SUFFOLK COUNTY WATER AUTHORITY

Financial Statements and
Required Supplementary Information

May 31, 2019 and 2018

(With Independent Auditors' Reports Thereon)

SUFFOLK COUNTY WATER AUTHORITY

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KPMG LLP
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Independent Auditors' Report

The Members
Suffolk County Water Authority:

Report on the Financial Statements

We have audited the accompanying financial statements of the Suffolk County Water Authority (the Authority), which comprise the statements of net position as of May 31, 2019 and 2018, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the Suffolk County Water Authority as of May 31, 2019 and 2018, and the changes in its net position and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in notes 1(v) and 9, during the year ended May 31, 2019, the Authority adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. Our opinion is not modified with respect to this matter.

Other Matter - Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 15 and the Schedule of Employer Contributions – New York State and Local Employees' Retirement System, Schedule of Proportionate Share of the Net Pension Liability – New York State and Local Employees' Retirement System, and Schedule of Changes in the Authority's Total OPEB liability and Related Ratios on pages 47, 48, and 49, respectively, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 29, 2019 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

KPMG LLP

August 29, 2019

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

The Financial Statements

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

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

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

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

In 2019, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting for Postemployment Benefits Other Than Pensions* (GASB 75). The statement addresses accounting and financial reporting for other postemployment benefits (OPEB) that are provided to the employees of state and local governmental employers. GASB 75 establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses related to OPEB in the financial statements, in addition to requiring more extensive note disclosures and required supplementary information. The adoption of GASB 75 was done retrospectively and resulted in an adjustment of $268.9 million to beginning net position for the fiscal year ended May 31, 2018.

(Continued)

Management provides the following discussion and analysis of the Authority's financial activities and financial statements. This overview is provided for the fiscal years ended May 31, 2019 and 2018 with comparative information for the year ended May 31, 2017. The reader should use the information contained in this analysis in conjunction with the information contained in the audited financial statements. The financial statements as of and for the years ended May 31, 2019 and 2018 follow this narrative on the subsequent pages.

Summary of Revenues, Expenses, and Changes in Net Position

		Year ended May 31	
	2019	**2018 (as adjusted)**	**2017 (1)**
		(In thousands)	
Operating revenues:			
Water service	$ 163,802	157,612	164,425
Other	25,904	21,379	19,691
Total operating revenues	189,706	178,991	184,116
Operating expenses:			
Operations and maintenance	124,370	128,946	128,231
Depreciation and amortization	50,207	48,752	46,131
Total operating expenses	174,577	177,698	174,362
Operating income	15,129	1,293	9,754
Nonoperating revenues and expenses:			
Interest expense, net	(29,694)	(25,906)	(27,408)
Amortization of deferred amounts on refinancing	(1,453)	(1,462)	(4,001)
Income from investments	7,920	2,041	1,359
Costs to be recovered from future revenues	—	—	9,802
Capital reimbursement fees	6,173	12,695	9,533
Total nonoperating revenues and expenses, net	(17,054)	(12,632)	(10,715)
Change in net position	(1,925)	(11,339)	(961)
Net position, beginning of year	334,552	614,796	615,757
Cumulative effect of adoption of GASB 75 (1)	—	(268,905)	—
Net position, end of year	$ 332,627	334,552	614,796

(1) GASB 75 was adopted, effective June 1, 2017. The 2017 figures have not been restated to reflect the adoption of GASB 75.

Operating Revenues

Water service revenues increased $6.2 million in 2019. This was the result of 4.0% and 15.0% rate increases on consumption and service charges, respectively, which were effective April 1, 2019, these increases were offset by a 1.5% decrease in annual consumption.

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

Other operating revenues increased $4.5 million in 2019. This increase is primarily attributable to $2.1 million recognized in Environmental Facilities Corporation (EFC) – Storm Mitigation Program and EFC Water Infrastructure Improvement Act (WIIA) grant revenue, a $1.3 million increase in antennae lease revenue, a $0.5 million increase due to the recognition of the rate stabilization reserve relating to the sale of property in the previous year, a $0.1 million increase in East Farmingdale Water District revenue, and a $0.5 million increase in late charge revenue, initiation fee revenue, minor upgrade surcharge revenue and reimbursed damages revenue.

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

Operating Expenses

Operations and maintenance expense decreased $4.6 million or 3.6% from $128.9 million in 2018 to $124.3 million in 2019. The decrease is mainly attributable to decreases in accounting and collecting cost of $0.2 million, workers' compensation expense of $2.2 million, and a decrease of $5.3 million due to the impact of the GASB 75 adjustments to postemployment benefit other than pension (OPEB) expense. These decreases were offset by increases in wells, pumping and treatment expense of $0.4 million, transmission and distribution expense of $1.4 million and administrative and special services expense of $1.3 million.

Operations and maintenance expense increased $0.7 million or 0.5% from $128.2 million in 2017 to $128.9 million in 2018. The increase is mainly attributable to increases in wells and pumping cost of $0.4 million, transmission and distribution cost of $0.9 million, administrative and special services cost of $1.9 million, benefits costs of $2.2 million and workers' compensation of $1.0 million. These increases were partially offset by decreases in treatment expense of $0.3 million, accounting and collecting cost of $0.7 million, power purchase of $0.3 million, and $4.4 million due to the adoption of GASB 75.

Depreciation and amortization expenses were $50.2 million in 2019, an increase of $1.4 million or 3.0% from 2018. The increase is attributable to a 4.1% increase in water plant.

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

(Continued)

Nonoperating Revenues and Expenses

Interest expense was $29.7 million in 2019, an increase of $3.8 million from 2018. The increase is mainly attributable to a $2.9 million increase in interest paid net of subsidy on bonds payable related to additional debt issued in August 2018 and a $1.0 million increase in issuance cost expense, offset by a $0.1 million net increase in debt premium expense.

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

Income from investments was $7.9 million in 2019, an increase of $5.9 million from 2018. The change in investment earnings was a result of a more favorable interest rate environment than the previous fiscal year combined with the utilization of additional funds invested in fiscal year 2019.

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

Capital reimbursement fees were $6.2 million in 2019, a decrease of $6.5 million or 51.4% during the current year. The decrease in 2019 was due to increased activity in 2018, primarily related to projects that provided connections to individuals with private wells in Westhampton, funded by the New York State Department of Environmental Conservation (NYSDEC).

(Continued)

Capital reimbursement fees were $12.7 million in 2018, an increase of $3.2 million or 33.7% over 2017. These fees were related to a 2018 project as described above.

Statement of Net Position Summary

		May 31		
		2019	**2018 (as adjusted)**	**2017 [1]**
			(In thousands)	
Assets:				
Capital assets (water plant), net	$	1,172,932	1,149,488	1,131,798
Current assets		287,159	261,183	219,145
Other noncurrent assets		170,623	110,736	288,755
Total assets	$	1,630,714	1,521,407	1,639,698
Deferred outflows of resources	$	23,253	25,341	29,196
Liabilities:				
Current liabilities	$	60,809	54,938	52,191
Other long-term liabilities		300,644	316,091	165,152
Long-term debt, net of current portion		919,399	827,188	833,484
Total liabilities	$	1,280,852	1,198,217	1,050,827
Deferred inflows of resources	$	40,488	13,979	3,271
Net position:				
Net investment in capital assets	$	327,419	341,949	371,607
Restricted for debt service		105,885	92,821	92,848
Unrestricted [1]		(100,677)	(100,218)	150,341
Total net position	$	332,627	334,552	614,796

(1) GASB 75 was adopted, effective June 1, 2017. The 2017 figures have not been restated to reflect the adoption of GASB 75.

Capital Assets (Water Plant), Net

	May 31, 2018	Additions/ reclassifications	Deletions/ reclassifications	May 31, 2019
		(In thousands)		
Water plant in service	$ 1,759,586	82,609	(9,785)	1,832,410
Less accumulated depreciation	(710,586)	(50,056)	9,785	(750,857)
Net water plant in service	1,049,000	32,553	—	1,081,553
Construction in progress	100,488	73,500	(82,609)	91,379
Water plant	$ 1,149,488	106,053	(82,609)	1,172,932

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

There was a net increase in water plant in fiscal year 2019 of $23.3 million comprising an increase of $63.6 million in gross water plant (including construction in progress) reduced by a net increase in accumulated depreciation of $40.3 million. The additions to gross water plant during 2019 comprised of the following: construction projects of $29.5 million, EFC Storm Mitigation Program of $13.3 million, wells $7.5 million, equipment $4.2 million, meters $3.9 million, services $3.9 million, treatment facilities $2.9 million, pump stations $2.8 million, fleet $2.7 million, hydrants $1.3 million, and other projects of $1.2 million.

(Continued)

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

Current Assets

		May 31		
		2019	**2018**	**2017**
			(In thousands)	
Increases (decreases):				
Cash and cash equivalents	$	(7,469)	33,165	8,981
Restricted cash – escrow		240	—	—
Investments		31,168	7,926	(29,580)
Accounts receivables, net		3,647	2,504	1,863
Accrued water services and fire protection revenues		(501)	(26)	(628)
Interest and other receivables		261	60	(71)
Materials and supplies		(1,465)	(1,701)	672
Prepayments and other current assets		95	110	470
Net change in current assets	$	25,976	42,038	(18,293)

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, net of the change in cash and cash equivalents, increased by $23.9 million at May 31, 2019, from May 31, 2018. The increase is primarily attributable to an increase in the frequency of investment purchases.

The Authority's investments, net of the change in cash and cash equivalents, increased by $41.1 million at May 31, 2018, from May 31, 2017. The increase is primarily attributable to funds generated from excess revenues.

Accounts Receivable, net increased by $3.6 million at May 31, 2019 from May 31, 2018. This increase is due to the recognition of a grant receivable of $3.1 million from the Environmental Facilities Corporation Storm Mitigation Loan program (SMLP) and the Water Infrastructure Improvement Act (WIIA) grant and a $2.2 million increase in customer water receivables. This increase was offset by a $1.3 million decrease in construction contracts receivable and a $0.4 million decrease in other receivables.

Materials and supplies at May 31, 2019 are valued at $7.7 million. The $1.5 million decrease from May 31, 2018 is attributed to reduced purchases of meters and components in the amount of $1.1 million due to the completion of the Automated Meter Reading (AMR) installation program. There was also a $0.4 million reduction of the value of inventory on hand.

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

Other Noncurrent Assets

Other noncurrent assets increased by $59.9 million as of May 31, 2019. This was the result of an increase in restricted investments of $68.4 million from bond construction proceeds and debt service reserve funds. This increase was offset by a decrease in Environmental Facilities Corporation Storm Mitigation Loan Program bond anticipation notes receivable of $8.1 million, and a decrease in goodwill and other assets of $0.4 million.

Other noncurrent assets decreased by $178.0 million as of May 31, 2018. This was the result of a $119.5 million write off of costs to be recovered from future revenues due to the adoption of GASB 75, a decrease in restricted investments of $52.1 million due to spend down of bond proceeds for construction, a decrease in Bond Anticipation Note 2015A receivable of $6.1 million, and a decrease in goodwill and other assets of $0.3 million.

Liabilities

Current Liabilities

		May 31	
	2019	2018	2017
		(In thousands)	
Increases (decreases):			
Current maturities of bonds payable	$ (452)	(115)	(1,405)
Current maturities of bond anticipation notes payable	110	224	—
Accounts payable	5,732	(3,114)	2,099
Accrued interest	1,813	(315)	318
Accrued employee welfare costs	188	(826)	(2,168)
Rate stabilization reserve	(2,760)	2,760	—
Other accrued liabilities	1,240	4,133	1,584
Net change in current liabilities	$ 5,871	2,747	428

Current Liabilities

The $5.7 million increase and $3.1 million decrease in accounts payable in 2019 and 2018, respectively, is attributable to the timing of processing invoices for work performed, completed, and paid for subsequent to May 31, 2019 and 2018, respectively.

The increase in accrued interest of $1.8 million in 2019 from 2018 is attributable to the August 2018 issuance of Water System Revenue Bond Series 2018A.

The decrease in the rate stabilization reserve of $2.8 million in fiscal year 2019 is due to the Authority fully amortizing these reserves throughout 2019. These reserves, established in 2018, were comprised of income from the sale of properties no longer needed for water supply purposes of $0.5 million and revenues received from the settlement of antenna lease agreements due to a merger of cellular telecommunications companies of $2.3 million.

The increase in other accrued liabilities of $1.2 million in 2019 compared to 2018 is attributable to a $0.9 million increase in workers' compensation due to the natural progression of outstanding claims under the self insured program and a $0.3 million increase to the customer deposit account.

The increase in other accrued liabilities of $4.1 million in 2018 compared to 2017 is attributable to a $3.3 million increase in workers' compensation due to the natural progression of outstanding claims under the self insured program and a $0.8 million increase to the customer deposit account.

Other Long-Term Liabilities

Other long-term liabilities decreased by $15.4 million at May 31, 2019 as a result of a decrease in postemployment benefit other than pension (OPEB) of $23.4 million offset by the net pension liability increase of $5.9 million and a $2.1 million increase in advances for construction.

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

In accordance with GASB 75, the financial statements at May 31, 2019 and 2018 include a liability for postemployment benefits other than pension in the amount of $282.5 million and $305.9 million, respectively.

GASB 75 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 legislation, the Authority has established an undedicated reserve for this purpose. As of May 31, 2019 and 2018, the undedicated reserve is $54.2 million and $35.2 million, respectively. During the fiscal years ended May 31, 2019 and 2018 the Authority contributed $19.0 million and $10.0 million to this reserve, respectively.

Long-Term Debt

The Authority's long-term debt (including current maturities, excluding unamortized discounts and deferred amounts) increased in fiscal year 2019 by $95.9 million, and decreased in fiscal year 2018 by $4.2 million.

Water System Revenue and
Environmental Facilities Corporation Revenue Bonds

		May 31		
		2019	2018	2017
			(In thousands)	
Balance, beginning	$	785,460	789,672	723,369
New issues:				
SCWA 2016A		—	—	84,280
SCWA 2016B		—	—	40,000
SCWA 2016 Refunding		—	—	53,825
SCWA 2018A		100,000	—	—
		100,000	—	178,105

Water System Revenue and
Environmental Facilities Corporation Revenue Bonds

		May 31		
		2019	2018	2017
			(In thousands)	
Maturities, retirements, and defeasances:				
SCWA	$	(510)	(620)	(108,295)
EFC		(3,587)	(3,592)	(3,507)
		(4,097)	(4,212)	(111,802)
Net changes in long-term debt		95,903	(4,212)	66,303
Balance, ending	$	881,363	785,460	789,672

Investment ratings on debt issued by the Authority given by Standard and Poor's Ratings Services (S&P) and Fitch Ratings (Fitch) at May 31, 2019 and at May 31, 2018 were 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.

The Authority did not enter into any NYS EFC bond transactions during fiscal years ended May 31, 2019 and 2018.

In July 2018, the Authority entered into an inter-municipal agreement with the Town of East Hampton to install new water mains at various sites in Wainscott, New York, and new water service lines in East Hampton where private wells have been contaminated with per-fluorinated compounds, or PFCs. To address the situation, the Town of East Hampton decided to pursue the creation of a water supply district to pay for the cost of connecting to Authority water. To lessen the financial burden on local residents, the Authority and the town have decided to pursue a joint inter-municipal state grant to secure funding from the previous year's $2.5 billion Water Infrastructure Improvement Act. In September, 2018, the Authority has taken the lead in applying for Inter-municipal Grant funding from the Environmental Facilities Corporation's NYS Inter-municipal Water Infrastructure Grant (IMG) Program. The work for the Wainscott Project was in its final stages of completion as of May 31, 2019 and the amount of the grant is estimated at approximately $4.9 million. As of May 31, 2019, the Grant Agreement between the NYS EFC and the Authority has not been executed. Upon the execution of the IMG Grant Agreement, the Authority will submit the request for Grant funding and will subsequently bill the Town of East Hampton for the costs of Construction and Services net of the grant money.

In October 2017, the Authority was awarded $2.1 million in grants from the Environmental Facilities Corporation (NYS EFC) New York State Water Infrastructure Improvement Act (WIIA) Grant. Grants were awarded for two of the five proposed projects that the Authority applied for in June 2017. The $2.1 million in grants is comprised of $1.4 million for the water main installation to improve service in East Farmingdale and $0.7 million for the construction of an Advanced Oxidation Process (AOP) System to treat 1, 4-dioxane at the Authority's Smith Street, East Farmingdale well field site. Work on the water main improvement project has begun in the spring of fiscal year ending May 31, 2019. Work on the construction of an Advanced Oxidation Process (AOP) System is expected to begin during fiscal year 2020. As of fiscal year ended May 31, 2019, the Authority has not received any grant funding for these projects, but has recognized $0.7 million in grant revenue on the completed water main projects costs as of May 31, 2019.

During the fiscal year ended May 31, 2019, the Authority issued $100.0 million in Series 2018A Senior Lien Water System Revenue Bonds. The Series 2018A Bonds were issued to finance the cost of acquisition and construction of improvements and additions to the water system, fund the reserve account and to pay cost of issuance. The Series 2018A bonds bear interest rates ranging from 3.25% to 5.00% and have a final maturity date of June 1, 2043.

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

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

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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 with a maximum advance amount of $16.5 million. The eligible projects are related to main extensions and generators. The Storm Mitigation Loan Program consists of two components; 75% interest free loan and 25% in grant monies of which the Authority is eligible to receive up to $5.5 million.

During the fiscal years ended May 31, 2019 and May 31, 2018, the Authority received $4.3 million and $6.1 million, respectively, in advances against its EFC Bond Anticipation Note, 2015A for eligible projects related to main extensions and generators under the Storm Mitigation Loan Program. As of May 31, 2019, total EFC advances against the $16.5 million 2015A Bond Anticipation Note amounted to $12.7 million. The total Storm Mitigation Loan program grants received was $1.0 million against the $5.5 million awarded. According to the terms of the EFC 2015A Bond Anticipation Note Financing Agreement, which matures July 30, 2020, the Authority has made a principal payment of $0.2 million as of May 31, 2019 and is required to make an estimated principal payment of $0.3 million in May 2020 which is based on a percentage of the amount drawn down to date less any previously paid principal amounts. As of May 31, 2019, all projects have been completed and the 2015A Note Payable account balance has been reduced by $3.8 million to reflect the total amount of draws to date of $12.7 million offset by the principal payment made in May 2019. Upon the re-sizing of the loan and the conversion of the Note to long-term debt, the amount of grant funds is expected to increase by approximately $2.5 million.

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

Deferred Outflows and Deferred Inflows of Resources

Deferred outflows related to bond refunding decreased $1.5 million at May 31, 2019 from May 31, 2018. The decrease is due to the annual amortization of the deferred loss on refunding.

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

In 2019, deferred outflows of resources related to pensions decreased $.6 million and deferred inflows of resources related to pensions decreased $5.8 million as a result of the recognition of the net pension liability adjustments in accordance with GASB 68.

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

In 2019, deferred inflows of resources related to other postemployment benefits increased $32.3 million as a result of the recognition of the net OPEB liability adjustments in accordance with GASB 75.

In 2018, deferred inflows of resources related to other postemployment benefits increased $3.5 million as a result of the recognition of the net OPEB liability adjustments in accordance with GASB 75.

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 $14.5 million from May 31, 2018 is the result of an increase in water plant expenditures, an increase in funds available for construction, offset by the net increase in debt balances.

The decrease of $29.7 million from May 31, 2017 is the result of depreciation expense exceeding water plant expenditures funded through operations.

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 $13.1 million at May 31, 2019, is the result of an increase of $2.9 million in the Senior Lien Bond Fund and a net increase in the Reserve Funds of $10.2 million, which is mainly attributable to the issuance of the Authority's Series 2018A Water System Revenue Bonds.

Net Position – Unrestricted

In 2019, net position – unrestricted decreased $0.5 million from May 31, 2018 as a result of operations, net of those changes that impact investments in capital assets and net position restricted for debt service.

Contacting the Authority's Financial Management

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

SUFFOLK COUNTY WATER AUTHORITY

Statements of Net Position

May 31, 2019 and 2018

(In thousands)

Assets		**2019**	**2018 (as adjusted)**
Current assets:			
Cash and cash equivalents	$	167,178	174,647
Restricted cash		240	—
Investments		69,552	38,384
Accounts receivable, less allowance for doubtful accounts of $945 and $1,184, respectively		22,440	18,793
Accrued water services and fire protection revenues		17,286	17,787
Interest and other receivables		418	157
Materials and supplies, at average cost		7,737	9,202
Prepayments and other current assets		2,308	2,213
Total current assets		287,159	261,183
Restricted investments		167,419	98,997
Bond anticipation note receivable		—	8,123
Goodwill		2,275	2,426
Other assets		929	1,190
Capital assets, net		1,172,932	1,149,488
Total noncurrent assets		1,343,555	1,260,224
Total assets	$	1,630,714	1,521,407
Deferred Outflows of Resources			
Deferred outflows of resources:			
Pension	$	6,922	7,546
Deferred amounts due to bond refunding		16,331	17,795
Total deferred outflows of resources	$	23,253	25,341
Liabilities			
Current liabilities:			
Current maturities of bonds payable	$	3,645	4,097
Current maturities of bond anticipation notes payable		334	224
Accounts payable		12,286	6,554
Accrued interest		17,193	15,380
Accrued employee welfare costs		8,140	7,952
Rate stabilization reserve		—	2,760
Other accrued liabilities		19,211	17,971
Total current liabilities		60,809	54,938
Bond anticipation notes payable		12,185	16,314
Bonds payable, less current portion and unamortized discounts		907,214	810,874
Net pension liability		11,658	5,733
Postemployment benefits other than pension		282,452	305,896
Advances for construction		6,534	4,462
Total liabilities	$	1,280,852	1,198,217
Deferred Inflows of Resources			
Deferred inflows of resources:			
Pension	$	4,659	10,460
Other postemployment benefits (OPEB)		35,823	3,502
Deferred amounts due to bond refunding		6	17
Total deferred inflows of resources	$	40,488	13,979
Net Position			
Net position:			
Net investment in capital assets	$	327,419	341,949
Restricted for debt service		105,885	92,821
Unrestricted		(100,677)	(100,218)
Total net position	$	332,627	334,552

See accompanying notes to financial statements.

SUFFOLK COUNTY WATER AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Position

Years ended May 31, 2019 and 2018

(In thousands)

		2019	2018 (as adjusted)
Operating revenues:			
Water service	$	163,802	157,612
Other		25,904	21,379
Total operating revenues		189,706	178,991
Operating expenses:			
Operations		92,328	97,812
Maintenance		32,042	31,134
Depreciation and amortization		50,207	48,752
Total operating expenses		174,577	177,698
Operating income		15,129	1,293
Nonoperating revenues and expenses:			
Interest and other bond expense, net		(29,694)	(25,906)
Amortization of deferred amounts on refinancing		(1,453)	(1,462)
Income from investments		7,920	2,041
Capital reimbursement fees		6,173	12,695
Total nonoperating revenues and expenses, net		(17,054)	(12,632)
Change in net position		(1,925)	(11,339)
Net position:			
Beginning of year		334,552	345,891
End of year	$	332,627	334,552

See accompanying notes to financial statements.

SUFFOLK COUNTY WATER AUTHORITY

Statements of Cash Flows

Years ended May 31, 2019 and 2018

(In thousands)

		2019	2018
Cash flows from operating activities:			
Cash receipts from customers	$	163,181	155,276
Other operating cash receipts		22,120	25,512
Cash payments to employees for services and benefits		(75,100)	(76,087)
Cash payments to suppliers of goods and services		(36,739)	(40,099)
Net cash provided by operating activities		73,462	64,602
Cash flows from capital and related financing activities:			
Additions to water plant		(67,777)	(67,318)
Proceeds from sale of land		—	2,760
Proceeds from bond anticipation note receivable		4,327	6,084
Proceeds from issuance of long-term debt		102,082	—
Repayment of bond anticipation notes payable		(224)	—
Repayment of current maturities of bonds payable		(4,097)	(4,212)
Cost of issuance		(972)	—
Interest paid		(30,344)	(28,195)
Grants received		—	1,025
Proceeds from advances for construction, net of refunds		8,245	12,267
Net cash provided by (used in) capital and related financing activities		11,240	(77,589)
Cash flows from investing activities:			
Purchase of investments		(303,475)	(254,827)
Proceeds from sales and maturities of investments		206,761	298,766
Interest received		4,783	2,213
Net cash (used in) provided by investing activities		(91,931)	46,152
Net (decrease) increase in cash and cash equivalents		(7,229)	33,165
Cash and cash equivalents at beginning of year		174,647	141,482
Cash and cash equivalents at end of year	$	167,418	174,647
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	15,129	1,293
Depreciation and amortization expense		50,207	48,752
Decrease (increase) in operating assets:			
Accounts receivable		(3,647)	(2,504)
Accrued water services and fire protection revenues		501	26
Materials and supplies and prepayments		1,370	1,591
Other assets		261	142
Increase (decrease) in operating liabilities:			
Accounts payable		1,347	(3,114)
Accrued employee welfare costs		188	(826)
Rate stabilization reserve		(2,760)	2,760
Postemployment benefits other than pension		8,877	15,293
Other accrued liabilities		1,241	1,373
Net pension liability, net of deferred amounts		748	(184)
Net cash provided by operating activities	$	73,462	64,602
Noncash investing activities:			
Change in the fair value of investments	$	2,876	(232)
Amortization of deferred amounts on refinancing		1,453	1,462
NYS EFC BAN adjustment		3,796	—

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

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

(a) Basis of Presentation

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

(b) Water Plant (Capital Assets)

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

(c) Depreciation

The provisions for depreciation for water plant result from the application of straight-line rates by groups of depreciable properties in service. The rates are determined by age-life studies performed on depreciable properties. The most recent rate study, done in November 2003, established the composite depreciation rate of 2.84%. The Authority reviews the composition of its fixed assets annually in order to determine the appropriateness of this depreciation rate. The Authority determined that the depreciation rate of 2.84% is appropriate at May 31, 2019 and 2018.

(d) Capitalized Interest

The Authority capitalizes interest on constructed assets during the period of construction. Interest cost capitalized during the years ended May 31, 2019 and 2018 was approximately $1.3 million in both years.

(e) Cash and Cash Equivalents and Investments

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

(Continued)

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

All investments with original maturities of longer than 90 days are reported as investments and are carried at fair value, except for investment agreements and certificates of deposit. Investment agreements, which can take the form of open time deposits or fixed repurchase agreements, are reported at an amount equal to principal and accrued interest. Certificates of deposit are valued at cost, which approximates fair value.

(f) Investments Held for Debt Service

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

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

(g) Investments Held for Construction

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

(h) Goodwill

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

(i) Advances for Construction and Capital Reimbursement Fees

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

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

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

(Continued)

(j) Managed Water Districts

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

(k) Water District Contracts

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

As of May 31, 2019, the Authority had 9 active contracts where the credit did not equal the gross amount due. Annual gross payments for these contracts range from $1,800 to $377,000 with final maturity dates through 2032. The cumulative gross payments due for all of these water district contracts through their respective maturity dates at May 31, 2019 and 2018 amount to approximately $3.9 million and $7.0 million, respectively. The Authority has determined that it has the right to offset the asset and liability created from these contracts and therefore, these amounts are not reflected on the statements of net position as of May 31, 2019 and 2018.

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

(l) Net Position

The Authority's net position represents the excess of assets over liabilities and is categorized as follows:

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

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

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

(m) Bond Discounts and Premiums

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

(n) Accrued Employee Welfare Costs

The Authority permits employees to accumulate a limited amount of earned but unused leave benefits, which will be paid to employees upon separation from service. Unpaid compensated absences are recorded as a liability in the accompanying statement of net position. As of May 31, 2019 and 2018, the amounts of accrued employee welfare costs are $8.1 million and $8.0 million, respectively.

(o) Net Pension Liability and Related Pension Amounts

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

(p) Revenues

The Authority distinguishes operating revenues and expenses from non-operating 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 non-operating revenues and expenses.

(q) Use of Resources

Pursuant to the Resolution, revenues received are used as follows: (1) payment of operations and maintenance expenses, (2) payment of debt service, and (3) 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.

(r) Income Taxes

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

(Continued)

(s) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the useful lives of capital assets, 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.

(t) Workers' Compensation

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

(u) Fair Value Measurement

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

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

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

(v) New Accounting Standards Adopted

In 2019, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting for Postemployment Benefits Other Than Pensions* (GASB 75), retroactively effective June 1, 2017. The statement addresses accounting and financial reporting for other postemployment benefits (OPEB) that are provided to the employees of state and local governmental employers. GASB 75 establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses related to OPEB in the financial statements, in addition to requiring more extensive note disclosures and required supplementary information.

Adoption of GASB 75 resulted in the restatement of various 2018 financial statement amounts, summarized as follows (dollars in thousands):

		2018		
		As previously reported	GASB 75 restatement	Adjusted 2018
Statement of net position:				
Costs to be recovered from future revenues	$	127,512	(127,512)	—
Postemployment benefits than pension		(162,712)	(143,184)	(305,896)
Total deferred inflows		(10,477)	(3,502)	(13,979)
Total net position		(608,750)	274,198	(334,552)
Statement of revenues, expenses and changes in net position:				
Total operating expenses		180,371	(2,673)	177,698
Nonoperating revenues – costs to be recovered		(7,966)	7,966	—
Change in net position		(6,046)	(5,293)	(11,339)
Net position, beginning of year		(614,796)	268,905	(345,891)
Net position, end of year		(608,750)	274,198	(334,552)

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

In June 2017, the GASB issued Statement No. 87, *Leases* (GASB 87). The statement addresses accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that are currently classified as operating leases and recognized as inflows of resources or outflows of resources. GASB 87 establishes the lessee's requirement to recognize a lease liability and an intangible right-to-use lease asset. Additionally, GASB 87 establishes the lessor's requirement to recognize a lease receivable and a deferred inflow of resources. GASB 87 will be effective for the Authority for the fiscal year ending May 31, 2020. The Authority is currently assessing the impact of GASB 87 on its financial statements.

In June, 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* (GASB 89). The requirements of this statement are effective for reporting periods beginning after December 15, 2019. This statement requires that interest cost incurred before the end of the construction period be recognized as an expense in the period in which the cost is incurred. Effective in fiscal year 2020, the Authority will no longer capitalize interest cost on capital assets.

(2) Capital Assets, Net

		May 31, 2018	Additions/ reclassifications	Deletions/ reclassifications	May 31, 2019
			(In thousands)		
Land and land rights	$	27,015	12	—	27,027
Distribution systems		1,032,344	43,155	(4,965)	1,070,534
Wells, reservoirs, and structures		338,955	20,971	(591)	359,335
Pumping and purification equipment		159,817	5,302	(228)	164,891
Meters		88,434	4,017	(3,014)	89,437
Compressors/backhoes		4,495	558	—	5,053
Computer equipment		27,504	3,351	—	30,855
Equipment		33,154	1,803	(29)	34,928
Hydrants		47,868	3,440	(958)	50,350
Water plant in service		1,759,586	82,609	(9,785)	1,832,410
Less accumulated depreciation		(710,586)	(50,056)	9,785	(750,857)
Net water plant in service		1,049,000	32,553	—	1,081,553
Construction in progress		100,488	73,500	(82,609)	91,379
Water plant	$	1,149,488	106,053	(82,609)	1,172,932

In 2019, the additions to construction in progress are comprised of the following: construction projects of $29.5 million, EFC Storm Mitigation Program of $13.3 million, wells $7.5 million, equipment $4.2 million, meters $3.9 million, services $3.9 million, treatment facilities $2.9 million, pump stations $2.8 million, fleet $2.7 million, hydrants $1.3 million, and other projects $1.2 million.

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

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

Depreciation and amortization expenses amounted to approximately $50.2 million and $48.8 million for the years ended May 31, 2019 and 2018, respectively.

(3) Cash and Cash Equivalents and Investments

(a) Cash and Cash Equivalents

Cash consists of deposits insured by the Federal Deposit Insurance Corporation (FDIC) or collateralized deposits that have carrying values of approximately $167.4 million and $174.6 million and bank balances of approximately $169.2 million and $176.0 million at May 31, 2019 and 2018, respectively. Collateral for deposits is held by a third-party bank in the name of the Authority.

(Continued)

(b) Investments

Investments, including restricted investments, at May 31, 2019 and 2018, consist of the following (dollars in thousands):

	May 31, 2019			
		Investment maturities (in years)		
	Fair value	Less than 1	1 to 5	Greater than 5
Certificates of deposit	$ 2,010	—	2,010	—
U.S. Treasury notes (1)	64,892	—	64,488	404
U.S. Treasury bonds (1)	1,023	47	581	395
FNMA notes (1)	17,993	5,978	12,015	—
FHLB notes (1)	46,469	33,955	12,514	—
FHLMC notes (1)	27,502	6,472	21,030	—
FFCB notes (1)	14,013	1,995	12,018	—
NYS municipal bonds	507	—	507	—
Money market	61,534	61,534	—	—
Guaranteed investment contracts (1)	1,028	1,028	—	—
Total investments	$ 236,971	111,009	125,163	799

(1) Includes approximately $105.9 million of investments, including cash, held by a fiscal agent in the Authority's name at May 31, 2019

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

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

	2019	**2018**
Investment breakdown:		
Restricted for:		
Debt service	$ 105,885	92,821
Construction	61,534	6,176
Unrestricted	69,552	38,384
Total investments	$ 236,971	137,381

Accrued interest on investments other than guaranteed investment contracts is included in interest and other receivables on the statements of net position. Investments bear interest at rates that range from 0.01% to 3.50%.

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

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

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

Credit Risk: It is part of the Authority's investment policy to safeguard the principal of its investments while obtaining the highest interest rate possible that is consistent with this and other components of its policy. Toward that end, permitted investments include but are not limited to federally backed securities or obligations of any state of the United States of America or any political subdivision rated by at least two nationally recognized bond-rating agencies. As of May 31, 2019, 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 U.S. Treasury Notes ($64.9 million or 27.4% of investment), Federal National Mortgage Association ($18.0 million or 7.6% of investment), Federal Home Loan Bank ($46.5 million or 19.6% of investments), Federal Farm Credit Bank ($14.0 million or 6.0% of investment), and Federal Home Loan Mortgage Corporation ($27.5 million or 11.6% of investments) at May 31, 2019. As of May 31, 2018, the Authority invested more than 5% in Federal Home Loan Bank ($76.3 million or 55.5% of investments) and Federal Home Loan Mortgage Corporation ($21.4 million or 15.6% of investments).

(Continued)

(4) Bonds Payable

Outstanding bonds are summarized as follows:

Series	Interest rate(s)	Final maturity date	May 31, 2018	Issued	Matured/ refunded	May 31, 2019	Due within one year
					(In thousands)		
Water System Revenue Bonds:							
2009 B Senior Lien	5.50%	2035	$ 100,000	—	—	100,000	—
2011 Senior Lien	4.75–5.00%	2040	24,930	—	—	24,930	—
2012 Senior Lien	3.00–5.00%	2026	64,640	—	—	64,640	—
2012 A Senior Lien	3.00–3.75%	2038	80,000	—	—	80,000	—
2013 Senior Lien	3.00–4.00%	2029	62,380	—	—	62,380	—
2014 A Senior Lien	3.13–5.00%	2040	45,065	—	—	45,065	—
2014 B Senior Lien	3.50–5.25%	2040	50,000	—	—	50,000	—
2015 Senior Lien	3.00–5.00%	2032	114,000	—	—	114,000	—
2015 A Senior Lien	4.00–5.25%	2040	49,105	—	—	49,105	—
2016 A Senior Lien	3.00–5.00%	2042	84,280	—	—	84,280	—
2016 B Senior Lien	3.25%	2042	40,000	—	—	40,000	—
2016 Senior Lien	3.00–5.00%	2035	53,455	—	(510)	52,945	530
2018A Senior Lien	3.25-5.00%	2043	—	100,000	—	100,000	—
Environmental Facilities Corporation Revenue Bonds:							
2010 C	3.155%	2019	615	—	(615)	—	—
2011 A	3.570–3.989%	2021	1,911	—	(487)	1,424	556
2011 C	2.745–3.570%	2022	4,828	—	(1,002)	3,826	1,037
2012 B	4.912–5.000%	2022	2,165	—	(436)	1,729	447
2013 B	4.315–4.500%	2023	2,344	—	(377)	1,967	380
2014 B	4.670-4.960%	2024	2,668	—	(330)	2,338	340
2015 D	3.785–4.020%	2025	3,074	—	(340)	2,734	355
Total bonds outstanding			785,460	100,000	(4,097)	881,363	$ 3,645

	May 31, 2018	Additions	Amortization/ payments	May 31, 2019
Unamortized premium (discount), net	29,511	2,082	(2,097)	29,496
Current maturities payable	(4,097)	(3,645)	4,097	(3,645)
	$ 810,874	98,437	(2,097)	907,214

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

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

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

For the fiscal years 2019 and 2018, the Authority, at its own discretion, has elected to fund the reserve accounts in the amount of $87.2 million and $77.0 million from bond proceeds, respectively.

(a) Water System Revenue Bonds

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

In August 2018, the Authority issued $100.0 million in Series 2018A Senior Lien Water System Revenue Bonds. The Series 2018A Bonds were issued to finance the cost of acquisition and construction of improvements and additions to the water system. The proceeds from the issuance of the Series 2018A Bonds were used to fund the reserve account in the amount of $9.3 million, pay cost of issuance in the amount of $0.9 million, and to fund the Construction Fund in the amount of $91.8 million. The Series 2018A Bonds bear interest rates ranging from 3.25% to 5.00% and have a final maturity date of June 1, 2043.

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

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

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

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

In fiscal years ended 2019 and 2018, the Authority has not participated in any new NYS EFC bond issues.

In prior years, the Authority defeased certain debt obligations by placing the proceeds of new bonds and its own funds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Authority's financial statements. At May 31, 2019, the amount of defeased debt obligation outstanding was approximately $95.6 million, a decrease of $78.4 million from May 31, 2018, which represents the amount of defeased debt fully redeemed after May 31, 2018.

In July 2018, the Authority entered into an inter-municipal agreement with the Town of East Hampton to install new water mains at various sites in Wainscott, New York, and new water service lines in East Hampton where private wells have been contaminated with per fluorinated compounds or PFCs. To address the situation, the Town of East Hampton decided to pursue the creation of a water supply district to pay for the cost of connecting to Suffolk County Water Authority water. To lessen the financial burden on local residents, the Authority and the town have decided to pursue joint inter-municipal state grant to secure funding from the previous year's $2.5 billion Water Infrastructure Improvement Act. In September 2018, the Authority has taken the lead in applying for Inter-municipal Grant funding from the Environmental Facilities Corporation's NYS Inter-municipal Water Infrastructure Grant (IMG) Program. As of May 31, 2019, the Grant Agreement between the Authority and the Environmental Facilities Corporation has not yet been executed.

In June 2017, the Authority applied to the NYSEFC for the New York State Water Infrastructure Improvement Act (WIIA) Grant for five projects costing approximately $8.0 million. The proposed projects included the construction of an Advanced Oxidation Process (AOP) System to treat 1, 4-dioxane at the Authority's Smith Street, East Farmingdale well field site, a water main installation to improve service in East Farmingdale, a water main replacement along Montauk Highway in Amagansett, a well replacement at the Blue Point Road well field in Holtsville, and a well replacement at the Brook Avenue well field in Deer Park. In October 2017, the Authority was awarded grant money for two of the five projects: $0.7 million for the Smith Street Advanced Oxidation Process System and $1.4 million for the East Farmingdale well field site water main installation. Work on the water main project has been completed in the spring of Fiscal Year 2019 and the Authority has not received any grant funds as of May 31, 2019. Therefore, the Authority recognized 60.0% of the construction costs as grant revenue in accordance with the Grant Agreement on the water main project and expects to receive grant disbursement funds in fiscal year 2020. Construction of the Advanced Oxidation Process (AOP) System is expected to begin in Fiscal Year 2020.

Interest expense, net of debt discount and premium and costs of issuance on the bonds was $29.7 million and $25.9 million for the years ended May 31, 2019 and 2018, respectively.

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

		Principal	Interest (In thousands)	Total
Fiscal years ending:				
2020	$	3,645	34,711	38,356
2021		6,218	34,479	40,697
2022		3,355	34,274	37,629
2023		11,559	33,804	45,363
2024		21,275	32,702	53,977
2025–2029		140,652	147,994	288,646
2030–2034		187,360	115,698	303,058
2035–2039		236,955	67,374	304,329
2040–2044		270,344	18,374	288,718
	$	881,363	519,410	1,400,773

(5) Debt Service Requirements

As prescribed in the Authority’s Bond Resolution, the Authority is required to maintain a reserve account for each Series of Bonds to be held in the custody of the Bond Fund Trustee in an amount equal to the lesser of (1) 10% of the proceeds of the particular bond issue, (2) the maximum debt service due on the particular bond issue, or (3) 125% of the average of the annual installments of debt service with respect to all current and future years of the particular bond issue. The Resolution permits the Authority to deposit a letter of credit, surety agreement, insurance agreement, or other type of agreement or arrangement with an entity whose obligations are rated in one of the two highest rating categories by Standard and Poor’s Ratings Services or Moody’s Investors Service in order to satisfy the reserve account requirements. At May 31, 2019, the debt service reserve funds were approximately $87.2 million. In addition, there is $18.7 million in the Senior Lien Bond Fund.

Revenue before interest expense and depreciation and amortization was equivalent to 2.27 times (2.18 in 2018) the debt service requirement on all outstanding debt. The minimum debt service requirement on all bonds is 1.10.

(6) Notes Payable

Outstanding bond anticipation notes payable are summarized as follows:

Series	Final maturity date		Balance at May 31, 2018	Issued	Redeemed	Balance at May 31, 2019	Due within one year
					(In thousands)		
2015 A EFC	July 30, 2020	$	16,539	—	(4,020)	12,519	334
Total notes outstanding		$	16,539	—	(4,020)	12,519	334

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

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

In July 2015, the Authority closed on its NYS EFC Bond Anticipation Note 2015A with a maximum advance amount of $16.5 million as part of the Storm Mitigation Loan Program through the NYS EFC. The Note has a maturity date of July 30, 2020. The Storm Mitigation Loan Program comprises a $16.5 million 0% interest free loan and $5.5 million in grant monies. The eligible projects are related to main extensions and generators. Work on eligible projects began in fiscal years 2019 and 2018.

As of May 31, 2019, the Authority received a total of $12.7 million in advances against the EFC Storm Mitigation Loan note receivable of $16.5 million pertaining to its NYS EFC Bond Anticipation Note 2015A. The advances received were for eligible projects related to main extensions and generators. Work on these projects has been completed by Spring of 2019 and the note payable balance was decreased by $3.8 million to reflect the total draws to date. The Authority was required to make an estimated principal payment of $0.2 million, which is based upon the amount of funds drawn down on the note. A second principal payment is due in May 2020 in the approximate amount of $0.3 million. The total amount of grant funds received to date on this EFC Storm Mitigation Loan Program is $1.0 million. Grant receivable of $2.5 million has been recognized upon completion of the generator project.

During the fiscal year ended May 31, 2018, the Authority received a total of $8.4 million in advances against the EFC Storm Mitigation Loan note receivable of $16.5 million. At May 31, 2018, the Note Receivable balance was $8.1 million.

(7) Pension Plan

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

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

(a) Contributions

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

2017	$	6,325
2018		6,902
2019		6,624

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

At May 31, 2019 and 2018, the Authority reported a liability of $11.7 million and $5.7 million for its proportionate share of the System's net pension liability, respectively. The net pension liability reported by the Authority at May 31, 2019 and 2018 was measured as of March 31, 2019 and 2018, respectively, and the total pension liability used to calculate the net pension liability was determined by actuarial valuations as of April 1, 2018 and April 1, 2017, respectively. The Authority's proportion of the System's net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined.

At May 31, 2019 and 2018, the Authority's proportion was 0.1645388% and 0.1776255%, respectively.

For the years ended May 31, 2019 and 2018, the Authority recognized pension expense of $7.3 million and $6.7 million, respectively. At May 31, 2019 and 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

	2019	
	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$ 2,296	783
Changes of assumptions	2,930	—
Net difference between projected and actual investment earnings on pension plan investments	—	2,992
Changes in proportion and differences between employer contributions and proportionate share of contributions	591	884
Contributions made subsequent to the measurement date	1,105	—
Total	$ 6,922	4,659

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

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:	
2020	$ 2,267
2021	(2,365)
2022	(207)
2023	1,463

(Continued)

(c) Actuarial Assumptions

The total pension liability at March 31, 2019 and 2018 was determined by using an actuarial valuation as of April 1, 2018 and 2017, with update procedures used to roll forward the total pension liability to March 31, 2019 and 2018, respectively.

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

Investment rate of return	7.0 %
Salary scale	4.2 % (2019), 3.8 % (2018)
Inflation rate	2.5 %
Cost of living adjustments	1.3% annually
Decrements	Developed from the System's 2015 experience study of the period April 1, 2010 through March 31, 2015
Mortality improvement	Society of Actuaries Scale MP-2014

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

	2019 and 2018	
Asset class	**Target allocation**	**Long-term expected real rate**
Domestic equity	36 %	4.55 %
International equity	14	6.35
Private equity	10	7.50
Real estate	10	5.55
Absolute return strategies	2	3.75
Opportunistic portfolio	3	5.68
Real assets	3	5.29
Bonds and mortgages	17	1.31
Cash	1	(0.25)
Inflation indexed bonds	4	1.25
	100 %	

(d) Discount Rate

The discount rate used to measure the total pension liability as of April 1, 2018 and 2017 was 7.0%. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially. Based upon these assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the Authority's proportionate share of the net pension liability at May 31, 2019 and 2018 calculated using the discount rate assumption of 7.0%, as well as what the Authority's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is one-percentage point lower (6.0%) or one-percentage-point higher (8.0%) than the current rate (dollars in thousands):

		2019		
		1% Decrease	**Current assumption**	**1% Increase**
Authority's proportionate share of the net pension liability (asset)	$	50,971	11,658	(21,368)

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

(f) Pension Plan Fiduciary Net Positions

The components of the current-year net pension liability of the System as of March 31, 2019 and 2018, were as follows (dollars in thousands):

		2019	**2018**
Employers' total pension liability	$	189,803,429	183,400,590
System's fiduciary net position		182,718,124	180,173,145
Employers' net pension liability	$	7,085,305	3,227,445
System fiduciary net position as percentage of total pension liability		96.3 %	98.2 %

(8) Deferred Compensation

All Authority employees may participate in a deferred compensation program designated as an Internal Revenue Code Section 457 plan. This program enables employees to contribute a portion of their salary, on a tax-deferred basis, to group variable annuity contracts. The assets and related liabilities of the plan are recorded at the assets' market values and are excluded from the Authority's statements of net position. The Authority has no obligation to make contributions to the deferred compensation program. The Authority remits deferred compensation amounts withheld from employees' salaries to an outside fiduciary agent who administers the program and invests program assets as instructed by each of the participants. Assets in such program amounted to approximately $57.4 million and $58.0 million at May 31, 2019 and 2018, respectively.

(9) Postemployment Benefits Other than Pensions

The Authority's employees participate in the New York State Health Insurance Plan. The State administers NYSHIP and has the authority under Article XI of Civil Service Law to establish and amend the benefit provisions offered. NYSHIP is considered a single employer defined benefit plan offered by the Authority to its participants. There is no statutory requirement for the Authority to continue in this plan for future Authority employees. The Authority sponsors a single-employer dental and optical plan and provides dental and optical benefits for eligible retirees and their spouses. Substantially all 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.

The health, dental, and optical plans for employees hired after January 1, 2017 contribute 15% through payroll deduction; for employees hired prior to January 1, 2017 the plan is noncontributory for active employees, with all payments for plan benefits being funded by the Authority. Upon retirement, the cost of the dental and optical plans is partially funded by the Authority and the balance by the retiree. During fiscal year 2019, there were 1,009 participants (576 active and 433 inactive) that were eligible to receive benefits.

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

Whereas, no legislation has been enacted to establish a dedicated trust for these funds, the accrued liability remains unfunded. However, during 2012, 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, 2019 and 2018, the undedicated reserve is $54.2 million and $35.2 million, respectively.

(a) Total OPEB Liability

The Authority's total OPEB liability of $282.5 million and $305.9 was measured as of May 31, 2019 and 2018, respectively, and was determined by an actuarial valuation as of that date.

The following table shows the changes in the Authority’s total OPEB obligation for the years ended May 31, 2019 and 2018 (dollars in thousands):

		2019	2018
Total OPEB Liability:			
Service cost	$	12,319	12,157
Interest		11,878	11,167
Changes in assumptions		(12,186)	(4,201)
Differences between expected and actual experience		(27,441)	—
Benefit payments		(8,014)	(7,332)
Net changes		(23,444)	11,791
Total OPEB Liability, beginning of year		305,896	294,105
Total OPEB Liability, end of year	$	282,452	305,896

There were no changes to benefit terms in 2019 and 2018.

(b) Actuarial Assumptions and Other Inputs

The total OPEB liability at May 31, 2019 and 2018 was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.5%
Payroll growth	Ranged from 3.0% to 9.4%, based on years of service
Discount rate	3.56% as of May 31, 2019 and 3.78% as of May 31, 2018.
Retiree Contributions	Assumed to increase according to health care trend rates.

The discount rate was based on a range of indices: Bond Buyer 20-Bond GO Index, Fidelity GO AA – 20 Yrs, and S&P Municipal Bond 20 Year High Grade Rate Index.

Mortality rates were based on Pub-2010 General Employee Total Dataset, Headcount Weighted Mortality Table fully generational using Scale MP-2018.

For the May 31, 2019 actuarial valuation, the Entry Age Normal Level Percentage of Salary method was used. The actuarial assumptions included a 3.56% discount rate for the unfunded portion, and annual cost trend rates, as listed in the table below.

	Healthcare annual cost trend rates		
Fiscal year ended	**Medical/Rx**	**Dental**	**Medicare Part B**
2020	8.00 %	4.75 %	4.00 %
2021	7.50	4.50	4.50
2022	7.00	4.25	5.00
2023	6.50	4.00	5.00
2024	6.00	4.00	5.00
2025	5.50	4.00	5.00
2026	5.00	4.00	5.00
2027+	4.50	4.00	5.00

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

The total OPEB liability in the May 31, 2018 actuarial valuation was determined using the same actuarial assumptions, except for payroll growth rate (ranged from 3.0% to 8.0%, based on years of service), discount rate (3.78% as of May 31, 2018 and 3.69% as of May 31, 2017), and health care trend rates as listed in the table below.

	Healthcare annual cost trend rates		
Fiscal year ended	**Medical/Rx**	**Dental**	**Medicare Part B**
2019	8.00 %	4.25 %	5.00 %
2020	7.50	4.00	5.00
2021	7.00	4.00	5.00
2022	6.50	4.00	5.00
2023	6.00	4.00	5.00
2024	5.50	4.00	5.00
2025+	5.00	4.00	5.00

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

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

The actuarial assumptions used in the May 31, 2019 valuation were based on the results of an actuarial experience study for the period May 31, 2014 through May 31, 2019.

(Continued)

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

The following presents the total OPEB liability of the Authority as of May 31, 2019 and 2018, calculated using the discount rate assumed (3.56% and 3.78%, respectively) and what it would be using a 1% lower and 1% higher discount rate (dollars in thousands):

		1% Decrease	Current discount rate	1% Increase
2019 Total OPEB Liability	$	328,895	282,452	245,137
2018 Total OPEB Liability		357,816	305,896	264,429

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

The following presents the net OPEB liability as of May 31, 2019 and 2018, using the health care trend rates assumed (8.00% decreasing to 4.50%) and what it would be using 1% lower and 1% higher health care trend rates (dollars in thousands):

		1% Decrease	Current discount rate	1% Increase
2019 Total OPEB Liability	$	243,260	282,452	332,300
2018 Total OPEB Liability		259,260	305,896	365,922

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

For the year ended May 31, 2019 and 2018, the Authority recognized OPEB expense of $16.89 million and $22.6 million, respectively. At May 31, 2019, the Authority reported deferred inflows of resources related to OPEB from the following sources:

		2019	2018
Differences between expected and actual experience	$	(22,867)	—
Changes of assumptions or other inputs		(12,956)	(3,502)
Total	$	(35,823)	(3,502)

The balances as of May 31, 2019 and 2018 of the deferred inflows of resources will be recognized in OPEB expense in the future fiscal years as noted below (in thousands):

	2019		2018	
Year ended May 31:				
2020	$ (7,305)	2019		(700)
2021	(7,305)	2020		(700)
2022	(7,305)	2021		(700)
2023	(7,305)	2022		(700)
2024	(6,603)	2023		(702)

(10) Commitments and Contingencies

(a) Wireless Cell Rental Income

Various wireless cell carriers desire to use the Authority owned premises for the construction, installation, maintenance, and operation of radio transmitting and receiving equipment and other associated equipment as approved by the Authority in connection with its wireless communications business. The Authority receives in the form of monthly payments a fee for providing such use. Rental fees range from $4,030 to $9,330, per month and have terms ranging from five to 15 years, multiple five-year renewals, and 3.0% to 3.5% annual rental increases. The Authority currently has 146 lease agreements with five different wireless carriers. Annual lease income from these agreements for the next five years is expected to be the following:

2020	$ 10.8 million
2021	11.1 million
2022	11.5 million
2023	11.8 million
2024	12.2 million
Thereafter	70.0 million

Annual lease income that is included in other operating revenue for the fiscal years ended May 31, 2019 and 2018 was $10.5 million and $11.2 million, respectively.

(b) Legal

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

(c) Risk Management

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

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

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

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

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

GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The Authority has established a liability based on actuarial estimates of the amounts needed to pay prior year and current year claims. That liability, which is for workers' compensation, general, and automobile claims, was approximately $9.0 million and $8.2 million at May 31, 2019 and 2018.

Changes in the Authority's workers' compensation claims liability amount in fiscal years 2019 and 2018 were as follows (dollars in thousands):

		2019	2018
Unpaid claims, beginning of fiscal year	$	6,756	3,440
Changes in the estimate for claims of all years		3,159	3,795
Claim payments		(2,160)	(479)
Unpaid claims, end of fiscal year	$	7,755	6,756

(Continued)

Changes in the Authority's general and automobile claims liability amount in fiscal years 2019 and 2018 were as follows (dollars in thousands):

		2019	2018
Unpaid claims, beginning of fiscal year	$	1,429	1,589
Changes in the estimate for claims of all years		401	347
Claim payments		(609)	(507)
Unpaid claims, end of fiscal year	$	1,221	1,429

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

(11) Subsequent Events

The Authority has evaluated subsequent events through August 29, 2019, 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, 2019

(Dollars in thousands)

		2019	2018	2017	2016
Contractually required contribution	$	6,624	6,902	6,325	7,161
Contributions in relation to the contractually required contribution		6,624	6,902	6,325	7,161
Contribution deficiency (excess)	$	—	—	—	—
Authority covered-employee payroll (Authority year end)	$	45,492	45,119	46,952	40,686
Contributions as a percentage of covered-employee payroll		14.56 %	15.30 %	13.47 %	17.60 %

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

See accompanying independent auditors' report.

SUFFOLK COUNTY WATER AUTHORITY

Required Supplementary Information (Unaudited)

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

May 31, 2019

(Dollars in thousands)

	2019	2018	2017	2016
Authority's share of the net pension liability	0.1645388 %	0.1776255 %	0.1651319 %	0.1703727 %
Authority's proportionate share of the net pension liability	$ 11,658	5,733	15,516	27,345
Authority's covered-employee payroll (measurement date as of March 31)	45,236	45,088	45,695	41,422
Authority's proportionate share of the net pension liability as a percentage of the covered-employee payroll	25.77 %	12.72 %	33.96 %	66.02 %
Plan fiduciary net position as a percentage of the total pension liability	96.30 %	98.24 %	94.70 %	90.70 %

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

See accompanying independent auditors' report.

SUFFOLK COUNTY WATER AUTHORITY

Required Supplementary Information (Unaudited)

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

May 31, 2019

(Dollars in thousands)

		2019	2018
Total OPEB Liability:			
Service cost	$	12,319	12,157
Interest		11,878	11,167
Changes in assumptions		(12,186)	(4,201)
Differences between expected and actual experience		(27,441)	—
Benefit payments		(8,014)	(7,332)
Net Change in OPEB Liability		(23,444)	11,791
Total OPEB Liability, beginning of year		305,896	294,105
Total OPEB Liability, end of year	$	282,452	305,896
Covered-employee payroll	$	45,591	43,978
Total OPEB Liability as a percentage of covered-employee		619.53%	695.57%
Notes to schedule:			
Changes in benefit terms		N/A	N/A
Changes of assumptions:			
Discount rate		3.56%	3.78%
Undedicated reserve (see note 9 to the financial statements)	$	54,200	35,200

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

See accompanying independent auditors' report.

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

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

The Members
Suffolk County Water Authority:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Suffolk County Water Authority (the Authority), which comprise the statements of net position as of May 31, 2019 and 2018, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated, August 29, 2019.

Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

August 29, 2019