SUFFOLK COUNTY WATER AUTHORITY

Financial Statements and
Required Supplementary Information

May 31, 2015 and 2014

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

SUFFOLK COUNTY WATER AUTHORITY

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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, 2015 and 2014, 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 Authority as of May 31, 2015 and 2014, and the changes in its net position and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Other Matter – Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 26, 2015 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

KPMG LLP

August 26, 2015

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

The Financial Statements

The statements of net position provide information about the nature and amounts of investments in resources (assets), 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. The statements account for all of the years' revenues and expenses, measure the financial results of the Authority's operations for the years, and can be used to determine how the Authority has funded its costs.

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

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

Management provides the following discussion and analysis of the Authority's financial activities and financial statements. This overview is provided for the fiscal years ended May 31, 2015 and 2014. The reader should use the information contained in this analysis in conjunction with the information contained in the audited financial statements. The 2015 and 2014 financial statements follow this narrative on the subsequent pages.

Summary of Revenues, Expenses, and Changes in Net Position

		Year ended May 31		
		2015	**2014**	**2013***
			(In thousands)	
Operating revenues:				
Water service	$	147,915	138,450	135,563
Other		22,449	21,425	20,358
Total operating revenues		170,364	159,875	155,921
Operating expenses:				
Operations and maintenance		120,228	119,200	113,092
Depreciation and amortization		41,690	38,017	39,539
Total operating expenses		161,918	157,217	152,631
Operating income		8,446	2,658	3,290
Nonoperating revenues and expenses:				
Interest expense, net		(28,080)	(27,755)	(26,445)
Amortization of deferred amounts on refinancing		(3,568)	(1,171)	(1,421)
Income from investments		1,801	1,992	783
Costs to be recovered from future revenues		11,774	11,406	12,170
Capital reimbursement fees		7,334	8,798	7,143
Total nonoperating revenues and expenses, net		(10,739)	(6,730)	(7,770)
Change in net position		(2,293)	(4,072)	(4,480)
Net position, beginning of year		621,717	625,789	636,451
Cumulative effect of GASB 65		—	—	(6,182)
Net position, end of year	$	619,424	621,717	625,789

* Amounts restated to conform to GASB 65 presentation (see note 1(t) to the financial statements).

Operating Revenues

Water service revenues increased $9.5 million or 6.8% from $138.4 million in 2014 to $147.9 million in 2015. This was the result of a 1.2% rate increase effective April 1, 2014, and a 4.2% increase effective April 1, 2015. In addition, there was an increase in annual pumpage of 5.2%.

Water service revenues increased $2.8 million or 2.1% from $135.6 million in 2013 to $138.4 million in 2014. This was the result of a 4.2% rate increase offset by a decrease in annual pumpage.

(Continued)

Other operating revenues increased $1.0 million or 4.8% from $21.4 million in 2014 to $22.4 million in 2015. In 2014, $2.2 million was transferred from Sale of Land to the Rate Stabilization Fund as a result of ASC 980, and recognized as revenue in 2015. This was offset by the decrease in revenue of $1.2 million from the consolidation of Antennae leased sites in 2015.

Other operating revenues increased $1.0 million or 5.2% from $20.4 million in 2013 to $21.4 million in 2014. The increase is primarily attributable to a $0.8 million gain on the sale of surplus land through a bartered arrangement (trade land for land) and $0.5 million of amortization of the deferred gain on sale of property.

Operating Expenses

Operations and maintenance expense increased $1.0 million or 0.8% from $119.2 million in 2014 to $120.2 million in 2015. The increase is attributable to transmission and distribution cost; the maintenance of mains and services, which experienced $1.8 million increase due to calamitous weather events and restoration. Additionally, there was an increase of $0.9 million in benefits is attributable to the increase in health insurance premiums and other postemployment benefits, mitigated by a decrease in New York State Employees Retirement System employer contributions. Treatment expense decreased by $1.0 million, due to a change in infiltration medium from bituminous to coconut carbon.

Operations and maintenance expense increased $6.1 million or 5.4% from $113.1 million in 2013 to $119.2 million in 2014. The $6.1 million increase was mainly attributable to increases in treatment expense ($0.6 million), maintenance of mains and hydrants ($0.5 million), maintenance of services ($1.0 million), administrative ($0.3 million), medical insurance ($0.5 million), New York State (NYS) retirement ($0.6 million), other benefit costs ($1.0 million) and power purchase ($2.8 million) offset by decreases in maintenance of wells and pumping ($0.1 million), accounting and collecting ($0.2 million), and deferred other postemployment benefits (OPEB) ($0.8 million).

Depreciation and amortization expenses were $41.7 million in 2015 as compared to $38.0 million in 2014, an increase of $3.7 million or 9.7%. The increase is attributable to a 4.7% increase in Water Plant, resulting in a $2.5 million increase in depreciation expense. Also, an increase in amortization of $1.2 million is due to amortization of debt premium (discounts).

Depreciation and amortization expenses were $38.0 million in 2014 as compared to $39.5 million in 2013, a decrease of $1.5 million or 3.8%. The decrease is attributable to a $1.2 million increase in capital depreciation expense, offset by a decrease in amortization of debt discount and expense of $0.7 million, and an increase in the amortization of debt premium of $1.5 million, which is a reduction to depreciation expense and amortization.

Nonoperating Revenues and Expenses

Interest expense was $28.1 million in 2015 as compared to $27.8 million in 2014, an increase of $0.3 million. The increase is a result of $0.4 million increase in interest on bonds payable offset by a $0.8 million decrease in interest in notes payable, a decrease of $0.8 million in interest revenue during construction, and an increase of EFC subsidized interest credit of $0.08 million.

Interest expense was $27.8 million in 2014 as compared to $26.4 million in 2013, an increase of $1.4 million. The increase is a result of a $0.7 million interest increase in bonds payable, a $1.4 million interest increase on notes payable, and reduced by $0.8 million increase in interest during construction.

Income from investments was $1.8 million in 2015 as compared to $2.0 million in 2014, a decrease of $0.2 million. The change in investment earnings was a result of the use of funds to reduce debt, and an unfavorable interest rate environment.

Income from investments was $2.0 million in 2014 as compared to $0.8 million in 2013, an increase of $1.2 million. The change in investment earnings was a result of a more favorable interest rate environment.

Costs to be recovered from future revenues of $11.8 million and $11.4 million for the year ended May 31, 2015 and 2014, respectively, represent the difference between the Authority's annual required contributions for postemployment benefits other than pensions as required by Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* (GASB No. 45), and the amount paid out or accrued for such benefits by the Authority during fiscal 2015. In accordance with GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in the Pre-November 30, 1989 FASB and AICPA Pronouncements*, the Authority has deferred the excess of the annual OPEB costs over the amount paid or accrued during the fiscal year. The deferred costs will be recovered through future revenues.

Capital reimbursement fees were $7.3 million in 2015 as compared to $8.8 million in 2014, a decrease of $1.5 million or 17.0% during the current year. This is a result of a reduction of projects placed in service.

Capital reimbursement fees were $8.8 million in 2014 as compared to $7.1 million in 2013, an increase of $1.7 million or 23.9% during the current year. The increase is a result of additional number of projects placed in service and the timing of projects completed.

(Continued)

Statement of Net Position Summary

		May 31		
		2015	**2014**	**2013***
			(In thousands)	
Assets:				
Capital assets (water plant), net	$	1,090,018	1,077,323	1,067,021
Current assets		196,703	250,665	278,511
Other noncurrent assets		232,380	184,906	213,389
Total assets	$	1,519,101	1,512,894	1,558,921
Deferred outflows	$	9,425	11,006	12,690
Liabilities:				
Current liabilities	$	101,173	97,878	96,727
Other long-term liabilities		113,060	97,530	83,386
Long-term debt, net of current portion		694,830	704,516	765,709
Total liabilities	$	909,063	899,924	945,822
Deferred inflows	$	39	2,259	—
Net position:				
Net investment in capital assets	$	391,589	328,368	312,565
Restricted for debt service		85,154	92,038	87,055
Unrestricted		142,681	201,311	226,169
Total net position	$	619,424	621,717	625,789

* Amounts restated to conform to GASB 65 presentation (see note 1(t) to the financial statements).

Capital Assets (Water Plant), Net

		May 31, 2014	**Additions/ reclassifi-cations**	**Deletions/ reclassifi-cations**	**May 31, 2015**
			(In thousands)		
Water plant in service	$	1,529,072	84,344	(12,123)	1,601,293
Less accumulated depreciation		(566,370)	(44,346)	12,123	(598,593)
Net water plant in service		962,702	39,998	—	1,002,700
Construction in progress		114,621	57,041	(84,344)	87,318
Water plant	$	1,077,323	97,039	(84,344)	1,090,018

		May 31, 2013	Additions/ reclassifi-cations	Deletions/ reclassifi-cations	May 31, 2014
			(In thousands)		
Water plant in service	$	1,469,483	67,995	(8,406)	1,529,072
Less accumulated depreciation		(532,771)	(41,855)	8,256	(566,370)
Net water plant in service		936,712	26,140	(150)	962,702
Construction in progress		130,309	52,307	(67,995)	114,621
Water plant	$	1,067,021	78,447	(68,145)	1,077,323

There was a net increase in water plant in fiscal 2015 of $12.7 million comprising an increase of $44.9 million in gross water plant (including construction in progress) reduced by a net increase in accumulated depreciation of $32.2 million.

There was a net increase in water plant in fiscal 2014 of $10.3 million comprising an increase of $43.9 million in gross water plant (including construction in progress) reduced by a net increase in accumulated depreciation of $33.6 million.

Current Assets

		May 31	
		2015	2014
		(In thousands)	
Increases (decreases):			
Cash and cash equivalents	$	(8,067)	(46,835)
Investments		(50,100)	17,358
Accounts receivable, net		(1,535)	2,955
Accrued water services and fire protection revenues		5,745	(1,907)
Interest and other receivables		(38)	83
Materials and supplies		(84)	396
Prepayments and other current assets		117	104
Net change in current assets	$	(53,962)	(27,846)

Current Assets

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

The Authority's investments, including cash and cash equivalents, decreased $58.2 million or 28.1% from $207.2 million as of May 31, 2014 to $149.0 million as of May 31, 2015. The decrease is attributable to funds utilized to defease the Authority's 2005 Subordinate Lien Bonds offset by funds generated from excess revenues after paying and or accruing operating and maintenance costs, water system capital improvements, and debt.

The Authority's investments, including cash and cash equivalents, decreased $29.5 million or 12.5% from $236.7 million as of May 31, 2013 to $207.2 million as of May 31, 2014. The decrease is attributable to funds utilized to pay off the 2011B Bond Anticipation Notes (BANs) offset by funds generated from excess revenues after paying and or accruing operating and maintenance costs, water system capital improvements, and debt.

Accrued water services and fire protection revenues reflect revenue corresponding to water consumption, which has not been billed as of May 31, 2015. Water pumped in April and May 2015 was approximately 12.5 billion gallons, a 2.9 billion gallon increase from 2014.

Accrued water services and fire protection revenues reflect revenue corresponding to water consumption, which has not been billed as of May 31, 2014. Water pumped in April and May 2014 was approximately 9.6 billion gallons, a 1.4 billion gallon decrease from 2013.

Materials and supplies at May 31, 2015 are valued at $9.7 million, a decrease of $0.1 million from May 31, 2014. The $0.1 million decrease is attributed primarily to expensing various equipment.

Materials and supplies at May 31, 2014 are valued at $9.8 million, an increase of $0.4 million from May 31, 2013. The $0.4 million increase is attributed to the acceleration of the internal meter change-out program. Also, a significant upgrade of the Supervisory Control and Data Acquisition (SCADA) System and an increase installation of Chlorine Analyzers at the pump stations contributed to the purchase of new equipment and materials used for maintenance.

An increase in prepayments and other current assets from May 31, 2014 to 2015 in the amount of $0.1 million is due to an increase in insurance premium cost.

An increase in prepayments and other current assets from May 31, 2013 to 2014 in the amount of $0.1 million is due to an increase in insurance premium cost.

Other Noncurrent Assets

Other noncurrent assets increased by $47.5 million from a balance of $184.9 million as of May 31, 2014 to $232.4 million as of May 31, 2015. This was mainly the result of restricted investments increasing by $36.2 million due to unspent 2014A bond proceeds, and by $11.7 million increase in costs to be recovered from future revenues. This is offset by a reduction in Goodwill and other assets of $0.4 million.

Other noncurrent assets decreased by $28.5 million from a balance of $213.4 million as of May 31, 2013 to $184.9 million as of May 31, 2014. This was the result of a decrease in restricted investments of $39.6 million and a decrease in other assets of $0.3 million, offset by an $11.4 million increase in costs to be recovered from future revenues.

Liabilities

Current Liabilities

		May 31	
		2015	2014
		(In thousands)	
Increase (decrease):			
Current maturities of bonds payable	$	615	2,239
Current maturities of bond anticipation notes payable		—	—
Accounts payable		1,078	(3,364)
Accrued interest		500	300
Accrued employee welfare costs		1,481	282
Accrued NYS Retirement Contributions		(9)	(341)
Other accrued liabilities		(370)	2,035
Net change in current liabilities	$	3,295	1,151

Current Liabilities

In fiscal year 2015, $50.0 million of the 2013B Bond Anticipation Notes matured and were redeemed with the proceeds from the Authority's Water System Revenue Bonds, Series 2014B on January 15, 2015. At May 31, 2015, the current liabilities reflect $50.0 million of 2013A Bond Anticipation Notes, which mature January 15, 2016.

In fiscal year 2014, $50.0 million of the 2011B Bond Anticipation Notes matured and were redeemed with Authority General Funds on April 1, 2014. At May 31, 2014, the current liabilities reflect $50.0 million of 2013B Bond Anticipation Notes, which matured January 15, 2015.

The $1.1 million increase experienced in accounts payable from 2014 to 2015 is attributable principally to the invoice amounts associated with the capital and operating expenses completed and not paid as of May 31, 2015.

The $3.4 million reduction in accounts payable between May 31, 2014 and 2013 is principally attributable to the timelines of processing invoices for work performed, completed, and paid.

The increase in accrued interest of $0.5 million from 2014 to 2015 is attributable to the issuance of long-term debt offset by the retirement of certain Bond Anticipation Notes.

The increase in accrued interest of $0.3 million from 2013 to 2014 is attributable to the refunding of certain long-term debt offset by the retirement of certain Bond Anticipation Notes and Water System Revenue Refunding Bonds.

Accrued employee welfare costs represents the expected value of all vacation, sick leave, and other payroll-related benefits earned by employees to date. The increase in accrued employee welfare at May 31, 2015 from 2014 is $1.5 million and is principally attributable to additional sick and vacation leave earned.

The increase in accrued employee welfare at May 31, 2014 from 2013 is $0.3 million and is principally attributable to additional sick and vacation leave earned.

Accrued NYS Retirement contributions remained at $1.5 million as of May 31, 2015 as compared to $1.5 million as of May 31, 2014. This is the result of the Authority's stable workforce and relatively consistent New York State Retirement rates.

Accrued NYS Retirement contributions decreased by $0.3 million to an amount of $1.5 million as of May 31, 2014 as compared to $1.8 million as of May 31, 2013. This is the result of the Authority's stable workforce mitigating the slight increase in New York State Retirement rates.

Other accrued liabilities decreased by $0.4 million between May 31, 2014 and 2015. This decrease is principally the result of a decrease in the reserve for damage claims.

Other accrued liabilities increased by $2.0 million between May 31, 2013 and 2014. This increase is principally the result of an increase in customer deposits of $1.0 million and reserve for damage claims of $1.1 million.

Other Long-Term Liabilities

Other long-term liabilities increased by $15.6 million from $97.5 million at May 31, 2014 to a balance of $113.1 million at May 31, 2015. This is a result of the increase in additional postemployment benefit other than pension (OPEB) costs.

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

GASB No. 45 does not require that the unfunded liability actually be funded, only that the Authority account for the unfunded accrued liability. However, beginning in 2012, in an effort to mitigate possible future rate impacts related to any expected legal legislation, the Authority has established an undedicated reserve for this purpose. As of May 31, 2015, the undedicated reserve is $10.0 million. During the fiscal years ending May 31, 2015 and 2014, the Authority contributed $4.0 million and $3.0 million, respectively, to this reserve.

The financial statements, at May 31, 2015 and 2014, include a liability for postemployment benefits other than pension in the amount of $109.7 million and $93.9 million, respectively.

Long-Term Debt

The Authority's long-term debt (including current maturities, excluding unamortized discounts and deferred amounts) increased from fiscal 2014 to 2015 by $30.4 million.

Water System Revenue and Environmental Facilities Corporation Revenue Bonds

		May 31	
	2015	2014	2013
		(In thousands)	
Balance, beginning	$ 645,837	650,288	572,973
New issues:			
SCWA 2012A	—	—	80,000
SCWA 2013 Refunding	—	—	62,380
EFC 2012B Refunding	—	—	4,523
EFC 2013B Refunding	—	4,089	—
EFC 2014B Refunding	3,948	—	—
SCWA 2014A	65,000	—	—
SCWA 2014B	50,000	—	—
	118,948	4,089	146,903
Maturities, retirements, and defeasances:			
SCWA	(81,095)	—	(60,000)
EFC	(7,480)	(8,540)	(9,588)
	(88,575)	(8,540)	(69,588)
Net changes in long-term debt	30,373	(4,451)	77,315
Balance, ending	$ 676,210	645,837	650,288

Investment ratings on debt issued by the Authority by Standard and Poor's Ratings Services (S&P) and Fitch Ratings (Fitch) were reaffirmed and are as follows at May 31, 2015:

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

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

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

During fiscal year ended May 31, 2014, the NYS EFC issued Series 2013B in the amount of $4.1 million and along with unspent proceeds and debt service reserve funds in the amount of $1.3 million refinanced $5.4 million of 2002A Suffolk County Water Authority (EFC Series) Revenue Bonds.

During the fiscal year ended May 31, 2015, the Authority issued $115.0 million in Water System Revenue Bonds consisting of $65.0 million Water System Revenue Bonds, Series 2014A and $50.0 million Water System Revenue Bonds, Series 2014B. The Series 2014A bonds were issued to finance the Cost of Acquisition and Construction of improvements and additions to the Water System and to fund a deposit to the Reserve Account and pay costs of issuance for Series 2014A. The 2014B Series were issued for the purpose of retiring $50.0 million of the Authority's outstanding Bond Anticipation Notes, 2013B.

Short-Term Debt

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

In January 2015, the Authority retired $50.0 million of its Bond Anticipation Notes, 2013B with the proceeds received from the issuance of the Authority's Water System Revenue Bonds, Series 2014B.

In April 2014, the Authority retired $50.0 million of its Bond Anticipation Notes, 2011B Securities Industry and Financial Markets Association (SIFMA Rate) with amounts from the General Fund.

Deferred Outflows and Deferred Inflows

Deferred outflows decreased $1.6 million from $11.0 million as of May 31, 2014 to $9.4 million as of May 31, 2015. The decrease is due to the annual amortization of the deferred loss on refunding.

Deferred outflows decreased $1.7 million from $12.7 million as of May 31, 2013 to $11.0 million as of May 31, 2014. The decrease is due to the annual amortization of the deferred loss on refunding.

Net Position – Net Investment in Capital Assets

Net investment in capital assets represents the Authority's total investment in capital assets net of related long-term debt. The increase of $63.2 million over the May 31, 2014 balance is the result of an increase in water plant expenditures and funds available for construction offset by the net decrease in debt balances.

The increase of $15.8 million over the May 31, 2013 balance is the result of an increase in water plant expenditures and funds available for construction offset by the net decrease in debt balances.

Net Position – Restricted for Debt Service

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

The decrease of $6.9 million from $92.0 million at May 31, 2014 to $85.1 million at May 31, 2015 is the result of additional Debt Service funds deposited with the Bond Trustees for the principal payment of Suffolk County Water Authority Revenue Bonds due in fiscal year 2016 and the issuance of the Authority's Water System Revenue Bonds Series 2014A and 2014B, offset by the release of reserve funds from the refinancing of EFC Series 2004A, the release of reserve funds for the defeasance of Revenue Bond Series 2003 Refunding and Series 2005 Subordinate Lien Bonds as well as a the reduction in the 2013A Bond Anticipation Notes proceeds used to pay interest on the notes.

The increase of $4.9 million from $87.1 million at May 31, 2013 to $92.0 million at May 31, 2014 is the result of additional Debt Service funds deposited with the Bond Trustees for the principal payment of Suffolk County Water Authority Revenue Bonds due in fiscal year 2015, offset by the release of reserve funds from the refunding of EFC Revenue Bond Series 2003B.

Net Position – Unrestricted

In 2015, net position – unrestricted, decreased from the May 31, 2014 balance in the amount of $58.6 million as a result of operations, net of those changes that impact net investment in capital assets and net position restricted for debt service.

In 2014, net position – unrestricted, decreased from the May 31, 2013 balance in the amount of $24.9 million as a result of operations, net of those changes that impact net investment in capital assets and net position restricted for debt service.

Contacting the Authority's Financial Management

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

SUFFOLK COUNTY WATER AUTHORITY

Statements of Net Position

May 31, 2015 and 2014

Assets		**2015**	**2014**
		(In thousands)	
Current assets:			
Cash and cash equivalents	$	109,536	117,603
Investments		39,551	89,651
Accounts receivable, less allowance for doubtful accounts of $1,447 and $1,533 in 2015 and 2014, respectively		13,911	15,446
Accrued water services and fire protection revenues		21,771	16,026
Interest and other receivables		254	292
Materials and supplies, at average cost		9,684	9,768
Prepayments and other current assets		1,996	1,879
Total current assets		196,703	250,665
Restricted investments		128,190	92,038
Goodwill		2,878	3,029
Costs to be recovered from future revenues		99,665	87,891
Other assets		1,647	1,948
Capital assets, net		1,090,018	1,077,323
Total noncurrent assets		1,322,398	1,262,229
Total assets	$	1,519,101	1,512,894
Deferred Outflows			
Deferred outflows:			
Deferred amount on refinancing	$	9,425	11,006
Total deferred outflows	$	9,425	11,006
Liabilities			
Current liabilities:			
Current maturities of bonds payable	$	6,060	5,445
Current maturities of bond anticipation notes payable		50,000	50,000
Accounts payable		7,843	6,765
Accrued interest		15,502	15,002
Accrued employee welfare costs		8,739	7,258
Accrued NYS Retirement contributions		1,473	1,482
Other accrued liabilities		11,556	11,926
Total current liabilities		101,173	97,878
Bond anticipation notes payable		—	50,000
Bonds payable, less current portion and unamortized discounts		694,830	654,516
Postemployment benefits other than pension		109,665	93,891
Advances for construction		3,395	3,639
Total liabilities	$	909,063	899,924
Deferred Inflows			
Deferred inflows:			
Deferred gains on sale of land	$	—	2,259
Deferred gains due to bond refunding		39	—
Total deferred inflows	$	39	2,259
Net Position			
Net Position:			
Net investment in capital assets	$	391,589	328,368
Restricted for debt service		85,154	92,038
Unrestricted		142,681	201,311
Total net position	$	619,424	621,717

See accompanying notes to financial statements.

SUFFOLK COUNTY WATER AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Position

Years ended May 31, 2015 and 2014

		2015	2014
		(In thousands)	
Operating revenues:			
Water service	$	147,915	138,450
Other		22,449	21,425
Total operating revenues		170,364	159,875
Operating expenses:			
Operations		91,496	91,819
Maintenance		28,732	27,381
Depreciation and amortization		41,690	38,017
Total operating expenses		161,918	157,217
Operating income		8,446	2,658
Nonoperating revenues and expenses:			
Interest expense, net		(28,080)	(27,755)
Amortization of deferred amounts on refinancing		(3,568)	(1,171)
Income from investments		1,801	1,992
Costs to be recovered from future revenues		11,774	11,406
Capital reimbursement fees		7,334	8,798
Total nonoperating revenues and expenses, net		(10,739)	(6,730)
Change in net position		(2,293)	(4,072)
Net position:			
Beginning of year		621,717	625,789
End of year	$	619,424	621,717

See accompanying notes to financial statements.

SUFFOLK COUNTY WATER AUTHORITY

Statements of Cash Flows

Years ended May 31, 2015 and 2014

		2015	2014
		(In thousands)	
Cash flows from operating activities:			
Cash receipts from customers	$	144,006	137,547
Other operating cash receipts		22,079	22,956
Cash payments to employees for services and benefits		(20,011)	(23,956)
Cash payments to suppliers of goods and services		(81,774)	(84,609)
Net cash provided by operating activities		64,300	51,938
Cash flows from capital and related financing activities:			
Additions to water plant		(58,594)	(48,319)
Proceeds from sale of land		—	2,762
Proceeds from issuance of long-term debt		118,948	4,089
Repayment of notes payable		(50,000)	(50,000)
Repayment of current maturities of bonds payable		(88,575)	(8,540)
Interest paid		(17,023)	(31,445)
Proceeds from advances for construction, net of refunds		7,090	8,536
Net cash used in capital and related financing activities		(88,154)	(122,917)
Cash flows from investing activities:			
Purchase of investments		(162,260)	(66,220)
Proceeds from sales and maturities of investments		176,538	88,645
Interest received		1,509	1,719
Net cash provided by investing activities		15,787	24,144
Net decrease in cash and cash equivalents		(8,067)	(46,835)
Cash and cash equivalents at beginning of year		117,603	164,438
Cash and cash equivalents at end of year	$	109,536	117,603
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	8,446	2,658
Depreciation and amortization expense		41,842	38,168
Amortization of deferred gains on sale of property		—	(503)
(Increase) decrease in operating assets:			
Accounts receivable		1,535	(2,955)
Accrued water services and fire protection revenues		(5,745)	1,907
Materials and supplies and prepayments		(33)	(500)
Other assets		301	145
Increase (decrease) in operating liabilities:			
Accounts payable		1,078	(3,364)
Accrued employee welfare costs		1,481	282
Accrued NYS Retirement contributions		(9)	(341)
Postemployment benefits other than pension		15,774	14,406
Other accrued liabilities		(370)	2,035
Net cash provided by operating activities	$	64,300	51,938
Noncash investing activities:			
Change in the fair value of investments	$	330	190

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

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

(a) Basis of Presentation

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

(b) Water Plant (Capital Assets)

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

(c) Depreciation

The provisions for depreciation for water plant result from the application of straight-line rates by groups of depreciable properties in service. The rates are determined by age-life studies performed on depreciable properties. The most recent rate study, done in November 2003, established the composite depreciation rate of 2.84%. The Authority reviews the composition of its fixed assets annually in order to determine the appropriateness of this depreciation rate. The Authority determined that the depreciation rate of 2.84% remained appropriate at May 31, 2015 and 2014.

(d) Capitalized Interest

The Authority capitalizes interest on constructed assets during the period of construction. Interest cost capitalized during the years ended May 31, 2015 and 2014 was approximately \$1.3 million and \$2.1 million, respectively.

(e) Cash and Cash Equivalents and Investments

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

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

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

(f) Investments Held for Debt Service

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

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

(g) Investments Held for Construction

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

(h) Goodwill

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

(i) Advances for Construction and Capital Reimbursement Fees

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

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

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

(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, 2015, the Authority had 14 active contracts where the credit did not equal the gross amount due. Annual gross payments for these contracts range from $1,800 to $377,000 with final maturity dates between fiscal years 2015 and 2030. The cumulative gross payments due for all of these water district contracts through their respective maturity dates at May 31, 2015 and 2014 amount to approximately $8.8 million and $10.0 million, respectively. The Authority has determined that as the asset and liability created from these contracts have the right of offset, these amounts are not reflected on the statements of net position as of May 31, 2015 and 2014.

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

(l) Bond Discounts and Premiums

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

(m) Accrued Employee Welfare Costs

The Authority permits employees to accumulate a limited amount of earned but unused leave benefits, which will be paid to employees upon separation from service. Unpaid compensated absences are recorded as a liability in accordance with GASB Statement No. 16, *Accounting for Compensated Absences*. As of May 31, 2015 and 2014, the amounts of accrued employee welfare costs are $8.7 million and $7.3 million, respectively.

(n) Revenues

The Authority distinguishes operating revenues and expenses from nonoperating items in the preparation of its financial statements. Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations. Water service revenues are recognized based on actual customer water usage, including estimates for unbilled

(Continued)

periods. Other operating revenues are recognized when service has been rendered and collection is reasonably assured. The Authority's operating expenses include operations and maintenance expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

(o) Costs to Be Recovered from Future Revenues

The Authority's cost recovery rate model used to establish rates, fees, and charges includes an amount for postemployment benefits other than pensions that are expected to be paid out during the fiscal year, but not for the amount of the annual required contribution as calculated under GASB Statement No. 45 (GASB No. 45), *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. In accordance with GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in the Pre-November 30, 1989 FASB and AICPA Pronouncements*, the Authority has deferred the excess of current annual required contribution over the amount paid, beginning in fiscal year 2010. The deferred costs will be recovered through future revenues in accordance with the Authority's rate model. The deferred amount as of and for the years ended May 31, 2015 and 2014 was $99.7 million and $87.9 million, respectively.

(p) Use of Resources

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

(q) Income Taxes

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

(r) Use of Estimates

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

(s) New Accounting Pronouncements

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25,* and Statement No. 68, *Financial Reporting for Pension Plans-an amendment of GASB Statement No. 27*. These statements change how governments calculate and report the costs and obligations associated with pensions, improve the decision usefulness of reported pension information and increase the transparency, consistency, and comparability of pension information. GASB Statement No. 67 took effect for periods beginning after June 15, 2013. GASB Statement No. 68 will take effect for periods beginning after June 15, 2014. GASB Statement No. 68 requires governmental entities to recognize its proportional share of the difference between the net position liability and fiduciary plan position of each pension plan that the entity participates in. The Authority is currently assessing the impact of this statement on its financial statements.

(t) Reclassifications

Certain reclassifications have been made to the prior year's financial statements in order to conform to the current year's presentation.

(2) Capital Assets, Net

	May 31, 2014	Additions/ reclassifi-cations	Deletions/ reclassifi-cations	May 31, 2015
		(In thousands)		
Land and land rights	$ 24,963	815	—	25,778
Distribution systems	909,803	38,218	(3,226)	944,795
Wells, reservoirs, and structures	282,650	19,574	(593)	301,631
Pumping and purification equipment	135,991	11,322	(1,059)	146,254
Meters	77,366	9,126	(6,869)	79,623
Compressors/backhoes	4,495	—	—	4,495
Computer equipment	23,159	691	—	23,850
Equipment	26,782	2,779	(13)	29,548
Hydrants	43,863	1,819	(363)	45,319
Water plant in service	1,529,072	84,344	(12,123)	1,601,293
Less accumulated depreciation	(566,370)	(44,346)	12,123	(598,593)
Net water plant in service	962,702	39,998	—	1,002,700
Construction in progress	114,621	57,041	(84,344)	87,318
Water plant	$ 1,077,323	97,039	(84,344)	1,090,018

		May 31, 2013	Additions/ reclassifi-cations	Deletions/ reclassifi-cations	May 31, 2014
		(In thousands)			
Land and land rights	$	23,856	1,257	(150)	24,963
Distribution systems		884,026	26,446	(669)	909,803
Wells, reservoirs, and structures		265,421	17,323	(94)	282,650
Pumping and purification equipment		128,036	8,098	(143)	135,991
Meters		73,302	11,191	(7,127)	77,366
Compressors/backhoes		4,495	—	—	4,495
Computer equipment		22,732	427	—	23,159
Equipment		25,373	1,409	—	26,782
Hydrants		42,242	1,844	(223)	43,863
Water plant in service		1,469,483	67,995	(8,406)	1,529,072
Less accumulated depreciation		(532,771)	(41,855)	8,256	(566,370)
Net water plant in service		936,712	26,140	(150)	962,702
Construction in progress		130,309	52,307	(67,995)	114,621
Water plant	$	1,067,021	78,447	(68,145)	1,077,323

Depreciation expense amounted to approximately $44 million and $42 million for the years ended May 31, 2015 and 2014, respectively, based on a composite annual rate of percentage.

(3) Cash and Cash Equivalents and Investments

(a) Cash and Cash Equivalents

Cash consists of deposits insured by the Federal Deposit Insurance Corporation (FDIC) or collateralized deposits that have carrying values of approximately $109.5 million and $117.6 million and bank balances of approximately $110.5 million and $120.2 million at May 31, 2015 and 2014, respectively. Collateral for deposits is held by a third-party bank in the name of the Authority.

(b) Investments

Investments, including restricted investments, at May 31, 2015 and 2014 consist of the following:

			Investment maturities at May 31, 2015 (In years)	
	2015 Fair Value	**Less than 1**	**1 to 5**	**Greater than 5**
	(In thousands)			
U.S. Treasury notes (1)	$ 2,576	—	2,576	—
U.S. Treasury bonds (1)	2,990	—	900	2,090
FNMAs (1)	12,040	—	12,040	—
FHLB notes (1)	49,322	7,721	39,116	2,485
FHLMC notes (1)	9,434	2,433	7,001	—
FFCB notes (1)	29,906	500	29,406	—
Money market	44,169	44,169	—	—
Guaranteed investment contracts (1)	17,304	17,304	—	—
Total investments	$ 167,741	72,127	91,039	4,575

(1) Includes approximately $84.0 million of investments held by Fiscal Agent in the Authority's name at May 31, 2015.

	2014 Fair Value	Investment maturities at May 31, 2014 (In years) Less than 1	1 to 5	Greater than 5
	(In thousands)			
U.S. Treasury notes (1)	$ 4,348	501	3,119	728
U.S. Treasury bonds (1)	1,993	—	—	1,993
FNMAs (1)	37,242	1,275	30,964	5,003
FHLB notes (1)	66,058	20,979	30,908	14,171
FHLMC notes (1)	15,021	4,586	10,435	—
FFCB notes (1)	45,200	—	45,200	—
NYS municipal bonds	8,494	—	997	7,497
Money market	3,128	3,128	—	—
Guaranteed investment contracts (1)	205	205	—	—
Total investments	$ 181,689	30,674	121,623	29,392

(1) Includes approximately $88.9 million of investments held by Fiscal Agent in the Authority's name at May 31, 2014.

	2015	2014
	(In thousands)	
Investment breakdown:		
Restricted for:		
Debt service	$ 85,154	92,038
Construction	43,036	—
Unrestricted	39,551	89,651
Total investments	$ 167,741	181,689

Accrued interest on investments other than investment agreements is included in interest and other receivables on the statements of net position. Investments bear interest at rates that range from 0.01% to 3.80%.

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

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

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

Credit Risk: It is part of the Authority's investment policy to safeguard the principal of its investments while obtaining the highest interest rate possible that is consistent with this and other components of its policy. Toward that end, permitted investments include but are not limited to federally backed securities or obligations of any state of the United States of America or any political subdivision rated by at least two nationally recognized bond-rating agencies. As of May 31, 2015, 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. There were no investments in obligations of any state of the United States of America or any political subdivision.

Concentration of Credit Risk: The Authority places no limit on the amount the Authority may invest in any one issuer. More than 5% of the Authority's investments are in Federal Home Loan Bank ($49.3 million or 29.4% of investments), Federal Farm Credit Bank ($29.9 million or 17.8% of investments), Federal National Mortgage Association ($12.0 million or $7.2% of investments), and Federal Home Loan Mortgage Corp. ($9.4 million or 5.6% of investments) at May 31, 2015.

(Continued)

(4) Bonds Payable

Outstanding bonds are summarized as follows:

Series		Interest rate(s)	Final maturity date	May 31, 2014	Issued	Matured/ refunded	May 31, 2015	Due within one year
						(In thousands)		
Water System Revenue Bonds:								
1994	Subordinate Lien	6.00	2015	$ 695	—	—	695	695
2003	Senior Lien	2.00–4.50	2017	7,000	—	(7,000)	—	—
2005	Subordinate Lien	4.37–4.55	2027	71,905	—	(71,905)	—	—
2006 A	Senior Lien	3.59–4.95	2031	70,000	—	—	70,000	—
2007 A	Senior Lien	4.00–4.50	2032	45,000	—	(805)	44,195	570
2009	Senior Lien	2.25–5.00	2022	10,635	—	(20)	10,615	20
2009 A	Senior Lien	4.00–5.00	2035	57,740	—	(1,365)	56,375	1,395
2009 B	Senior Lien	5.50	2035	100,000	—	—	100,000	—
2011	Senior Lien	4.75–5.00	2040	24,930	—	—	24,930	—
2012	Senior Lien	3.00–5.00	2026	83,635	—	—	83,635	—
2012 A	Senior Lien	3.00–3.75	2038	80,000	—	—	80,000	—
2013	Senior Lien	3.00–4.00	2029	62,380	—	—	62,380	—
2014 A	Senior Lien	3.13–5.00	2040	—	65,000	—	65,000	—
2014 B	Senior Lien	3.50–5.25	2040	—	50,000	—	50,000	—
Environmental Facilities Corporation Revenue Bonds:								
2004 A		1.20–4.96	2024	4,225	—	(4,225)	—	—
2005 B		3.47–4.02	2026	4,650	—	(310)	4,340	310
2010 C		1.98–3.16	2019	1,835	—	(290)	1,545	300
2011 A		2.31–3.99	2021	5,154	—	(772)	4,382	793
2011 C		1.45–3.57	2022	8,488	—	(871)	7,617	899
2012 B		4.52–5.00	2022	3,795	—	(375)	3,420	398
2013 B		3.70–4.50	2023	3,770	—	(332)	3,438	355
2014 B		4.25–4.96	2024	—	3,948	(305)	3,643	325
Total bonds outstanding				645,837	118,948	(88,575)	676,210	$ 6,060
					Additions	Amortization/ payments		
Unamortized premium (discount), net				14,124	14,411	(3,855)	24,680	
Current maturities payable				(5,445)	(6,060)	5,445	(6,060)	
				$ 654,516	127,299	(86,985)	694,830	

Series		Interest rate(s)	Final maturity date	May 31, 2013	Issued	Matured/ refunded	May 31, 2014	Due within one year
						(In thousands)		
Water System Revenue Bonds:								
1994	Subordinate Lien	4.13–6.00	2015	$ 695	—	—	695	—
2003	Senior Lien	2.00–4.50	2017	7,000	—	—	7,000	—
2005	Subordinate Lien	4.37–4.55	2027	71,905	—	—	71,905	—
2006 A	Senior Lien	3.59–4.95	2031	70,000	—	—	70,000	—
2007 A	Senior Lien	4.00–4.50	2032	45,000	—	—	45,000	805
2009	Senior Lien	2.00–5.00	2022	10,635	—	—	10,635	20
2009 A	Senior Lien	4.00–5.00	2035	57,740	—	—	57,740	1,365
2009 B	Senior Lien	5.50	2035	100,000	—	—	100,000	—
2011	Senior Lien	4.75–5.00	2040	24,930	—	—	24,930	—
2012	Senior Lien	3.00–5.00	2026	83,635	—	—	83,635	—
2012 A	Senior Lien	3.00–3.75	2038	80,000	—	—	80,000	—
2013	Senior Lien	3.00–3.75	2029	62,380	—	—	62,380	—
Environmental Facilities Corporation Revenue Bonds:								
2003 B		0.72–4.50	2023	5,405	—	(5,405)	—	—
2004 A		1.20–4.96	2024	4,515	—	(290)	4,225	305
2005 B		3.47–4.02	2026	4,950	—	(300)	4,650	310
2010 C		1.98–3.16	2019	2,115	—	(280)	1,835	290
2011 A		1.80–3.99	2021	5,889	—	(735)	5,154	772
2011 C		1.15–3.57	2022	9,335	—	(847)	8,488	870
2012 B		4.42–5.00	2022	4,159	—	(364)	3,795	375
2013 B		3.53–4.50	2023	—	4,089	(319)	3,770	333
Total bonds outstanding				650,288	4,089	(8,540)	645,837	$ 5,445
					Additions	Amortization/ payments		
Unamortized premium (discount), net				18,627	—	(4,503)	14,124	
Current maturities payable				(3,206)	(5,445)	3,206	(5,445)	
				$ 665,709	(1,356)	(9,837)	654,516	

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

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

For the fiscal year 2015, the Authority, at its own discretion, has elected to fund the reserve accounts in the amount of $55.3 million from bond proceeds and $11.5 million from unrestricted funds. For the fiscal year

2014, the Authority, at its own discretion, elected to fund the reserve accounts in the amount of $46.3 million from bond proceeds and $26.9 million from unrestricted funds.

(a) Water System Revenue Bonds

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

During fiscal year ended May 31, 2015, the Authority entered into the following bond transactions:

In October 2014, the Authority issued $65.0 million Senior Lien Water System Revenue Bonds, Series 2014A. The Series 2014A Bonds were issued to finance the cost of acquisition and construction of improvements and additions to the water system, fund the Reserve Account and pay cost of issuance. The Series 2014A Bonds bear interest rates ranging from 3.13% to 5.00% and have a final maturity date of June 1, 2040.

In October 2014, the Authority issued $50.0 million Senior Lien Water System Revenue Bonds, Series 2014B. The proceeds from the issuance of Series 2014B Bonds, including an equity contribution from the Authority's General Fund of $1.5 million and the release of Series 2003 (Refunding) Reserve funds of $1.7 million, were used to provide funding for the retirement of the Authority's $50.0 million Bond Anticipation Notes, 2013B. The proceeds from the issuance of Series 2014B were also used to fund the Reserve Account and pay cost of issuance on Series 2014B. The Series 2014B Bonds bear interest rates ranging from 3.50% to 5.25% and have a final maturity date of June 1, 2040.

In October 2014, the Authority funded an escrow account for the defeasance of $7.2 million of the remaining Series 2003 outstanding bonds with existing Reserve Fund monies in the amount of $7.1 million and existing Debt Service interest in the amount of $0.1 million.

In October 2014, the Authority funded an escrow account for $75.1 million for the defeasance of all outstanding Series Subordinate Lien Revenue Bond Series 2005, consisting of $67.4 million from General Fund monies, $6.7 million from the release of the 2005 Debt Service Reserve Fund and $1.0 million from the Debt Service Fund for interest.

During fiscal year ended May 31, 2014, 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 (NYSEFC) is responsible for administering the Revolving Fund and providing financial assistance from the Revolving Fund. NYSEFC issues bonds, the proceeds of which are used to fund the Revolving Fund, which then provides loans to the private water companies, political subdivisions, and public benefit corporations of the State of New York. The Authority has been issued a portion of the total bond proceeds in the amounts stated in the table above to finance safe drinking water projects.

Since June 2010, the Authority has participated in the EFC Refunding Program initiated by the NYSEFC 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 NYSEFC refunded certain Suffolk County Water Authority NYSEFC Bond Series with new bonds issued at lower current-market interest rates, thus passing the interest savings net of NYSEFC financing costs along to the Authority in the form of reduced debt service bills.

During the fiscal year ended May 31, 2015, the Authority entered into the following NYSEFC bond transactions:

In fiscal year 2015, the Authority applied and was approved for a $22 million Storm Mitigation Loan Program Grant through the NYSEFC. The Storm Mitigation Loan Program is comprised of a $16.5 million zero percent interest free loan and a $5.5 million in grant monies. The eligible projects are related to main extensions and generators. A note issued by the NYSEFC for $16.5 million closed on July 30, 2015. It is expected that work on the eligible projects will begin in fiscal year 2016.

In July 2014, the Authority participated in the EFC Series 2014B which refinanced $4.2 million Suffolk County Water Authority Water System Revenue Bonds EFC Series 2004A along with Debt Service Reserve Funds in the amount of $0.3 million. This refunding resulted in a net present value savings net of reserve funds on hand of approximately $0.4 million. The EFC Series 2014B currently bear interest rates ranging from 4.25% to 4.96% with a final maturity date of August 15, 2024.

Subsequent to fiscal year end 2015, in August 2015, the Authority participated in the refinancing of $4.3 million EFC Series 2005B. The amount of $0.3 million from the current Local Debt Service Reserve Fund was used as a source to refund a portion of the SRF Refunded Bonds.

During the fiscal year ended May 31, 2014, the Authority entered into the following EFC bond transactions:

In August 2013, the Authority participated in the EFC Series 2013B which refinanced $5.4 million Suffolk County Water Authority Water System Revenue Bonds EFC Series 2003B along with unspent proceeds and debt reserve funds in the amount of $1.3 million. The EFC Series 2013B currently bear interest rates ranging from 3.70% to 4.50% with a final maturity of January 15, 2013. This refunding resulted in a net present value savings from cash flow of an approximate total of $0.8 million.

In prior years, the Authority defeased certain debt obligations by placing the proceeds of new bonds and its own funds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Authority's financial statements. At May 31, 2015, the amount of defeased debt obligation outstanding was approximately $143.4 million.

Interest expense on the bonds was $28.1 million and $27.8 million for the years ended May 31, 2015 and 2014, respectively.

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

(Continued)

		Principal	Interest	Total
			(In thousands)	
Fiscal year ending:				
2016	$	6,060	29,006	35,066
2017		5,617	28,807	34,424
2018		5,797	28,591	34,388
2019		11,752	28,076	39,828
2020		14,035	27,428	41,463
2021 through 2025		99,745	123,943	223,688
2026 through 2030		147,925	98,755	246,680
2031 through 2035		195,065	59,329	254,394
2036 through 2041		190,214	15,809	206,023
	$	676,210	439,744	1,115,954

(5) Debt Service Requirements

As prescribed in the Authority's Resolution, the Authority is required to maintain a Reserve Account for each Series of Bonds to be held in the custody of the Bond Fund Trustee in an amount equal to the lesser of (1) 10% of the proceeds of the particular bond issue, (2) the maximum debt service due on the particular bond issue, or (3) 125% of the average of the annual installments of Debt Service with respect to all current and future years of the particular bond issue. The resolution permits the Authority to deposit a letter of credit, surety agreement, insurance agreement, or other type of agreement or arrangement with an entity whose obligations are rated in one of the two highest rating categories by Standard and Poor's Ratings Services or Moody's Investors Service in order to satisfy the Reserve Account requirements. At May 31, 2015, the debt service reserve funds were approximately $66.7 million.

Revenue before interest expense and depreciation and amortization was equivalent to 2.12 times (2.03 in 2014) 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, 2014	Issued	Redeemed	Balance at May 31, 2015	Due within one year
					(In thousands)		
2013 A	January 15, 2016		50,000	—	—	50,000	50,000
2013 B	January 15, 2015		50,000	—	(50,000)	—	—
Total notes outstanding		$	100,000	—	(50,000)	50,000	50,000

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

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

On January 15, 2015, $50.0 million of the Suffolk County Water Authority's Bond Anticipation Notes, 2013B matured. These notes were paid out of the proceeds from the issuance of Suffolk County Water Authority Water System Revenue Bond Series 2014B and existing funds in the Series 2003 Reserve fund and the Authority's General Fund. In January 2016, the $50.0 million bond anticipation note due will be paid out from proceeds through the issuance of long term debt.

On April 1, 2014, $50.0 million of the Suffolk County Water Authority's Bond Anticipation Notes, 2011B SIFMA matured. These notes were paid from the Authority's General Fund.

(7) Pension Plan

The Authority's employees are eligible to participate in the New York State and Local Employees' Retirement System, which is a cost sharing, multiemployer, public employee retirement system. The benefits provided to members of this retirement system are established by New York State law and may be amended only by the State Legislature. The New York State and Local Employees' Retirement System issues a publicly available financial report. The report may be obtained from the New York State and Local Retirement System, 110 State Street, Albany, New York 12244. Benefit provisions vary as follows:

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

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

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

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

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

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

Tier V members must have 10 years of service credit to be vested and eligible for retirement benefits. Tier V members are eligible to retire with full benefits at age 62 with 10 years of service credit, and with reduced benefits for retirement between ages 55 and 62 (even if they have 30 years of service credit). Members must contribute 3% of their salary to the Employees' Retirement System for all their years of service (maximum 30 years). Overtime pay in excess of an annual cap is not included in the definition of wages. This overtime cap for 2015 is $17,389.11.

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

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

The overtime cap for Tier VI is $15,608.00.

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

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

Tier III and IV members are required by law to contribute 3% of their annual salary to the Employees' Retirement System (3% contribution ceases after 10 years of membership or 10 years of credited service), and eligible Tier I and II members may make contributions under certain conditions. The Authority is required by the same statute to contribute the remaining amounts necessary to pay benefits when due.

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

Pension costs contractually required by New York State and recorded in the Authority's financial books and records were $7.8 million, $8.4 million, and $7.6 million for the years ended May 31, 2015, 2014, and 2013, respectively, which is equal to 100% of its annual required contribution. The Authority has recorded, as part of its operating expenses $6.2 million, $6.7 million, and $6.1 million for the years ended May 31, 2015, 2014, and 2013, respectively. The Authority has capitalized to water plant, a portion of these retirement costs in connection with employees related to construction work in progress. The Authority capitalized $1.6 million, $1.7 million, and $1.5 million for the years ended May 31, 2015, 2014, and 2013, respectively.

(8) Deferred Compensation

All Authority employees may participate in a deferred compensation program designated as an Internal Revenue Code Section 457 plan. This program enables employees to contribute a portion of their salary, on a tax-deferred basis, to group variable annuity contracts. The assets and related liabilities of the plan are recorded at the assets' market values and are excluded from the Authority's statements of net position. The Authority has no obligation to make contributions to the deferred compensation program. The Authority remits deferred compensation amounts withheld from employees' salaries to an outside fiduciary agent who administers the program and invests program assets as instructed by each of the participants. Assets in such program amounted to approximately $45.2 million, and $42.8 million at May 31, 2015 and 2014, respectively.

(9) Postemployment Benefits Other than Pensions

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

Benefit provisions for the plan are established and amended through the Authority's Board of Directors, and there is no statutory requirement for the Authority to continue this plan for future Authority employees. The health, dental, and optical plans are noncontributory for active employees, with all payments for plan benefits being funded by the Authority. Upon retirement, the cost of the dental and optical plans is partially funded by the Authority and the balance by the retiree. During fiscal year 2015, there were 920 participants (552 active and 368 inactive) that were eligible to receive benefits.

GASB No. 45 establishes guidance for the financial reporting of OPEB cost over a period that approximates employees' years of service and providing information about actuarially calculated liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan.

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

The following table shows the components of the Authority's annual OPEB cost for the year, the amount contributed to the plan, and changes in the Authority's net OPEB obligation for the years ended May 31, 2015 and 2014:

	2015	2014
	(In thousands)	
Annual OPEB cost:		
Annual required contribution (ARC):		
Normal cost	$ 9,375	8,407
Amortization payment	13,116	11,928
Interest to the end of the year	900	813
Total	23,391	21,148
Interest on net OPEB obligation	3,756	3,179
Net OPEB obligation amortization adjustments to the ARC	(5,430)	(4,597)
Annual OPEB cost (expense)	21,717	19,730
Contributions made	(5,943)	(5,324)
Increase in net OPEB obligation	15,774	14,406
Net OPEB obligation, beginning of year	93,891	79,485
Net OPEB obligation, end of year	$ 109,665	93,891

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

Fiscal year ended	Annual OPEB cost	Percentage of annual OPEB cost contributed	Net OPEB obligation
May 31, 2015	$ 21,717	27.4%	$ 109,665
May 31, 2014	19,730	27.0	93,891
May 31, 2013	19,541	27.5	79,485

As of June 1, 2014 and 2013, the actuarial accrued liability for benefits was $235.8 million and $214.5 million, respectively. Whereas, no legislation has been enacted to establish a dedicated trust for these funds, the aforementioned accrued liability remains unfunded. However, during 2012, in an effort to mitigate possible future rate impact related to any enacted legislation, the Authority has established an undedicated reserve for this purpose. As of May 31, 2015, the undedicated reserve is $10.0 million.

As of June 1, 2014 and 2013, the covered payroll (annual payroll of active employees covered by the plan) was $39.1 million and $39.3 million, respectively, and the ratio of unfunded actuarial liability to covered payroll 603% and 545% for each respective year. The schedule of funding progress, presented as required

(Continued)

supplementary information following the notes to the financial statements, presents multi-year trend information about the retiree healthcare plan.

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

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

For the June 1, 2014 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.0% discount rate for the unfunded portion, and an annual healthcare cost trend rates of 8.5% grading down to 5.0% for medical, 4.75% grading down to 4.0% for dental, 4.0%, grading up to 5.0% for Medical Part B, and optical remains at 3.0%. The unfunded actuarial accrued liability is being amortized over 30 years as a level percentage of projected payrolls on an open basis.

(10) Commitments and Contingencies

(a) Wireless Cell Rental Income

Assorted wireless cell carriers desire to use the Authority owned premises for the construction, installation, maintenance, and operation of radio transmitting and receiving equipment and other associated equipment as approved by the Authority in connection with its wireless communications business. The Authority receives in the form of monthly payments a fee for providing such use. Rental fees range from $3,450 to $7,262, per month and have terms ranging from five (5) to fifteen (15) years, multiple five-year renewals, and 3.0% to 3.5% annual rental increases. The Authority currently has 171 lease agreements with eight different wireless carriers. Annual lease income from these agreements for the next five years is expected to be the following:

2016	$	10.2 million
2017		10.5 million
2018		10.8 million
2019		11.2 million
2020		11.4 million

Annual lease income that is included in other operating revenue for the fiscal years ended May 31, 2015 and 2014 was $9.9 million and $11.1 million, respectively.

(b) Legal

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

(c) Risk Management

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

The Authority has established a liability based on actuarial estimates of the amounts needed to pay prior year and current year claims and to establish a reserve for catastrophic losses. That liability, which is for workers' compensation, general, and automobile claims, was approximately $2.7 million and $2.9 million at May 31, 2015 and 2014, respectively, and is based on the requirements of GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

Changes in the Authority's workers' compensation claims liability amount in fiscal 2015 and 2014 were as follows:

		Year ended May 31	
		2015	**2014**
		(In thousands)	
Unpaid claims, beginning of fiscal year	$	157	162
Changes in the estimate for claims of all years		133	98
Retro adjustments		—	(103)
Unpaid claims, end of fiscal year	$	290	157

Changes in the Authority's general and automobile claims liability amount in fiscal 2015 and 2014 were as follows:

		Year ended May 31	
		2015	**2014**
		(In thousands)	
Unpaid claims, beginning of fiscal year	$	2,715	1,602
Changes in the estimate for claims of all years		209	1,487
Claim payments		(522)	(374)
Unpaid claims, end of fiscal year	$	2,402	2,715

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

(11) Net position

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

- *Net investment in capital assets* are the amounts expended by the Authority for the acquisition of capital assets, net of accumulated depreciation, and related debt.
- *Restricted net position* is the net position that have been restricted as in use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted net position* is the remaining net position, which can be further categorized as designated or undesignated. Designated assets are not governed by statute or contract but are committed for specific purposes pursuant to Authority policy and/or Board directives. Designated assets include funds and assets committed to working capital.

The changes in net position are as follows:

	Invested in capital assets	Restricted	Unrestricted	Total
		(In thousands)		
Net position at May 31, 2013	$ 312,565	87,055	226,169	625,789
Loss	—	—	(4,072)	(4,072)
Transfers	15,803	4,983	(20,786)	—
Net position at May 31, 2014	328,368	92,038	201,311	621,717
Loss	—	—	(2,293)	(2,293)
Transfers	63,221	(6,884)	(56,337)	—
Net position at May 31, 2015	$ 391,589	85,154	142,681	619,424

(12) Subsequent Events

The Authority has evaluated subsequent events through August 26, 2015, the date the financial statements were available to be issued.

SUFFOLK COUNTY WATER AUTHORITY

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

May 31, 2015, 2014, and 2013

(In thousands)

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) – Level dollar (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll (b-a)/c
June 1, 2014	$ —	235,882	235,882	—	39,133	603 %
June 1, 2013	—	214,509	214,509	—	39,330	545
June 1, 2012	—	207,301	207,301	—	40,294	514

See accompanying independent auditors' report.

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

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

The Members
Suffolk County Water Authority:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Suffolk County Water Authority (the Authority), which comprise the statement of net position as of May 31, 2015, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 26, 2015.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

KPMG LLP

August 26, 2015