

# SUFFOLK COUNTY WATER AUTHORITY



1995 ANNUAL REPORT



## AUTHORITY PROFILE

The SCWA is a self-supporting, public-benefit corporation operating by virtue of the Public Authorities Law of the State of New York. It is without taxing power and operates as a business enterprise. The Authority is neither an agency of New York State nor Suffolk County Government.

The only revenue the Authority receives is that obtained from the sale of water to its customers. The Authority is non-profit; all revenue received must be used for operating expenses, construction costs, and for paying outstanding debts.

The Suffolk County Water Authority is the largest groundwater supplier in the nation and has been operating for more than 40 years. Currently, the SCWA serves approximately 1.1 million Suffolk County residents. The Authority is operated solely for the benefit of the customers it serves.

Photo Credit: Raymond Corwin

Cover: Hubbard Creek, Flanders. The cover photo and other landscape photos in this report were taken in various locations within the Core Preservation Area of the Central Pine Barrens in Suffolk County. The porous, sandy soils of the pine barrens serve as an excellent conduit for precipitation to seep into our underground aquifers and provide a natural filter for the public water supply.

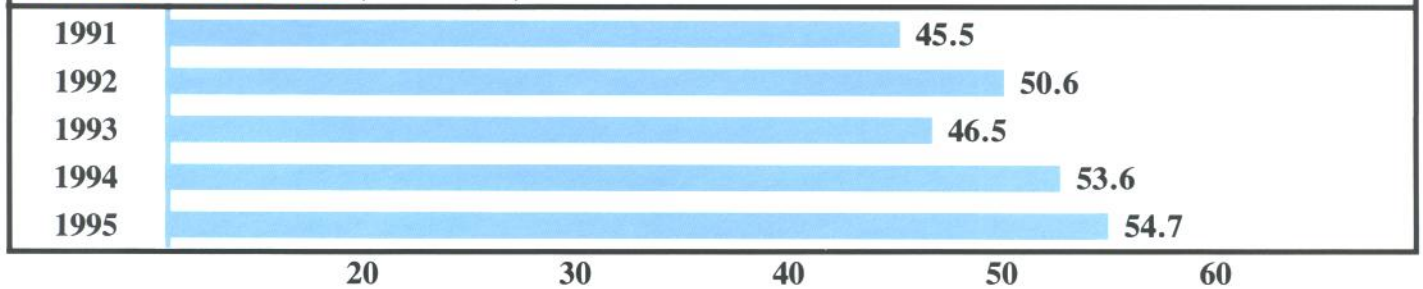
Cover Photo Credit: Robert McGrath

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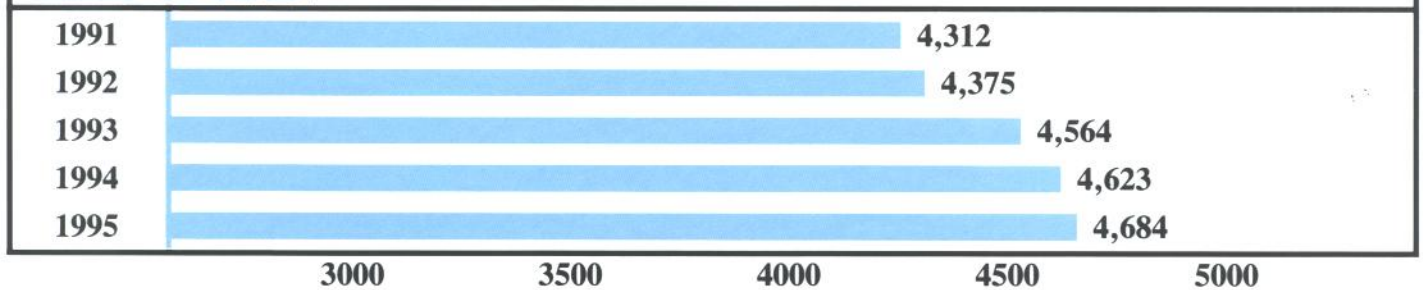
## STATISTICAL HIGHLIGHTS 1986-1995

	For Fiscal Year Ended May 31 1995	For Fiscal Year Ended May 31 1986	10-Year Growth	Percent Increase
Customers	316,067	262,829	53,238	22%
Population Served	1,139,835	890,000	249,835	31%
Miles of Main	4,684	3,807	877	24%
Fire Hydrants	28,886	24,262	4,624	20%
Water Pumped (billion gallons)	54.7	41.5	13.2	35%
Employees	601	462	139	33%

### WATER PUMPAGE (Billion Gallons)



### MILES OF MAIN



## FINANCIAL HIGHLIGHTS 1986-1995

	For Fiscal Year Ended May 31 1995	For Fiscal Year Ended May 31 1986	10-Year Growth	Percent Increase
Gross Revenues	\$ 90,816,000	\$ 45,922,000	\$ 44,894,000	99%
Operating and Maintenance Expense, Except Depreciation	52,841,000	27,911,000	24,930,000	100%
Water Plant at Cost	675,182,000	331,260,000	343,922,000	104%
Bonded Indebtedness	363,495,000	144,180,000	219,315,000	152%
Total Earnings in the Business at the Close of Period	\$146,976,000	\$86,073,000	\$60,903,000	71%



Pine Trail Nature Preserve, Ridge

## AUTHORITY MEMBERS



Michael A. LoGrande  
*Chairman/Chief Executive Officer*

Melvin M. Fritz, D.O.M.D.

Matthew B. Kondenar  
*Secretary*

Eric J. Russo, Esq.

James T. B. Tripp, Esq.

Authority Members, L to R: Matthew B. Kondenar;  
James T. B. Tripp, Esq.; Michael A. LoGrande;  
Eric J. Russo, Esq.; Melvin M. Fritz, D.O.M.D.

## MANAGEMENT

### Staff

Michael A. LoGrande  
*Chairman/Chief Executive Officer*

Robert G. Graven  
*Deputy Chief Executive Officer  
for Customer Service*

Herman J. Miller  
*Deputy Chief Executive Officer  
for Operations*

Michael Stevenson  
*Deputy Chief Executive Officer  
for Administration*

William C. Arabio  
*Director of Information Services*

Frank Faber  
*Director of Finance*

Ralph H. Gunther  
*Assistant Chief Engineer*

James A. Hartnett  
*Director of General Services*

Laura J. Mansi  
*Director of Public Relations*

Robert L. Murray  
*Director of Production Control*

Karen Randazzo  
*Laboratory Manager*

Edward J. Rosavitch  
*Executive Director of Waterworks  
& Chief Engineer*

Donald Slotnick  
*Director of Distribution*

## CONSULTANTS

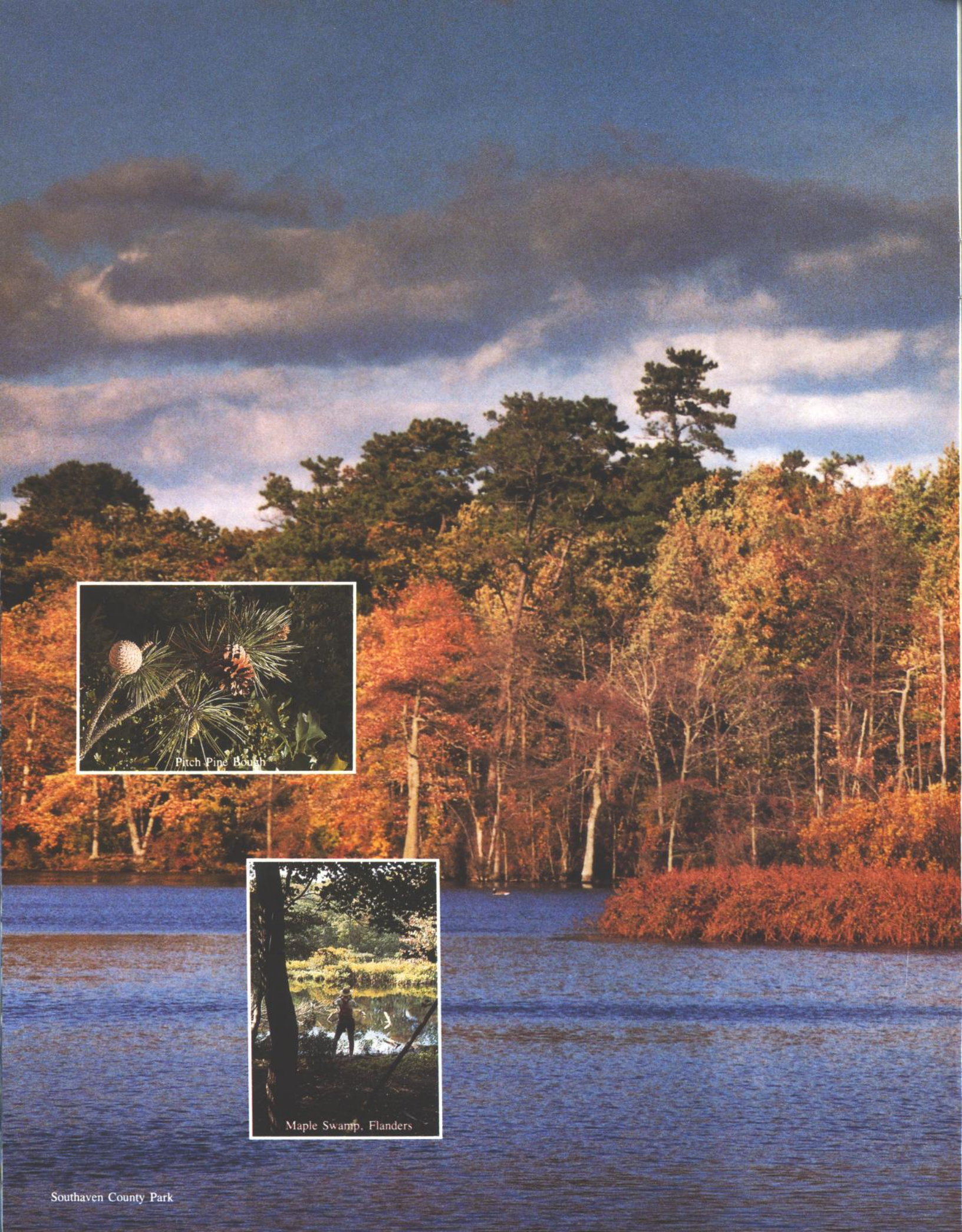
Van Nostrand & Martin  
*Counsel*

United States Trust Company  
of New York  
*Bond Trustee*

Price Waterhouse  
*Independent Accountants*

Smith Barney Harris  
Upham & Co., Inc.  
*Financial Consultant*

Leggette, Brashears & Graham, Inc.  
*Consulting Ground-Water Geologists*



Pitch Pine Bough



Maple Swamp, Flanders



## CHAIRMAN'S MESSAGE

The Members of the Suffolk County Water Authority are pleased to present the annual report for the 1994/1995 fiscal year, a year of achievements and new ventures. We have completed the consolidation and modernization of our customer service facilities, opened the largest and most technologically advanced groundwater testing laboratory in the nation, availed ourselves of new technologies, established Customer Service as a separate division of the Authority, served as the lynch pin to creating New York State's third forest preserve and charted new directions for budgetary and financial management.

Enhancements made to our cash management processes allowed us to take advantage of market conditions which resulted in additional interest earnings of approximately \$2,500,000. We were also able to take advantage of a retirement incentive offered by the state which will generate a net savings of \$1,500,000 per year. We have achieved our objectives for this year and we remain fully focused and prepared to take on the challenges that lie ahead.

Our continued conservative fiscal policies and operation controls helped us maintain our excellent ratings in the financial community. Although the local economy has remained stagnant and continuing federal and state mandates have placed upward pressure on our operational costs, we remain a premiere municipal bond issuer in New York State. Through aggressive cost containment, we have managed to limit operating cost increases to only half the inflation rate. The Authority's financial strength permits us to borrow for necessary capital projects at very low rates. The interest cost for all Authority debt is significantly lower than other municipal borrowers. In addition, the Authority is receiving interest earnings on fully secured short-term investments at rates ranging from 5.90% to 7.15%. This policy of conservative fiscal management translates directly into lower water rates for our customers, while allowing programs for modernization of the infrastructure.

Early in 1995, under the direction of our new Finance Director Frank Faber, we initiated a new detailed budgeting system that will provide rigid control over spending while indexing spending to planned systems improvements.

Our vast infrastructure exceeding \$570,000,000 at cost requires continued upgrading and our growth, though more modest than previous years, necessitates new facilities. Part of this funding requirement is satisfied by internally generated funds, however, the remainder, mostly for growth-related new facilities, must be borrowed. We maintain the lowest possible level of debt service by monitoring the municipal bond market and constant surveillance of new monetary requirements. During the fiscal year, the Authority issued \$35,000,000 in variable rate bond anticipation notes to take advantage of the lower rates afforded by this financing medium. During this fiscal year, the average cost of this issue has been 3.95%.

The acquisition and development program is continuing in conformity with our mission to provide a safe, reliable, and affordable public supply of water for all Suffolk County residents. Last year, we managed and operated the Kismet water supply, a small system on Fire Island. This year, we also entered into a management agreement with Lonelyville, another Fire Island water supplier. We are currently in the process of acquiring both of these water systems. Interest by other suppliers has prompted us to commission a study by our groundwater geologists to help guide us as we acquire individual water companies on Fire Island, a remote region of Suffolk County.

A decision by the New York State Appellate Division in 1994 enabled the Authority to proceed with the condemnation of the Sunhill and Swan Lake Water Companies which had been initiated in 1992. A recent decision of the State Supreme Court found in favor of our taking over these two commonly owned private water companies operating in Selden and East Patchogue.

As of this writing, it appears that we will assume control of Sunhill and Swan Lake with a total of some 1800 customers on August 1, 1995, ending a protracted legal battle. The condemnations were initiated at the request of state, county and town elected officials on behalf of their constituents who were seeking relief from high rates, poor service and questionable water quality.

Maintaining and improving our water system is an ongoing responsibility. This year we constructed pump stations in East Hampton, Lake Panamoka, Centereach and Huntington to boost supply in those areas. In addition, we removed an old 250,000 gallon water tank in Huntington and replaced it with a 750,000 gallon standpipe, providing additional storage and fire flows. In keeping with our program to improve pressure zones, rezonings in the areas of Ronkonkoma, Kings Park, St. James and Belle Terre were completed this year.

Iron is a naturally occurring element in some areas of Long Island and presents an aesthetic inconvenience to some of our customers. We have begun implementing a number of long-term strategies to reduce iron in high concentration areas. The strategies will vary from one area to another based on feasibility and cost. Our first iron removal plant in West Islip is nearing completion and will be on line next spring. This facility uses manganese greensand to remove iron from water. In order to compare effectiveness and cost, we are also conducting a full-scale pilot study of another iron-removal technology using activated carbon. Also, construction of new and larger water mains to transport iron-free water from other regions to affected areas is underway. These newer methods, coupled with our systematic flushing program and treatment at pump stations, promises to greatly alleviate the iron inconvenience to our customers and drastically reduce customer service complaints regarding this issue.

The reorganization of the Authority was further strengthened this year when we established Customer Service as a separate division of the Authority and named Robert Graven as Deputy Chief Executive Officer. Mr. Graven has more than twenty-four years with the Authority primarily spent operating various customer service offices throughout our service territory.

Dona Roberts, a 26-year veteran of the Authority was named as the Regional Manager of our new regional office in Coram. Ms. Roberts has served well in many and varied capacities in her long career and brings a broad understanding of our mission to this position. At the same time, Ron Blake was appointed as the new Regional Manager of the Eastern Regional Office in Westhampton Beach, which incorporates the East Hampton satellite office. Mr. Blake, who has served 22 years as Manager of our East Hampton Office, understands the particular needs of this easternmost region of our service territory.

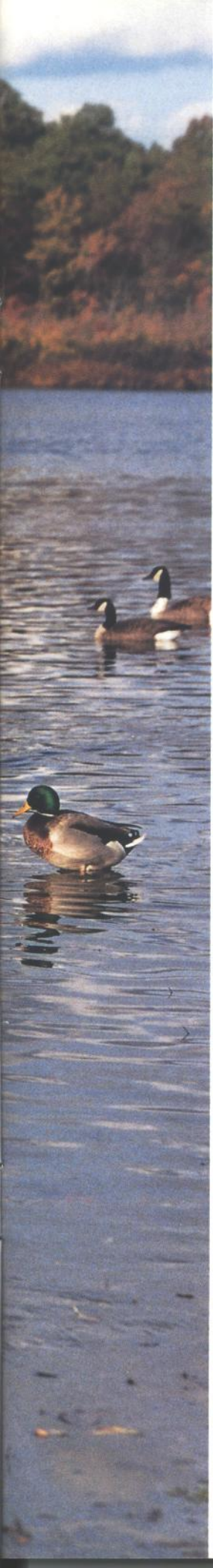
The Central Regional Office in Coram opened on March 27, 1995, completing the consolidation of our customer service and operations facilities. In all, there are now three state-of-the-art offices owned by the Authority to serve our customers, replacing nine obsolete district offices, many of which had been leased properties.

At the opening ceremonies, county and town officials noted our prudent investment and praised the renewal of this deteriorated property and our contribution to community stability and aesthetics. We had met with the surrounding neighbors prior to renovating the abandoned shopping center. We explained our plan and went forward with building a complex any community would be proud of. The completion of this project represents the culmination of a five-year program aimed at acquiring sufficient space to meet all of our projected needs for the next fifty years, while taking full advantage of low interest rates and lower real estate values. Additionally, we have moved from being a tenant to the more financially stable status as an owner/landlord, at no additional cost to the Authority. Most important of all, we are better able to serve our customers.

Our "good neighbor" policy was also exemplified with the successful preservation of our historic Spring Road Waterworks building in the Town of Huntington. This facility, constructed in 1889,







is a busy staging area for water service on the north shore which required an expansion and renovation to meet current needs. The Authority worked with the Huntington Historical Society and Town officials to preserve the architectural style of this historic building. Last December, the finished building was reopened and dedicated in honor of the recently deceased Town Historian, Rufus Langhans.

We marked the opening of our new 26,000 square foot water testing laboratory in February with a ribbon cutting ceremony and tour of this state-of-the-art facility for local officials. The new laboratory is the largest potable water testing facility in New York State and the largest groundwater testing lab in the nation. The completion of this project represents the most significant single accomplishment of this administration and is the centerpiece of our efforts to provide the highest quality drinking water to the 1.1 million residents of Suffolk County that we serve. Particulars about testing requirements and our new laboratory are featured in a separate section of this annual report.

In August of 1994, we went on line with an active voice response system developed by Periphonics Corporation of Long Island, whereby more than 170,000 of our customers are able to "call in" their meter readings and receive a dollar credit on their next bill.

We are the first utility in the nation to offer an incentive for customers to read their own meters. Utilities as far away as England and Ireland have contacted us about this revolutionary new program. Ten months into the "Read H<sub>2</sub>O" program and the results are enormously successful. More than 300,000 customer reads have been obtained, eliminating the need for our employees to read those meters. Participation continues to grow and the feedback from our customers has been extremely positive. They feel as if they are taking part in a worthwhile cost-cutting program wherein they too can directly realize a portion of the savings.

Good public relations is just one of the added benefits of implementing the consumer meter reading program. We have also been able to redirect some of our personnel into a meter change-out program and to update and improve our customer database. So far, our customers have provided us with more than 20,000 current telephone numbers and other useful information pertinent to their accounts. We have also found that we are receiving fewer complaints related to meter readings because our customers are reading their own meters.

Recently, we expanded the uses of the Periphonics Voice Response system. Our customers can now check their account balance, last transaction and date of process with their touchtone phone, reducing inquiries at our customer service offices. Starting in October, we will activate another new feature of the system - an automated Call-Out System - capable of forewarning our customers in the rare event of a water emergency or disruption of service due to necessary maintenance of our system.

The "Read H<sub>2</sub>O" program is proving to be an excellent interim measure as a transition to be implemented within the next ten years to an automated meter reading system. With the help of our customers, we can now wait for and evaluate emerging radio-read meter reading technologies. More importantly, we can wait until these technologies become standardized and priced competitively among the various manufacturers. In that vein, we continue to implement the Itron Meter reading system, a hand-held computerized data capture system, which downloads its data directly to the billing computer. In 1995, we upgraded the system to the Itron Enterprise 5000, which can be converted to a radio frequency system. The system has been implemented in more than two-thirds of our service territory and, by the latter part of 1995, the project will be completed.

Educational efforts are a small investment that can reap a large return in ensuring the future integrity of the groundwater resource. Efforts aimed at the general public and students at all levels are ongoing. In addition, as a non-regulatory agency, we can also serve an important role as a facilitator and information resource for business and industry to protect the water source. Our "Pollution Prevention Program" developed in 1989, offers confidential assistance to small

businesses regarding regulatory compliance questions. By providing assistance in ways to reduce the use of hazardous materials, the Authority furthers its water protection goals and helps businesses reduce costs related to this issue and enhance their competitiveness. The program is continually expanding and we are currently spearheading a new initiative to form a consortium of Long Island universities to actively promote educational and research activities in the area of pollution prevention. This will ultimately assist the creation of a future work force that is more qualified to serve the needs of Long Island industries, as well as its distinctive environment. This forum will enable universities and colleges to collaborate on pollution prevention research projects focused on solving the problems of local industry.

Recently, an effort to protect our county's 100,000 acres of pine barrens and the aquifer beneath them culminated when Governor George Pataki, County Executive Robert Gaffney, State Senator Kenneth LaValle, Assemblyman Thomas DiNapoli, and other state, county and town officials signed the Central Pine Barrens Comprehensive Land Use Plan. This plan assures the preservation of some 52,000 acres in the core of this pine barrens region in Central Suffolk. The remainder of this protected area has been designated as a compatible growth area. The Central Pine Barrens has become the state's third preserve, after the Adirondacks and the Catskills.

We hosted this historic event, as we had when this effort began in 1993, when we brought the environmental community and developers together to mediate the pine barrens issue. These meetings resulted in a pine barrens law adopted by the state in July of 1993. The Water Authority's long-term interest in future well sites and the protection of this deep groundwater recharge area was directly incorporated in the Long Island Pine Barrens Protection Act.

To develop a comprehensive plan to meet the goals of the law, a Joint Policy and Planning Commission was created by the state. Ray Corwin, of our Planning and Policy Department, was asked to serve as Executive Director of the Commission. I was asked to serve as Chairman of the Central Pine Barrens Advisory Council. James Tripp, a prominent environmental attorney and a member of our Authority Board, served as Co-Chair of the TDR (Transfer Development Rights Committee), one of numerous sub-committees formed to address this complex undertaking. He was also named as Chairman of the Central Pine Barrens Credit Bank, which will serve as the institution to buy and sell pine barrens development rights. Mr. Tripp is an acknowledged expert on the transfer of development rights. In addition to mediating numerous negotiating sessions, we provided the entire professional staff, administrative support, and technical assistance to the overall effort with 100% state reimbursement. Ultimately, it took more than 200 meetings and a small army of people, representing varying viewpoints and interests, to accomplish the goal of the state legislation.

We are gratified that we were able to make a contribution to this important initiative. We are especially proud of the members of our staff from Policy Planning, Engineering, and our Finance Department who provided much needed support in a most professional manner. They represented the Authority well.

Our employees continue to be our greatest natural resource. Our Human Resources Department continues to pursue employee staff improvements by hiring the best qualified people around, by training and retraining our longer term employees, by empowering our employees to be innovative, creative, and dynamic within the context of honesty, integrity and dedication. In time of change and challenge, our employees provide us with the creativity and commitment we need to serve our customers. With their help, I look ahead with confidence knowing that we are adequately prepared to meet our region's needs for the remainder of this final decade of the 20th century and the challenges of the next century.

Sincerely,



MICHAEL A. LoGRANDE

*Chairman and CEO*

## OUR COMMITMENT TO QUALITY ASSURANCE



Ribbon  
Cutting  
Ceremony

The Authority's new laboratory officially opened on February 28, 1995. It is the most technologically advanced groundwater testing laboratory in the nation. The laboratory was built to meet the current and future demands of water quality regulations and to ensure that the 409 wells we operate throughout Suffolk County all meet the same high standard.

Over the past ten years, water quality regulations set by the State Department of Health and the federal EPA under the Safe Drinking Water Act have increased tremendously.

In the early 1980's, the Authority's lab tested for less than 100 chemicals at detection levels no lower than 50 parts per billion. Today the lab is required to test for 123 compounds, at detection levels of 5 parts per billion, which means that today's lab has to be 10 times more accurate than it was just a decade ago!

In terms of volume alone, the increased demands on the lab are enormous. Over the course of a year, 44,000 well samples are taken and as many as 170 tests may be performed on each sample. An additional 120,000 monitoring tests are performed throughout the system, and another 24,000 microbiology tests are also performed.

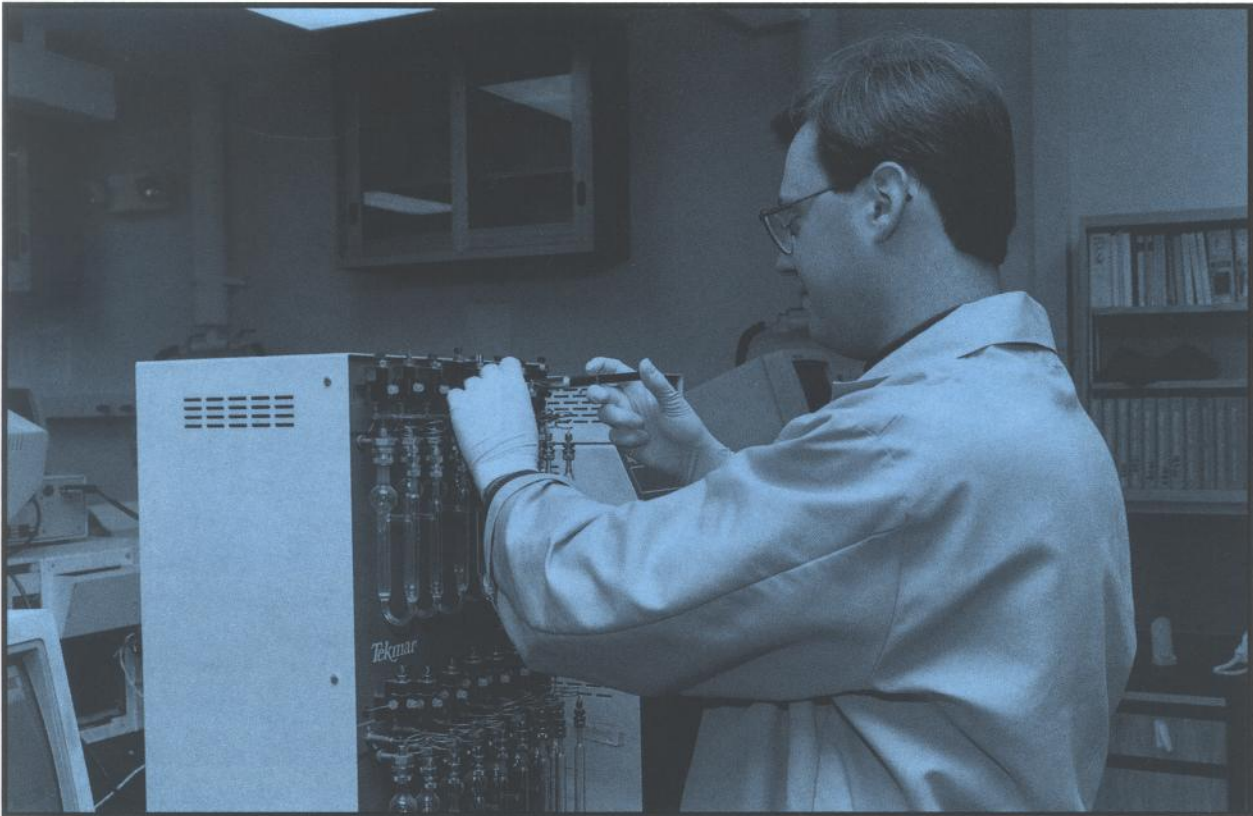
As an additional safeguard, tests are performed at 100 sites per month throughout the delivery system, and at 100 selected homes, as a further way to monitor water quality. Literally, we are monitoring the water supply from well to tap. It all adds up to more than 500,000 tests over the course of an average year.

Even more will be required in the future. Under the current mandates of the Safe Drinking Water Act, every three years an additional 25 new compounds will be added by the EPA to the list of chemicals for which water suppliers must test.

We have made it a priority to take the lead in meeting the demands of these quality regulations, and the new lab is evidence of that.



Laboratory Staff



A lab technologist prepares sample for analysis in gas chromatograph.

Equipment is a major factor in determining the capability of a modern laboratory. To meet the demands of testing for chemicals at detection levels of 5 parts per billion required a major investment in new equipment. From the old atomic absorption analyzers and manual analytic chemistry methodologies, the new lab features ion chromatography, using mass spectrophotometer gas chromatography analyzers with the ability to detect substances down to a billionth of a gram.

With the increased capabilities of the lab's scientific equipment comes the demand for staff who possess increased capabilities as well. For that reason, our laboratory staff has been increased from 18 technicians to 28 technologists. This is more than just adding additional staff. Because technologists require a higher level of education and training than technicians, it represents a significant upgrade in staff capabilities.

Modern equipment, better trained staff, the ability to meet high scientific standards and handle the enormous volume of work involved in protecting the customers of the nation's largest groundwater supply system are all confirmation of our commitment to providing our customers with the highest quality drinking water available. Our new laboratory is the centerpiece of that vital effort.

# HIGHLIGHTS 1994-1995

	May 31	
	1995	1994
Total Revenues .....	<b>\$ 90,816,000</b>	\$ 83,430,000
Operating and Maintenance Expense except depreciation .....	<b>52,841,000</b>	51,910,000
Interest on Bonds and Notes; including amortization of debt discount and expense .....	<b>19,130,000</b>	17,149,000
Depreciation .....	<b>11,539,000</b>	11,376,000
Revenues Invested in Facilities for the year .....	<b>9,348,000</b>	4,279,000
Revenues Invested in Facilities (since June 1, 1951) .....	<b>146,976,000</b>	137,628,000
Total Water Plant at Cost .....	<b>675,182,000</b>	629,985,000
Net Additions to Water Plant .....	<b>45,197,000</b>	36,549,000
Customers (Active Services) .....	<b>316,067</b>	311,997
Miles of Main in Service .....	<b>4,684</b>	4,623
Fire Hydrants in Service .....	<b>28,886</b>	28,515
Water Production (Billion Gallons) .....	<b>54.7</b>	53.6



## PLANT FACILITIES 1994-1995

Service Areas of Plants	WELLS				Pumping Plants				Storage Facilities				Active Services	
	Active		Inactive		No.	Capacity - 1,000 Gallons Daily*		No.	1,000 Gallons					
BABYLON	45	45	2	2		19	19		81,072	81,072	7	7	7,220	7,220
BAY SHORE	49	50	9	9	22	23	91,872	92,304	7	7	6,012	6,012	50,884	51,144
PATCHOGUE	70	70	5	3	30	30	117,648	117,648	10	10	12,000	12,000	62,951	63,622
HUNTINGTON	53	54	3	3	22	22	67,104	68,184	11	10	11,842	11,592	30,984	31,154
PT. JEFFERSON	74	75	5	4	36	36	119,736	121,320	9	9	8,854	8,854	47,865	48,516
SMITHTOWN	46	46	2	1	20	20	83,520	83,520	6	6	6,100	6,100	25,838	26,023
WESTHAMPTON	34	37	2	2	14	15	31,680	31,212	4	4	4,050	4,050	23,220	24,763
EAST HAMPTON	38	39	3	3	21	22	27,108	27,180	5	5	5,720	5,720	14,020	14,355
TOTALS	409	416	31	27	184	187	619,740	622,440	59	58	61,798	61,548	311,997	316,067

\*Based on 24-hour operation and on actual capacity of pumping equipment for active wells.

AS OF MAY 31, 1994  AS OF MAY 31, 1995

REPORT OF  
INDEPENDENT  
ACCOUNTANTS

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Price Waterhouse LLP

To the Members of  
Suffolk County Water Authority

In our opinion, the accompanying balance sheet and the related statements of revenue and revenue invested in facilities and of cash flows present fairly, in all material respects, the financial position of Suffolk County Water Authority (the "Authority") at May 31, 1995 and 1994 and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Authority's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Jericho, New York  
July 21, 1995

# BALANCE SHEET

(Amounts in Thousands)

	May 31,	
	1995	1994
<b>ASSETS</b>		
Water plant, at cost less accumulated depreciation (Note 2) .....	\$ 544,932	\$ 509,319
Construction fund .....	29,972	46,165
<b>Current Assets:</b>		
Cash and cash equivalents .....	6,420	23,142
Short-term investments .....	25,276	2,323
Accounts receivable, less allowance for doubtful accounts of \$433 in 1995 and \$500 in 1994 .....	7,370	6,189
Interest and other receivables .....	1,386	556
Accrued water service and fire protection revenues .....	10,325	10,082
Bond fund held by fiscal agent .....	15,649	14,737
Materials and supplies, at average cost .....	4,674	5,005
Prepayments and other current assets .....	1,975	856
<b>Total Current Assets</b> .....	<b>73,075</b>	<b>62,890</b>
Long term investments .....	28,903	12,427
Intangible assets .....	9,077	9,362
Other (Note 7) .....	5,524	4,854
	<b>43,504</b>	<b>26,643</b>
	<b>\$ 691,483</b>	<b>\$ 645,017</b>
<b>CAPITALIZATION AND LIABILITIES</b>		
<b>Capitalization:</b>		
Water System Revenue Bonds, less current portion, less unamortized discount (Note 3) .....	\$ 313,799	\$ 319,892
Bond anticipation notes payable (Note 5) .....	35,000	—
Contributions in aid of construction .....	146,508	140,777
Revenue invested in facilities .....	146,976	137,628
<b>Total Capitalization</b> .....	<b>642,283</b>	<b>598,297</b>
<b>Current Liabilities:</b>		
Current maturities of Water System Revenue Bonds (Note 3) .....	6,395	5,940
Accounts payable .....	3,858	4,080
Accrued interest .....	8,981	8,623
Accrued retirement contributions (Note 6) .....	1,667	1,392
Other accrued liabilities (Note 7) .....	8,930	7,653
Customer deposits .....	6,775	6,615
<b>Total Current Liabilities</b> .....	<b>36,606</b>	<b>34,303</b>
Advances for construction .....	10,294	10,117
Notes payable (Note 5) .....	2,300	2,300
Commitments and Contingencies (Note 9) .....		
	<b>\$ 691,483</b>	<b>\$ 645,017</b>

The accompanying notes are an integral part of these financial statements.

## STATEMENT OF REVENUE AND REVENUE INVESTED IN FACILITIES

(Amounts in Thousands)

	For the year ended May 31,	
	1995	1994
<b>Revenues:</b>		
Operating .....	\$ 81,831	\$ 78,061
Interest and other .....	8,985	5,369
Total revenue .....	90,816	83,430
<b>Operating Expenses:</b>		
Operations .....	41,057	41,182
Maintenance .....	11,784	10,728
Total operating expenses .....	52,841	51,910
Revenue before depreciation, amortization, interest, and extraordinary gain .....	37,975	31,520
<b>Deduct:</b>		
Interest expense, net .....	16,293	15,381
Depreciation and amortization .....	12,334	12,091
	28,627	27,472
Revenue before extraordinary gain .....	9,348	4,048
Extraordinary gain (Note 3) .....	—	231
Revenue invested in facilities .....	9,348	4,279
At beginning of year .....	137,628	133,349
At end of year .....	\$ 146,976	\$ 137,628

The accompanying notes are an integral part of these financial statements.



# STATEMENT OF CASH FLOWS

(Amounts in Thousands)

	For the year ended May 31,	
	1995	1994
<b>Cash Flows from Operating Activities:</b>		
Revenue invested in facilities . . . . .	\$ 9,348	\$ 4,279
Adjustments to reconcile revenue invested in facilities to net cash provided by operations:		
Extraordinary gain . . . . .	—	(231)
Depreciation and amortization . . . . .	12,334	12,091
Capitalized interest . . . . .	(2,155)	(1,196)
(Increase) decrease in operating assets		
Short-term investments . . . . .	(22,953)	(2,323)
Bond fund held by fiscal agent . . . . .	(912)	1,730
Accounts receivable . . . . .	(1,181)	(2,138)
Interest and other receivables . . . . .	(830)	758
Accrued water service and fire protection revenues . . . . .	(243)	464
Materials and supplies and prepayments . . . . .	(788)	(9)
Increase (decrease) in operating liabilities		
Accounts payable . . . . .	(222)	(615)
Accrued interest . . . . .	358	2,214
Accrued retirement contributions . . . . .	275	253
Other accrued liabilities . . . . .	1,277	265
Customer deposits . . . . .	160	(81)
Net cash provided by operating activities . . . . .	(5,532)	15,461
<b>Cash Flows from Investing Activities:</b>		
Additions to water plant, net of retirements . . . . .	(44,997)	(36,689)
Decrease (increase) in construction fund . . . . .	16,193	(24,720)
Long term investments . . . . .	(16,476)	(7,129)
Other . . . . .	(532)	(962)
Net cash used in investing activities . . . . .	(45,812)	(69,500)
<b>Cash Flows from Financing Activities:</b>		
Net proceeds from issuance of		
Water System Revenue Bonds . . . . .	—	98,420
Cost of U.S. Government Securities deposited in escrow trust fund for payment of Refunded Bonds . . . . .	—	(34,256)
Proceeds from (repayments of)		
notes payable . . . . .	34,594	(19,761)
Repayment of current maturities of		
Water System Revenue Bonds . . . . .	(5,880)	(5,260)
Advances for construction, net of refunds . . . . .	5,908	6,617
Net cash provided by financing activities . . . . .	34,622	45,760
Net decrease in cash and cash equivalents: . . . . .	(16,722)	(8,279)
Cash and cash equivalents at beginning of year . . . . .	23,142	31,421
Cash and cash equivalents at end of year . . . . .	\$ 6,420	\$ 23,142

The accompanying notes are an integral part of these financial statements.

# NOTES TO FINANCIAL STATEMENTS

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MAY 31, 1995 and 1994  
(Amounts in Thousands)

## Note 1 - Summary of Significant Accounting Policies:

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Suffolk County Water Authority (the "Authority") is a public benefit corporation that was created by resolution of the Suffolk County Board of Supervisors in 1937 with a two-fold 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 approval.

### Reclassifications

Certain fiscal 1994 balances have been reclassified, for comparative purposes.

### Water Plant

Water plant is carried at original cost. The capitalized cost of additions to water plant includes charges for indirect 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 is deducted from plant accounts and together with dismantling costs less any salvage is charged to accumulated depreciation. The costs of repairs, minor betterments and renewals are charged to maintenance expense as incurred. The Authority does not credit water plant for contributions in aid of construction.

### Depreciation

Depreciation of water plant is provided on the straight-line basis using a composite annual rate of 2.14% which is based on the average service lives and net salvage values of properties.

### Cash and cash equivalents

Short-term investments which will mature in ninety days or less are considered cash equivalents.

### Funds Held by Fiscal Agent

The 1988 General Bond Resolution, as amended, (the "Resolution") requires that a debt service reserve fund and a bond fund be maintained by the Fiscal Agent. The bond fund is used solely for the purpose of paying the principal and interest on the bonds, and for retiring the bonds prior to maturity. Amounts in the bond fund are invested in repurchase agreements and U.S. Treasury notes, as of May 31, 1995 and 1994.

### Construction Fund

In accordance with the Resolution, monies in the construction fund are restricted to the costs of acquisition and construction of the water system.

### Investments

At May 31, 1995, the Authority has invested \$38,123 of its construction, operating and other funds in certificates of deposit with interest rates that range from 5.97% to 7.15% and which mature at various dates through May 1, 1996. Additionally, the Authority has invested \$33,337, \$3,900 and \$8,791 in Treasury Notes, repurchase agreements and U.S. Government bonds, respectively. It is the Authority's intent to hold such investments until maturity.

### Revenue

Revenues are recognized based on actual customer water usage, including estimates for unbilled periods.

### Income Taxes

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

### Intangible Assets

Costs related to the issuance of long-term debt are amortized using the effective interest method.

Goodwill represents the excess of fair value on net assets acquired and is being amortized over 40 years using the straight line method.

### Advances for Construction and Contributions in Aid of Construction

Under existing standard construction loan contracts with residential real estate developers and others, the developer advances to the Authority the estimated cost of new main installations. Upon completion of construction, the developer is either billed or refunded the difference between the advance and the actual cost. The resulting net completed cost is transferred to Contributions in Aid of Construction. Other construction loan contracts are written for a five year period and provide for refunding a percentage of revenue collected from these projects which is charged to the original advance. The resulting net balance at the expiration of the contract is transferred to Contributions in Aid of Construction (\$2,413 - 1995; \$3,149 - 1994;).

Contributions in Aid of Construction also includes the original cost of systems contributed to the Authority by municipalities and others as well as service, tapping and other fees.

### Customer Deposits

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

### Prepayments

Prior to fiscal 1995, workers compensation premiums were prepaid for a policy year and amortized over the corresponding period. These prepayments amounted to \$548 as of May 31, 1994. Effective for the fiscal year ended May 31, 1995 the Authority has changed its estimate from amortizing the retrospective premium in the policy year to amortizing over the claims period of 48 months. Such change results in a charge to insurance expense during the policy year which approximates the minimum premium, and a prepayment of \$1,619 as of May 31, 1995.

### Concentration of Credit Risk

Financial instruments which subject the Authority to credit risk consist principally of trade receivables. The Authority maintains reserves for potential credit losses from trade accounts receivable and such losses have historically been within management's expectations.

## Note 2 - Water Plant

	May 31,	
	1995	1994
Land and land rights . . . .	\$ 12,562	\$ 11,814
Distribution systems . . . .	424,715	411,552
Wells, reservoirs and structures . . . . .	57,613	55,980
Pumping and purification equipment . . . . .	50,549	46,090
Other . . . . .	26,608	24,126
Water plant in service . . .	572,047	549,562
Less - Accumulated depreciation . . . . .	130,250	120,666
Net water plant in service . . . . .	441,797	428,896
Construction in progress . . . . .	103,135	80,423
Water plant . . . . .	\$ 544,932	\$ 509,319

Depreciation expense amounted to \$11,410 and \$11,247 for the years ended May 31, 1995 and 1994, respectively.

## Note 3 - Water System Revenue Bonds

On February 15, 1994, the Authority issued \$102,135 of Series 1994 Water System Revenue Bonds. The Series 1994 Bonds were issued for the purpose of financing the cost of improvements to the Authority's Water System, as well as refunding Series 1989 Bonds, Series 1992A Bonds and a portion of Series 1992C Bonds (referred to as the "Refunded Bonds") as follows:

Date	Series	Amount
July 15, 1992	Series 1989	\$ 2,340
September 15, 1992	Series 1992A	25,135
September 15, 1992	Series 1992C	9,350
		\$ 36,825

A portion of the proceeds from issuance of the Series 1994 Bonds were deposited with an escrow agent pursuant to an escrow agreement, and invested in U.S. Government Securities. The maturities of these securities and related earnings thereon are expected to provide sufficient cash flow to meet the debt service requirements of the Refunded Bonds. These refunding transactions effectively released the Authority from its obligation to repay the Refunded Bonds and constituted a defeasance in substance.

This transaction resulted in an extraordinary gain on early retirement of debt summarized as follows:

	May 31,
	1994
<b>Cost of U.S. Government Securities deposited in escrow trust funds .....</b>	<b>\$ 34,256</b>
<b>Carrying amount of Refunded Bonds, including current maturities and net of unamortized discount .....</b>	<b>34,487</b>
<b>Net extraordinary gain .....</b>	<b>\$ 231</b>

Outstanding bonds are summarized as follows:

May 31,				
Series	Interest Rate	Final Maturity Date	1995	1994
1988	6.50-7.375 %	2010	\$ 34,740	\$ 38,230
1992 B	5.10-5.625 %	2017	57,855	57,885
1992 C	4.50-6.00 %	2017	39,030	39,280
1993	4.80-5.10 %	2013	94,735	96,845
1994	5.00-6.00 %	2017	102,135	102,135
<b>Total bonds outstanding .....</b>			<b>328,495</b>	<b>334,375</b>
Less: Current maturities payable .....			6,395	5,940
Unamortized discount .....			8,301	8,543
			<b>\$313,799</b>	<b>\$319,892</b>

Interest paid, net of amounts capitalized, was \$15,935 and \$13,167 during fiscal 1995 and 1994, respectively.

The payment of principal and interest of the Series 1988 to 1994 Bonds, when due, is insured by a municipal bond insurance policy issued by MBIA Corporation or AMBAC Indemnity Corporation, except for Series 1992C for which the Authority maintains the minimum debt service reserve fund balance.

Bond maturities over the next five fiscal years are as follows:

Fiscal Year	Amount
1995 .....	\$ 6,395
1996 .....	7,220
1997 .....	7,625
1998 .....	8,090
1999 .....	8,985

## Note 4 - Debt Service Requirements

As prescribed in the Authority's Resolution, a minimum debt service reserve fund balance is to be maintained which is the lesser of 10% of the proceeds of the Series 1988-1994 Bonds or the average of the annual installments of debt service with respect to all Series 1988-1994 Bonds outstanding for the current and all future fiscal years. The Authority may purchase bond insurance in lieu of the debt service reserve fund requirement. The Authority has elected to maintain bond insurance on the Series 1988-1994 Bonds, except for the 1992 C Bonds, for the payment of principal and interest on stated maturity and sinking fund installment dates in the event of default by the Authority. For the 1992 C Bonds, the Authority maintains a debt service reserve fund.

Average debt service requirements for the payment of interest and principal on outstanding bonds at May 31, 1995 approximate \$24,960 in each of the next five years. Revenue before interest and depreciation was equivalent to 1.71 times (1.48 in 1994) the debt service requirement for the year ended May 31, 1995.

## Note 5 - Notes Payable

In May 1993, the Authority issued a note payable to the former stockholders of Shorewood totaling \$2,300 and bearing interest at 4.89%. Interest is payable monthly through May 3, 1998. Principal is payable on May 3, 1998.

In December 1994, the Authority issued bond anticipation notes in the amount of \$35,000. Interest on these notes will be based on the minimum interest rate that, under prevailing financial market conditions, enables the notes to be sold at par, subject to the applicable effective interest rate period. The effective interest rate period may be daily, weekly, monthly, or semi-annually. Interest is payable periodically, based upon the effective interest rate period, through December 21, 1999, the date of principal maturity. As of May 31, 1995 the effective interest rate was 3.55%.

## Note 6 - Pension Plan

The Authority's employees are eligible to participate in the New York State Employees' Retirement System, which is a cost-sharing, multi-employer, public employee retirement system. The benefits provided to members of these retirement systems are established by New York State law and may be amended only by the State Legislature. Benefit provisions vary as follows:

The Employees' Retirement System is subdivided into the following four 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.

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% of the final average salary for each year of service. 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 10 or more years of credited service after July 1, 1973, are eligible to retire with full benefits at age 62 and with reduced benefits for retirement between ages 55 and 62. Benefits are integrated with Social Security beginning at age 62. If members retire at age 62 and have 25 or more years of credited service, the service retirement benefit will be 2% of final average salary for each year of service (not to exceed 30 years), plus 1.5% of the final average salary for each year of credited service beyond 30 years. If members retire at age 62 with fewer than 25 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 10 or more years of credited service are eligible to retire with full benefits at age 62 or between the ages of 55 and 62 with 30 years or more of credited service. Tier IV members with less than 30 years of credited service do not receive benefits if they retire prior to age 62. Benefits are equivalent to Tier III members.

Retirement benefits vest after 10 years of credited service and are payable at age 55 or greater. The Employees' Retirement System also provides death and disability benefits.

Tier III and IV members are required by law to contribute 3% of salary to the Employees' Retirement System 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.

The State of New York and the various local and governmental units and agencies which participate in the Retirement System are jointly represented, and it is not possible to determine the actuarial computed value of vested benefits for the Authority on a separate basis.

Pension expense recorded in the Authority's accounts was zero for the years ended May 31, 1995 and May 31, 1994. However, the pension accrual increased due to retirement costs capitalized to construction work in progress of \$275 and \$253 for the years ended May 31, 1995 and 1994. The zero balance in pension expense is the result of a change in the actuarial method utilized by New York State in determining the contributions to be made to the Retirement System.

## Note 7 - 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. All assets in the plan remain the property of the Authority until paid or made available to participants and, accordingly, are subject to the claims of the Authority's general creditors. The assets and related liabilities of the plan are recorded at the assets' market values. The Authority has no liability for making 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 \$3,905 and \$3,035 at May 31, 1995 and May 31, 1994, respectively. Assets of the plan are included in other assets and the liability to employees is included in other accrued liabilities in the Authority's balance sheet.

## Note 8 - Postretirement Benefits

The Authority's employees participate in the New York State Employees Retirement system, a multi-employer plan, which provides certain health insurance benefits for retired employees. Substantially all the Authority's employees may become eligible for these benefits if they reach normal retirement age while working for the Authority. The cost of retiree health care benefits is recognized as an expense as costs are incurred.

## Note 9 - Commitments and Contingencies

The Authority authorized a capital improvement construction budget for the fiscal year ending May 31, 1996 of approximately \$32,260.

As of May 31, 1995 the Authority is obligated under several operating leases with initial or remaining terms of one year or more as follows:

Year ending May 31,	
1996 .....	\$ 238
1997 .....	216
1998 .....	128
1999 .....	123
<b>Total minimum lease payments .....</b>	<b>\$ 705</b>

The Authority is involved in various litigation resulting from the ordinary course of operations. In the opinion of management, and based on advice from legal counsel, the ultimate liability to the Authority which will result from the settlement of these matters will not have a material effect on the Authority's financial position or results of operations.

## Note 10 - Subsequent Events

On June 26, 1995 the Authority's petition to take possession of two privately owned public water utilities, by way of condemnation, was granted. This ruling results in a minimum purchase price of \$555 for both companies.

# REGIONAL OFFICES AND COMMUNITIES SERVED

## WESTERN REGIONAL OFFICE

### REGIONAL MANAGER

Clifford Foy  
260 Motor Parkway  
Hauppauge, NY 11788

Amity Harbor  
Amityville  
Asharoken  
Babylon  
Bay Shore  
Brentwood  
Brightwaters  
Centerport  
Central Islip

Cold Spring Harbor  
Commack  
Copiague  
Crab Meadow  
Deer Park  
Dix Hills\*\*  
East Commack  
East Huntington  
East Islip  
East Neck  
East Northport  
Eaton's Neck  
Edgewood  
Flowerfield\*

Fort Salonga  
Great River  
Halesite  
Hauppauge  
Head of the Harbor  
Huntington  
Huntington Bay  
Huntington Station  
Islandia  
Islip  
Islip Manor  
Islip Terrace  
Kings Park  
Kismet

Lindenhurst  
Lloyd Harbor  
Lonelyville  
Nesconset  
Nissequogue\*\*  
North Amityville  
North Babylon  
North Bay Shore  
North Great River  
North Lindenhurst  
Northport  
Oakdale  
Pinelawn  
St. James\*

San Remo\*  
Smithtown  
South Hauppauge  
Village of the Branch  
Village of Islandia\*\*  
West Babylon  
West Bay Shore  
West Islip  
West St. James  
West Smithtown\*  
Wheatley Heights  
Wyandanch

## CENTRAL REGIONAL OFFICE

### REGIONAL MANAGER

Dona Roberts

Bayport  
Belle Terre  
Bellport  
Blue Point  
Bohemia  
Brookhaven  
Centereach  
Coram  
East Holbrook  
East Patchogue  
East Setauket  
Farmingville  
Gordon Heights  
Hagerman  
Holbrook  
Holtsville  
Lake Grove  
Lakeland  
Lake Panamoka  
Lake Ronkonkoma



Medford  
Middle Island\*\*  
Miller Place  
Mount Sinai  
North Bellport  
North Centereach  
North Patchogue

North Selden  
Patchogue  
Poquott  
Port Jefferson  
Port Jefferson Station  
Ridge  
Rocky Point

Ronkonkoma  
Sayville  
Selden  
Setauket  
Shoreham  
Sound Beach  
South Centereach  
South Holbrook  
South Medford  
South Setauket  
South Stony Brook  
South Yaphank  
Stony Brook  
Terryville  
Village of Islandia\*\*  
Village of Lake Grove  
Village of Patchogue  
Wading River  
West Bellport  
West Ronkonkoma  
West Sayville  
West Yaphank  
Yaphank

## EASTERN REGIONAL OFFICE

### REGIONAL MANAGER

Ronald P. Blake  
1098 Old Riverhead Rd.  
Westhampton Beach, NY 11978

Bayview  
Center Moriches  
East Moriches  
Eastport  
East Quogue  
East Yaphank  
Laurel  
Manorville  
Mastic  
Mastic Beach

Mattituck  
Middle Island\*\*  
Moriches  
North Shirley  
Oakville  
Quogue  
Quogue  
Remsenburg  
Shirley  
Southold  
South Ridge  
Speonk  
Westhampton  
Westhampton Beach

## EAST HAMPTON

(Satellite Office — Eastern Regional Office)

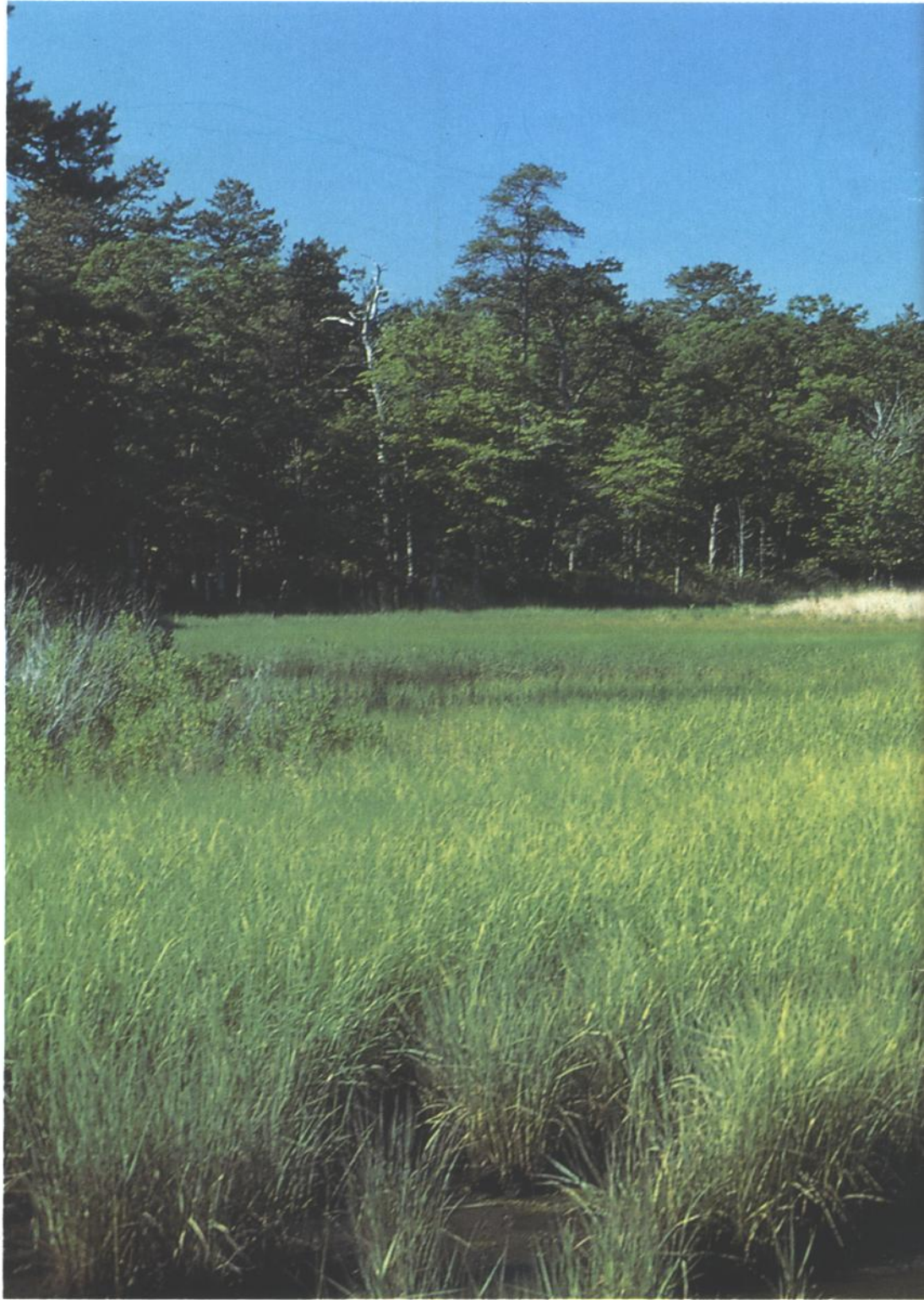
Ronald P. Blake  
32 Montauk Hwy.  
East Hampton, NY 11937

Amagansett  
Bridgehampton  
East Hampton  
Montauk  
North Haven  
North Sea  
Sag Harbor  
Southampton  
Wainscott  
Watermill

\*Included in Wholesale Water District

\*\*Serves portion of area





**SUFFOLK COUNTY WATER AUTHORITY**  
Oakdale, Long Island, N.Y. 11769