	808	(13)	30,343
Hydrants	45,319	1,078	(231)	46,166
	<u>1,601,293</u>	<u>42,200</u>	<u>(8,205)</u>	<u>1,635,288</u>
Water plant in service				
Less accumulated depreciation	<u>(598,593)</u>	<u>(45,195)</u>	<u>8,205</u>	<u>(635,583)</u>
Net water plant in service	1,002,700	(2,995)	—	999,705
Construction in progress	<u>87,318</u>	<u>62,892</u>	<u>(42,200)</u>	<u>108,010</u>
Water plant	<u>\$ 1,090,018</u>	<u>59,897</u>	<u>(42,200)</u>	<u>1,107,715</u>

Depreciation expense amounted to approximately \$45.2 million for the year ended May 31, 2016 based on a composite annual rate of percentage.

(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 \$132.5 million and bank balances of approximately \$134.4 million at May 31, 2016. Collateral for deposits is held by a third-party bank in the name of the Authority.

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(b) Investments

Investments, including restricted investments, at May 31, 2016 consist of the following (dollars in thousands):

	Fair Value	Investment maturities (In years)		
		Less than 1	1 to 5	Greater than 5
U.S. Treasury notes (1)	\$ 2,555	1,002	1,553	—
U.S. Treasury bonds (1)	3,783	—	1,674	2,109
FNMA notes (1)	42,524	—	42,524	—
FHLB notes (1)	50,246	17,555	32,691	—
FHLMC notes (1)	23,642	—	23,642	—
FFCB notes (1)	24,784	—	24,784	—
NYS Municipal Bonds	510	—	—	510
Money market	72,956	72,956	—	—
Guaranteed investment contracts (1)	82	82	—	—
Total investments	\$ 221,082	91,595	126,868	2,619

(1) Includes approximately \$88.1 million of investments, including cash held by a Fiscal Agent in the Authority's name at May 31, 2016.

Investment breakdown:

Restricted for:

Debt service	\$ 88,088
Construction	72,956
Unrestricted	<u>60,038</u>
Total investments	\$ <u>221,082</u>

Accrued interest on investments other than investment agreements is included in interest and other receivables on the statement 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.

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Investments include U.S. Treasury obligations, U.S. government, any state of the United States or any political subdivision, sponsored entity securities, guaranteed investment contracts, and repurchase agreements backed by such obligations.

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, 2016, 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 (\$50.2 million or 22.7% of investments), Federal Farm Credit Bank (\$24.8 million or 11.2% of investments), Federal National Mortgage Association (\$42.5 million or 19.2% of investments), and Federal Home Loan Mortgage Corp. (\$23.6 million or 10.7% of investments) at May 31, 2016.

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(4) Bonds Payable

Outstanding bonds are summarized as follows:

Series	Interest rate(s)	Final maturity date	May 31, 2015	Issued	Matured/ refunded <small>(In thousands)</small>	May 31, 2016	Due within one year
Water System Revenue Bonds:							
1994 Subordinate Lien	6.00	2015	\$ 695	—	(695)	—	—
2006 A Senior Lien	3.59–4.95	2031	70,000	—	(70,000)	—	—
2007 A Senior Lien	4.00	2032	44,195	—	(42,815)	1,380	660
2009 Senior Lien	2.5–5.00	2022	10,615	—	(20)	10,595	20
2009 A Senior Lien	4.00–5.00	2035	56,375	—	(1,395)	54,980	1,430
2009 B Senior Lien	5.50	2035	100,000	—	—	100,000	—
2011 Senior Lien	4.75–5.00	2040	24,930	—	—	24,930	—
2012 Senior Lien	3.00–5.00	2026	83,635	—	—	83,635	—
2012 A Senior Lien	3.00–3.75	2038	80,000	—	—	80,000	—
2013 Senior Lien	3.00–4.00	2029	62,380	—	—	62,380	—
2014 A Senior Lien	3.13–5.00	2040	65,000	—	—	65,000	—
2014 B Senior Lien	3.5–5.25	2040	50,000	—	—	50,000	—
2015 Senior Lien	3.00–5.00	2032	—	116,660	—	116,660	—
2015 A Senior Lien	4.00–5.25	2040	—	49,105	—	49,105	—
Environmental Facilities Corporation Revenue Bonds:							
2005 B	3.47–4.02	2026	4,340	—	(4,340)	—	—
2010 C	2.71–3.16	2019	1,545	—	(300)	1,245	310
2011 A	2.62–3.99	2021	4,382	—	(793)	3,589	829
2011 C	1.72–3.57	2022	7,617	—	(899)	6,718	925
2012 B	4.62–5.00	2022	3,420	—	(398)	3,022	425
2013 B	3.82–4.50	2023	3,438	—	(355)	3,083	368
2014 B	4.36–4.96	2024	3,643	—	(325)	3,318	325
2015 D	3.64–4.02	2025	—	4,039	(310)	3,729	325
Total bonds outstanding			676,210	169,804	(122,645)	723,369	\$ 5,617
				<u>Additions</u>	<u>Amortization/ payments</u>		
Unamortized premium (discount), net			24,680	18,181	(4,074)	38,787	
Current maturities payable			(6,060)	(5,617)	6,060	(5,617)	
			<u>\$ 694,830</u>	<u>182,368</u>	<u>(120,659)</u>	<u>756,539</u>	

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

In satisfaction of the Reserve Account requirements of each Water Revenue Bond Issue, the Authority may provide a letter of credit, surety agreement, insurance agreement, or other type of agreement with any entity whose obligations are rated in one of the two (2) highest rating categories by Standard & Poor's Ratings Services or Moody's Investors Service. If, at any time, the rating issued by Standard & Poor's Ratings Services or Moody's Investors Service falls below such two (2) highest ratings, then within twelve (12) months thereafter, the Authority shall use its best efforts to either, at its option, replace such a credit

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agreement with an entity whose obligations are rated with such two (2) highest ratings or deposit into the Reserve Account sufficient moneys in accordance with the respective bond resolution to replace such Credit Agreement.

For the fiscal year 2016, the Authority, at its own discretion, has elected to fund the reserve accounts in the amount of \$69.5 million from bond proceeds and \$1.6 million from unrestricted funds.

(a) *Water System Revenue Bonds*

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

During fiscal year ended May 31, 2016, the Authority entered into the following bond transactions:

In November 2015, the Authority issued \$49.1 million Senior Lien Water System Revenue Bonds, Series 2015A. The Series 2015A Bonds were issued to retire all of the Authority's outstanding Bond Anticipation Notes, 2013A, fund the Reserve Account and pay cost of issuance. The Series 2015A Bonds bear interest rates ranging from 4.00% to 5.25% and have a final maturity date of June 1, 2040.

In November 2015, the Authority issued \$116.7 million Senior Lien Water System Revenue Bonds Series 2015 (Refunding Bonds). The Series 2015 (Refunding Bonds) were issued to provide for the advance refunding of \$70.0 million Suffolk County Authority Water System Revenue Bonds, Series 2006A, and a portion of the \$43.6 million of Series 2007A bonds in the amount of \$42.2 million. The proceeds from the Series 2015 (Refunding Bonds) were used to fund the escrow account for \$112.1 million along with existing Series 2006A and Series 2007A reserve funds in the amount of \$10.0 million and existing debt service funds representing accrued interest in the amount of \$2.2 million. A reserve fund was funded for the 2015 (Refunding Bonds) in the amount of \$10.5 million and \$0.9 million of the proceeds was used to pay cost of issuance. This advanced refunding resulted in a net present value savings of approximately \$9.7 million and the Authority recognized a loss on bond refunding in the amount of \$10.0 million, which was recorded as a deferred outflow on bond refunding. The Series 2015 (Refunding Bonds) bear interest rates ranging from 3.00% to 5.00% and have a final maturity date of June 1, 2032.

(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 (NYSEFC) is responsible for administering the Revolving Fund and providing financial assistance from the Revolving Fund. NYSEFC 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.

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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.

During the fiscal year ended May 31, 2016, the Authority entered into the following NYS EFC bond transactions:

In July 2015, the Authority closed on its NYS EFC Bond Anticipation Note 2015A in the amount of \$16.5 million as part of the Storm Mitigation Loan Program through the NYS EFC. The Storm Mitigation Loan Program is comprised of a \$16.5 million zero percent 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 year 2016.

In August 2015, the Authority participated in the 2015D refinancing of \$4.3 million NYS EFC Suffolk County Water Authority Water System Revenue Bond Series 2005B. The amount of \$0.3 million from the current Local Debt Service Reserve Fund was used as a source to refund a portion of the SRF Refunded Bonds. This refunding resulted in a net present value savings net of reserve funds on hand of approximately \$0.05 million. The NYS EFC Series 2015D currently bear interest rates ranging from 3.55% to 4.00% with a final maturity date of October 1, 2025.

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, 2016, the amount of defeased debt obligation outstanding was approximately \$120.6 million.

Interest expense on the bonds was \$29.3 million for the year ended May 31, 2016.

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

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	<u>Principal</u>	<u>Interest</u> (In thousands)	<u>Total</u>
Fiscal year ending:			
2017	\$ 5,617	30,114	35,731
2018	6,046	29,886	35,932
2019	11,982	29,357	41,339
2020	14,270	28,695	42,965
2021	18,308	27,903	46,211
2022 through 2026	108,901	125,147	234,048
2027 through 2031	158,070	98,503	256,573
2032 through 2036	205,905	59,406	265,311
2037 through 2042	194,270	15,387	209,657
	<u>\$ 723,369</u>	<u>444,398</u>	<u>1,167,767</u>

(5) Debt Service Requirements

As prescribed in the Authority's Resolution, the Authority is required to maintain a Reserve Account for each Series of Bonds to be held in the custody of the Bond Fund Trustee in an amount equal to the lesser of (1) 10% of the proceeds of the particular bond issue, (2) the maximum debt service due on the particular bond issue, or (3) 125% of the average of the annual installments of Debt Service with respect to all current and future years of the particular bond issue. The resolution permits the Authority to deposit a letter of credit, surety agreement, insurance agreement, or other type of agreement or arrangement with an entity whose obligations are rated in one of the two highest rating categories by Standard and Poor's Ratings Services or Moody's Investors Service in order to satisfy the Reserve Account requirements. At May 31, 2016, the debt service reserve funds were approximately \$71.0 million.

Revenue before interest expense and depreciation and amortization was equivalent to 2.11 times (2.12 in 2015) 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:

<u>Series</u>	<u>Final maturity date</u>	<u>Balance at May 31, 2015</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Balance at May 31, 2016</u>	<u>Due within one year</u>
				(In thousands)		
2013 A SCWA	January 15, 2016	\$ 50,000	-	(50,000)	-	-
2015 A EFC	July 30, 2020	-	16,539	-	16,539	-
2015 B SCWA	November 1, 2017	-	75,000	-	75,000	-
Total notes outstanding		<u>\$ 50,000</u>	<u>91,539</u>	<u>(50,000)</u>	<u>91,539</u>	<u>-</u>

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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 November 2015, the Authority issued \$75.0 million Suffolk County Water Authority Bond Anticipation Notes, 2015B. The proceeds from the 2015B Notes were deposited in a Construction Fund to finance the Cost of Acquisition and Construction of improvements and additions to the Water System. The 2015B Notes bear an interest rate of 5.00% and have a maturity date of November 1, 2017.

On January 15, 2016, \$50.0 million of the Suffolk County Water Authority’s Bond Anticipation Notes, 2013A matured. These notes were paid out of the proceeds from the issuance of the Suffolk County Water Authority Water System Revenue Bond Series 2015A.

(7) Pension Plan

The Authority participates in the New York State and Local Employees’ Retirement System (NYSLRS or 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 noncontributory except for employees who joined the New York State and Local Employees’ Retirement System after July 27, 1976, who contribute 3% of their salary for the first ten years of membership, and employees who joined on or after January 1, 2010 (ERS). Under the authority of the RSSL, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employers’ contributions based on salaries paid during the System’s fiscal year ending March 31. The System offers a range of programs and benefits that vary based on the date of membership, years of credited service and final average salary, vesting of retirement benefits, disability benefits, and optional methods of benefit payments. Contributions for the current year and two preceding years were equal to 100% of the contributions required, and were as follows (dollars in thousands):

2014	\$	8,713
2015		7,813
2016		7,161

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

At May 31, 2016, the Authority reported a liability of \$27.3 million for its proportionate share of the System's net pension liability. The net pension liability was measured as of March 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of April 1, 2015. 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, 2016, the Authority's proportion was 0.1703727%.

For the year ended May 31, 2016, the Authority recognized pension expense of \$9.5 million. At May 31, 2016, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (dollars in thousands):

	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	\$ 138	3,241
Changes of assumptions	7,292	—
Net difference between projected and actual investment earnings on pension plan investments	16,223	—
Changes in proportion and differences between employer contributions and proportionate share of contributions	—	813
Total	\$ 23,653	4,054

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:	
2017	\$ 4,933
2018	4,933
2019	4,933
2020	4,800

(c) Actuarial Assumptions

The total pension liability at March 31, 2016 was determined by using an actuarial valuation as of April 1, 2015, with update procedures used to roll forward the total pension liability to March 31, 2016.

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Significant actuarial assumptions used in the April 1, 2015 valuation 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 are summarized as follows:

<u>Asset type</u>	<u>allocation</u>	<u>real rate</u>
Domestic equity	38 %	7.30 %
International equity	13	8.55
Private equity	10	11.00
Real estate	8	8.25
Absolute return strategies	3	6.75
Opportunistic portfolio	3	8.60
Real assets	3	8.65
Bonds and mortgages	18	4.00
Cash	2	2.25
Inflation indexed bonds	2	4.00
	<u>100 %</u>	

(d) Discount Rate

The discount rate used to measure the total pension liability 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 calculated using the discount rate assumption of 7.0%, as well as what the Authority's proportionate share of the net

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pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (6.0%) or 1-percentage-point higher (8.0%) than the current rate (dollars in thousands):

	<u>1% Decrease (6.0%)</u>	<u>Current assumption (7.0%)</u>	<u>1% Increase (8.0%)</u>
Authority's proportionate share of the net pension liability (asset) \$	61,662	27,345	(1,651)

(f) Pension plan fiduciary net positions

The components of the current-year net pension liability of the System as of March 31, 2016, were as follows (dollars in thousands):

Employers' total pension liability	\$ 172,303,544
System's fiduciary net position	<u>156,253,265</u>
Employers' net pension liability	\$ <u>16,050,279</u>
System fiduciary net position as percentage of total pension liability	90.7%

(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 statement 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 \$46 million at May 31, 2016.

(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 are noncontributory for active employees, with all payments for plan benefits

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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 2016, there were 920 participants (552 active and 368 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 post employment 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 Annual Required Contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB No. 45. GASB No. 45 does not require that the employer actually fund its ARC, but allows for the financing of these benefits on a pay-as-you-go basis. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The following table shows the components of the Authority's annual OPEB cost for the year, the amount contributed to the plan, and changes in the Authority's net OPEB obligation for the year ended May 31, 2016 (dollars in thousands):

Annual OPEB cost:	
Annual required contribution (ARC):	
Normal cost	\$ 10,188
Amortization payment	14,315
Interest to the end of the year	980
Total	25,483
Interest on net OPEB obligation	4,387
Net OPEB obligation amortization adjustments to the ARC	(6,342)
Annual OPEB cost (expense)	23,528
Contributions made	(6,449)
Increase in net OPEB obligation	17,079
Net OPEB obligation, beginning of year	109,665
Net OPEB obligation, end of year	\$ 126,744

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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):

<u>Fiscal year ended</u>	<u>Annual OPEB cost</u>	<u>Percentage of annual OPEB cost contributed</u>	<u>Net OPEB obligation</u>
May 31, 2016	\$ 23,528	27.4 %	\$ 126,744
May 31, 2015	21,717	27.4	109,665
May 31, 2014	19,730	27.0	93,891

As of June 1, 2015 and 2014, the actuarial accrued liability for benefits was \$257.4 million and \$235.8 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, 2016, the undedicated reserve is \$17.0 million.

As of June 1, 2015 and 2014, the covered payroll (annual payroll of active employees covered by the plan) was \$40.3 million and \$39.1 million, respectively, and the ratio of unfunded actuarial liability to covered payroll 638.7% and 603.0% 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, 2015 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.0% discount rate for the unfunded portion, and an annual healthcare cost trend rates of 8.0% grading down to 5.0% for medical, 4.5% grading down to 4.0% for dental, 4.5%, grading up to 5.0% for Medical Part B, and optical remains at 3.0%. The unfunded actuarial accrued liability is being amortized over 30 years as a level percentage of projected payrolls on an open basis.

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(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 \$3,450 to \$8,389, per month and have terms ranging from five (5) to 15 years, multiple five-year renewals, and 3.0% to 3.5% annual rental increases. The Authority currently has 169 lease agreements with eight different wireless carriers. Annual lease income from these agreements for the next five years is expected to be the following:

2017	\$ 10.9 million
2018	11.3 million
2019	11.6 million
2020	12.0 million
2021	12.3 million

Annual lease income that is included in other operating revenue for the fiscal year ended May 31, 2016 was \$10.6 million.

(b) *Legal*

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

(c) *Risk Management*

The Authority is exposed to various risks of loss related to automobiles and general liability. Effective April 1, 2016, the Authority elected to self-insure its workers compensation program. Claims will be administered through a TPA, currently PMA Management Corp. There is also insurance in place that will limit the Authority’s exposure to individual claims to a limit of \$650,000. The policy is written through the Safety National Insurance Company. The Authority has established a liability based on actuarial estimates of the amounts needed to pay prior year and current year claims and to establish a reserve for catastrophic losses. That liability, which is for workers’ compensation, general, and automobile claims, was approximately \$1.9 million at May 31, 2016 and is based on the requirements of GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

SUFFOLK COUNTY WATER AUTHORITY

Notes to Financial Statements

May 31, 2016

Changes in the Authority's workers' compensation claims liability amount in fiscal 2016 were as follows (dollars in thousands):

Unpaid claims, beginning of fiscal year	\$	290
Changes in the estimate for claims of all years		<u>(116)</u>
Unpaid claims, end of fiscal year	\$	<u><u>174</u></u>

Changes in the Authority's general and automobile claims liability amount in fiscal 2016 were as follows (dollars in thousands):

Unpaid claims, beginning of fiscal year	\$	2,402
Changes in the estimate for claims of all years		(87)
Claim payments		<u>(601)</u>
Unpaid claims, end of fiscal year	\$	<u><u>1,714</u></u>

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

(11) Subsequent Events

The Authority has evaluated subsequent events through August 29, 2016, the date the financial statements were available to be issued.

SUFFOLK COUNTY WATER AUTHORITY

Required Supplementary Information (Unaudited)

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

May 31, 2016

(dollars in thousands)

	<u>2016</u>
Contractually required contribution	\$ 7,161
Contributions in relation to the contractually required contribution	<u>7,161</u>
Contribution deficiency (excess)	<u>\$ —</u>
Authority covered-employee payroll (Authority year end)	\$ 40,686
Contributions as a percentage of covered-employee payroll	17.60%

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

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, 2016

(dollars in thousands)

	2016
Authority's share of the net pension liability	0.1703727%
Authority's proportionate share of the net pension liability	\$ 27,345
Authority's covered-employee payroll (measurement date)	41,422
Authority's proportionate share of the net pension liability as a percentage of the covered-employee payroll	66.0%
Plan fiduciary net position as a percentage of the total pension liability	90.70%

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

SUFFOLK COUNTY WATER AUTHORITY
Required Supplementary Information (Unaudited)
Schedule of Funding Progress for the Retiree Healthcare Plan
May 31, 2016
(dollars in thousands)

<u>Actuarial valuation date</u>	<u>Actuarial value of assets (a)</u>	<u>Actuarial accrued liability (AAL) – Level dollar (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded ratio (a/b)</u>	<u>Covered payroll (c)</u>	<u>UAAL as a percentage of covered payroll (b-a)/c</u>
June 1, 2015	\$ —	257,443	257,443	—	40,307	639 %
June 1, 2014	—	235,882	235,882	—	39,133	603
June 1, 2013	—	214,509	214,509	—	39,330	545

APPENDIX C

Proposed Form of Opinion of Bond Counsel

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Upon delivery of the Series 2016 Bonds,
Harris Beach PLLC, Bond Counsel,
proposes to render an opinion in
substantially the following form:

November __, 2016

Suffolk County Water Authority
Oakdale, New York

Re: \$84,280,000 Water System Revenue Bonds, Series 2016A, \$40,000,000 Water System Revenue Bonds, Series 2016B and \$53,825,000 Water System Revenue Bonds, Series 2016 Refunding

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance of the \$84,280,000 principal amount of Water System Revenue Bonds, Series 2016A (the "Series 2016A Bonds"), \$40,000,000 principal amount of Water System Revenue Bonds, Series 2016B (the "Series 2016B Bonds") and \$53,825,000 principal amount of Water System Revenue Bonds, Series 2016 Refunding (the Series 2016 Refunding Bonds" and collectively with the Series 2016A Bonds and the Series 2016B Bonds, the "Series 2016 Bonds"), of the Suffolk County Water Authority (the "Authority"), a body corporate and politic constituting a public benefit corporation of the State of New York (the "State"). The Series 2016A Bonds are authorized under and pursuant to the Suffolk County Water Authority Act, as amended, being Title 4 of Article 5 of the Public Authorities Law of the State (the "Act") and the bond resolution of the Authority, adopted on September 27, 1988, as amended on October 27, 1988, March 30, 1993 and November 29, 1994 (the "Resolution"), and as further amended and supplemented by a supplemental resolution adopted by the Authority on September 28, 2015 and the supplemental resolution adopted by the Authority on September 26, 2016 (the "Series 2016A Supplemental Resolution"). The Series 2016B Bonds are authorized under and pursuant to the Act and the Resolution, as further amended and supplemented by a supplemental resolution adopted by the Authority on September 26, 2016 (collectively, the "Series 2016B Supplemental Resolution"). The Series 2016 Refunding Bonds are authorized under and pursuant to the Act and the Resolution, as further amended and supplemented by a supplemental resolution adopted by the Authority on September 26, 2016 (collectively, the "Series 2016 Refunding Supplemental Resolution" and together with the Series 2016A Supplemental Resolution and the 2016B Supplemental Resolution, the "Supplemental Resolutions").

The Series 2016A Bonds are dated November 15, 2016, shall mature on June 1 in the years and in the principal amounts, and shall bear interest, payable on June 1, 2017, December 1, 2017 and each June 1 and December 1 thereafter through and including the respective maturity dates thereof, at the respective rates per annum, as are set forth in Certificate of Determination executed by the Chairman, dated November 15, 2016 in connection with the Series 2016A Bonds (the "Series 2016A Certificate of Determination"). The Series 2016A Bonds are subject to such other terms as are set forth in the Series 2016A Supplemental Resolution and a Series 2016A Certificate of Determination.

The Series 2016B Bonds are dated November 15, 2016, shall mature on June 1 in the years and in the principal amounts, and shall bear interest, payable on June 1, 2017, December 1, 2017 and each June 1 and December 1 thereafter through and including the respective maturity dates thereof, at the respective rates per annum, as are set forth in Certificate of Determination executed by the Chairman,

dated November 15, 2016 in connection with the Series 2016B Bonds (the “Series 2016B Certificate of Determination”). The Series 2016B Bonds are subject to such other terms as are set forth in the Series 2016B Supplemental Resolution and a Series 2016B Certificate of Determination.

The Series 2016 Refunding Bonds are dated November 15, 2016, shall mature on June 1 in the years and in the principal amounts, and shall bear interest, payable on June 1, 2017, December 1, 2017 and each June 1 and December 1 thereafter through and including the respective maturity dates thereof, at the respective rates per annum, as are set forth in set forth in Certificate of Determination executed by the Chairman, dated November 15, 2016 in connection with the Series 2016 Refunding Bonds (the “Series 2016 Refunding Certificate of Determination”). The Series 2016 Refunding Bonds are subject to such other terms as are set forth in the Series 2016 Refunding Supplemental Resolution and the Series 2016 Refunding Certificate of Determination.

The Series 2016A Bonds are being issued to (i) retire all of the Authority’s outstanding Bond Anticipation Notes, 2015B, (ii) fund a deposit to the Reserve Account, Series 2016A and (iii) pay costs of issuance relating to the Series 2016A Bonds. The Series 2016B Bonds are being issued to (i) finance the Cost of Acquisition and Construction of improvements and additions to the Water System, (ii) fund a deposit to the Reserve Account, Series 2016B and (iii) pay costs of issuance relating to the Series 2016B Bonds. The Series 2016 Refunding Bonds are being issued to (i) provide moneys for the refunding of certain Outstanding Senior Lien Bonds of the Authority, (ii) fund a deposit to the Reserve Account, Series 2016 Refunding and (iii) pay costs of issuance relating to the Series 2016 Refunding Bonds. All capitalized terms used herein and not otherwise defined shall have the respective meanings ascribed thereto in the Resolution.

We have examined the Constitution and statutes of the State, certified copies of proceedings of the Authority authorizing the issuance of the Series 2016 Bonds and such other proceedings as we have considered necessary or advisable to render the following opinions. As to matters of fact, we have relied upon certain representations and certifications of the Authority. We have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals and the conformity to authentic original documents of all documents submitted to us as certified, conformed or photostatic copies.

Based upon and subject to the foregoing, we are of the opinion that:

1. The Authority is a body corporate and politic constituting a public benefit corporation, duly created and validly existing under the laws of the State, including particularly the Act.
2. The Authority has the corporate power and authority to adopt the Supplemental Resolutions and to issue and sell the Series 2016 Bonds.
3. Both the Resolution and the Supplemental Resolutions have been duly and lawfully adopted by the Authority and are presently in full force and effect.
4. The Series 2016 Bonds are valid and legally binding obligations of the Authority as provided in the Resolution and the Supplemental Resolutions, enforceable against the Authority in accordance with their terms and the terms of the Resolution and the Supplemental Resolutions and have been duly and validly authorized and issued in accordance with the Act, the Resolution and the Supplemental Resolutions, and are payable on a parity with all other outstanding Senior Lien Bonds heretofore and hereafter issued under the Resolution solely from the Net Revenues of the Water System of the Authority, and the Authority has the power and is obligated to fix and collect rates and other charges for the water, services and facilities sold, furnished or supplied by the Water System sufficient

to provide for the payment of the principal of and interest on all Bonds issued and to be issued under the Resolution, including the Series 2016 Bonds, as the same respectively mature and to comply in all other respects with the provisions of the Resolution and Supplemental Resolutions.

5. Under statutes, regulations, administrative rulings and court decisions existing as of the date hereof, and assuming continuing compliance by the Authority with certain covenants contained in the Resolution, the Supplemental Resolutions, the Tax Certificate as to Arbitrage (the "Tax Certificate") of the Authority relating to certain requirements contained in the Internal Revenue Code of 1986, as amended, and regulations of the United States Treasury Department promulgated thereunder (collectively, the "Code"), interest on the Series 2016 Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Code and is not an "item of tax preference" for purposes of computing the federal alternative minimum tax imposed on individuals and corporations. Interest on the Series 2016 Bonds held by certain corporations is, however, included in the computation of "adjusted current earnings," a portion of which is taken into account in determining the federal alternative minimum tax imposed on such corporations.

6. Under statutes existing as of the date hereof, interest on the Series 2016 Bonds are exempt from personal income taxes imposed by the State of New York and any political subdivision thereof (including The City of New York).

In rendering the opinion set forth in paragraph 5 above that interest on the Series 2016 Bonds is excluded from gross income for federal income tax purposes, we have relied upon, among other things, certain representations and covenants of the Authority in the Resolution, the Supplemental Resolutions and the Tax Certificate. We call your attention to the fact that there are certain requirements contained in the Code with which the Authority must comply after the date of issuance of the Series 2016 Bonds in order for interest on the Series 2016 Bonds to be and remain excluded from gross income for federal income tax purposes. A failure by the Authority to comply with such requirements may cause interest on the Series 2016 Bonds to become included in gross income for federal income tax purposes, retroactive to the date of issuance of the Series 2016 Bonds. We render no opinion as to any federal, state or local tax consequences with respect to the Series 2016 Bonds, or the interest thereon, if any change occurs or action is taken or omitted under the Resolution, the Supplemental Resolutions or the Tax Certificate by the Authority, or under any other relevant documents without the advice or approval of, or upon the advice or approval of any bond counsel other than, Harris Beach PLLC.

Except for the opinions as set forth in paragraphs 5 and 6 above, we express no opinion regarding any other federal, state or local income tax consequences arising with respect to the purchase or ownership of the Series 2016 Bonds. Purchasers of the Series 2016 Bonds, including, without limitation, purchasers that are corporations (including S corporations and foreign corporations operating branches in the United States), property or casualty insurance companies, banks, thrifts or other financial companies or certain recipients of Social Security benefits or other federal retirement benefits are advised to consult their tax advisors as to the tax consequences of purchasing or holding the Series 2016 Bonds.

The foregoing opinions are qualified to the extent that the enforceability of the Resolution, the Supplemental Resolution, the Series 2016 Bonds and any other document executed in connection therewith may be limited by any applicable bankruptcy, insolvency or other similar law or equitable principle now or hereafter enacted by the State of New York or the federal government or pronounced by a court having proper jurisdiction, affecting the enforcement of creditors' rights generally.

We have not been requested to examine and have not examined any documents or information relating to the Authority other than the record of proceedings hereinabove referred to, and no

opinion is expressed as to any financial information, or the adequacy thereof, which has been or may be supplied to the Trustee, the initial purchaser of the Series 2016 Bonds or any other person.

This opinion is given as of the date hereof, and we disclaim any obligation to update this opinion letter for events occurring after the date of this opinion letter. We express no opinion herein except as to the laws of the State of New York and the federal laws of the United States.

Very truly yours,

APPENDIX D

Book-Entry Only System

The Depository Trust Company, New York, New York (“DTC”), will act as securities depository for the Series 2016 Bonds. The Series 2016 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 2016 Bond certificate will be issued for each maturity of the Series 2016 Bonds, in denominations equal to the aggregate principal amount of the Series 2016 Bonds, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Series 2016 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2016 Bonds on DTC’s records. The ownership interest of each actual purchaser of each Series 2016 Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2016 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2016 Bonds, except in the event that use of the book-entry system for the Series 2016 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2016 Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Series 2016 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any

change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2016 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2016 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Series 2016 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2016 Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the Record Date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2016 Bonds are credited on the Record Date (identified in a listing attached to the Omnibus Proxy).

Principal, interest payments and redemption proceeds on the Series 2016 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Paying Agent on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Series 2016 Bonds purchased or tendered, through its Participant, to the Tender Agent, and shall effect delivery of such Series 2016 Bonds by causing the Direct Participant to transfer the Participant's interest in the Series 2016 Bonds, on DTC's records, to the Tender Agent. The requirement for physical delivery of Series 2016 Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Series 2016 Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of the Series 2016 Bonds to the Tender Agent's DTC account.

DTC may discontinue providing its services as depository with respect to the Series 2016 Bonds at any time by giving reasonable notice to the Authority or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Series 2016 Bond certificates are required to be printed and delivered. In addition, the Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Series 2016 Bond certificates will be printed and delivered to DTC. See "Transfers and Exchanges of Series 2016 Bonds Upon Discontinuance of Book-Entry System" herein.

The above information concerning DTC and DTC's book-entry system has been obtained from sources that the Authority and the Purchaser believe to be reliable, but neither the Authority nor the Purchaser makes any representations concerning these matters and neither the Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the Participants, as the case may be.

NEITHER THE AUTHORITY NOR THE PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO THE DTC PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DTC PARTICIPANT; (2) THE PAYMENT BY DTC OR ANY DTC PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT OF OR INTEREST ON THE SERIES 2016 BONDS; (3) THE DELIVERY BY DTC OR ANY DTC PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE RESOLUTION TO BE GIVEN TO BONDHOLDERS; AND (4) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS BONDHOLDER.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE SERIES 2016 BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE SERIES 2016 BOND OWNERS OR REGISTERED OWNERS OF THE SERIES 2016 BONDS SHALL (OTHER THAN UNDER THE SECTION "TAX MATTERS" HEREIN) MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE SERIES 2016 BONDS.

For every transfer and exchange of the Series 2016 Bonds, the Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

Transfers and Exchanges of Series 2016 Bonds Upon Discontinuance of Book-Entry System

In the event that the book-entry only system is discontinued and the Beneficial Owners become registered owners of the Series 2016 Bonds, the following provisions applicable to registered owners would apply: (i) Series 2016 Bonds may be exchanged for an aggregate principal amount of Series 2016 Bonds in authorized denominations of the same maturity and interest rate, upon surrender thereof at the principal corporate trust office of the Paying Agent; (ii) the transfer of any Series 2016 Bonds may be registered on the books maintained by the Paying Agent for such purpose only upon the surrender thereof to the Paying Agent together with a duly executed assignment in form satisfactory to the Authority and the Paying Agent; (iii) for every exchange or registration of transfer of Series 2016 Bonds, the Paying Agent may make a charge sufficient to reimburse it for any tax or other governmental charge required to be paid with respect to such exchange or registration of transfer of the Series 2016 Bonds; and (iv) the Paying Agent will not be required (a) to issue, transfer or exchange any Series 2016 Bonds during the fifteen (15) days preceding the day of mailing of a notice of redemption of Series 2016 Bonds selected for redemption, or (b) to transfer or exchange any Series 2016 Bonds so selected for redemption in whole or in part.

In the event that the book-entry-only system is discontinued, principal and Purchase Price and interest will be payable upon surrender of the Series 2016 Bonds at the corporate trust office of the Paying Agent; interest will be payable by check or draft mailed to the Bondholders at their addresses as shown on the Series 2016 Bond registration books held by the Paying Agent on the Record Date; or at the request of a Bondholder of at least \$1,000,000 in principal amount of the Series 2016 Bonds, by wire transfer.

During any and all times that the Series 2016 Bonds are maintained in a book-entry only system the following transfer and exchange provisions shall not be applicable.

In the event the book-entry-only system is discontinued for any reason, each Series 2016 Bond shall be transferable or exchangeable only upon the Series 2016 Bond registration books by the registered holder thereof or by his attorney duly authorized in writing, upon presentation and surrender of such Series 2016 Bond to the Paying Agent, together with a written instrument of transfer satisfactory in form to the Paying Agent, duly executed by the registered holder or his duly authorized attorney. Upon the surrender of any Series 2016 Bond or Series 2016 Bonds for transfer or exchange, the Paying Agent shall redeliver in the name of the transferee or exchange one or more new Series 2016 Bond or Series 2016 Bonds of the same aggregate principal amount, maturity and interest rate as the surrendered Series 2016 Bond or Series 2016 Bonds, in any denomination authorized by the Supplemental Resolution and in the manner and subject to the conditions set forth in the Supplemental Resolution. All transfers and exchanges shall be made without expense to the registered holder of such Series 2016 Bond, except that the Paying Agent may require the payment by the registered holder of the Series 2016 Bond requesting such transfer or exchange of any tax or other governmental charges required to be paid with respect to such transfer or exchange. All transfers or exchanges of Series 2016 Bonds shall be subject to such provisions as may be prescribed from time to time by the Authority and the Paying Agent. The Authority and the Paying Agent may deem and treat the person in whose name a Series 2016 Bond is registered upon the Series 2016 Bond registration books as the absolute owner of such Series 2016 Bonds for the purpose of receiving payment of the principal of and interest on the Series 2016 Bond and for all other purposes, and they shall not be affected by any notice to the contrary.

APPENDIX E

Table of Refunded Bonds

The Series 2016 Refunding Bonds are being issued for the purpose of refunding the following Outstanding Senior Lien Bonds of the Authority:

Authority's Water Systems Revenue Bonds, Series 2009A, as follows:

Principal Amount Outstanding	Principal Amount to be Refunded	Interest Rate	Maturity Date (June 1)	Redemption Date (June 1)	Redemption Price (% of Par)
\$1,615,000.00	\$1,615,000.00	5.000%	2020	2019	100
1,675,000.00	1,675,000.00	5.000	2021	2019	100
1,735,000.00	1,735,000.00	5.000	2022	2019	100
1,805,000.00	1,805,000.00	4.000	2023	2019	100
1,870,000.00	1,870,000.00	4.000	2024	2019	100
1,950,000.00	1,950,000.00	4.250	2025	2019	100
2,025,000.00	2,025,000.00	4.000	2026	2019	100
2,150,000.00	2,150,000.00	4.250	2027	2019	100
2,195,000.00	2,195,000.00	4.250	2028	2019	100
2,280,000.00	2,280,000.00	4.500	2029	2019	100
2,360,000.00	2,360,000.00	4.500	2030	2019	100
2,365,000.00	2,365,000.00	4.500	2031	2019	100
2,365,000.00	2,365,000.00	4.500	2032	2019	100
7,210,000.00	7,210,000.00	4.625	2033	2019	100
7,535,000.00	7,535,000.00	4.750	2034	2019	100
7,880,000.00	7,880,000.00	4.625	2035	2019	100

Authority's Water Systems Revenue Bonds, Series 2009 Refunding, as follows:

Principal Amount Outstanding	Principal Amount to be Refunded	Interest Rate	Maturity Date (June 1)	Redemption Date (June 1)	Redemption Price (% of Par)
\$2,095,000.00	\$2,095,000.00	5.000%	2020	2019	100
2,210,000.00	2,210,000.00	5.000	2021	2019	100
2,330,000.00	2,330,000.00	4.000	2022	2019	100

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