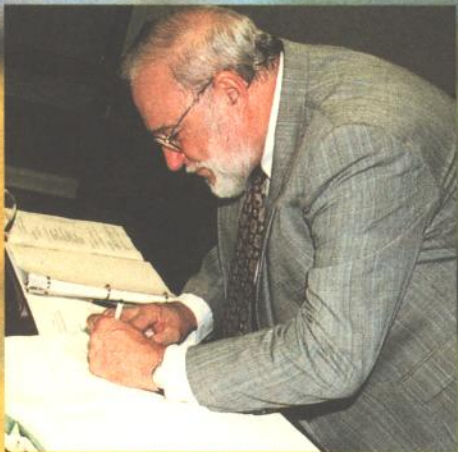
Suffolk County Water Authority



Operating... solely for the benefit of the customers we serve.

SUFFOLK COUNTY WATER AUTHORITY

ANNUAL REPORT 2000

SCWA
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 majority of the 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 49 years. Currently, the SCWA serves more than one million Suffolk County residents. The Authority is operated solely for the benefit of the customers it serves.

Financial Highlights

	For Fiscal Year Ended May 31, 2000	1991	10-Year Growth	Percent Increase
Customers	**349,544**	296,037	53,507	18%
Miles of Main	**5,195**	4,312	883	21%
Fire Hydrants	**32,289**	26,914	5,375	20%
Water Pumped (Billion Gallons)	**64.6**	45.5	19.1	42%
Employees	**580**	595	(15)	(3%)
Gross Revenues	**$118,942,000**	$ 74,693,000	$ 44,249,000	59%
Operating and Maintenance Expense	**58,515,000**	42,987,000	15,528,000	36%
Water Plant at Cost	**918,954,000**	516,603,000	402,351,000	78%
Bonded Indebtedness	**453,914,000**	203,630,000	250,284,000	123%
Total Cumulative Earnings	**229,788,000**	145,580,000	84,208,000	58%

1999–2000 Highlights

	May 31, 2000	May 31, 1999
Total Revenues	**$118,942,000**	$111,424,000
Operating and Maintenance Expense Except Depreciation	**58,515,000**	55,043,000
Interest on Bonds and Notes; Including Amortization of Debt Discount and Expense	**20,167,000**	19,653,000
Depreciation	**16,362,000**	15,315,000
Revenues Invested in Facilities for the Year	**23,898,000**	20,582,000
Revenues Invested in Facilities (since June 1, 1951)	**229,788,000**	205,890,000
Total Water Plant at Cost	**918,954,000**	863,144,000
Net Additions to Water Plant	**55,810,000**	54,354,000
Customers (Active Services)	**349,544**	334,754
Miles of Main in Service	**5,195**	5,023
Fire Hydrants in Service	**32,289**	30,865
Water Production (Billion Gallons)	**64.6**	62.1

Revenues
(dollars in millions)

Expenses
(dollars in millions)

Miles of Main
(miles in thousands)

Chairman's MESSAGE

A fiscal year which would by any measure have to be considered as one of the most extraordinary in the Suffolk County Water Authority's 49-year history began with new pumpage records in both June and July. By January, when we entered the much-anticipated Year 2000 without a single computer glitch, we had also hosted a statewide conference, won statewide honors in a water taste contest, prepared for Hurricane Floyd and sent some of our top-quality drinking water to areas in New Jersey that experienced far more of the storm's effects than we did on Long Island.

"...our successful responses...clearly demonstrated the professionalism and fine teamwork of our managers and employees throughout the entire year."

By February, we enlisted the help of our customers to avoid a proposed state tax on water. During the same time, we entered into an innovative 40-year management agreement to operate a town-owned municipal water district. The remaining three months of the fiscal year also brought new challenges and many noteworthy accomplishments, and our successful responses to all of them clearly demonstrated the professionalism and fine teamwork of our managers and employees throughout the entire year.

From among the year's many accomplishments, I would like to highlight some of the most significant challenges we faced and give specifics on how we addressed them. We are very proud, for instance, of the Herculean efforts demonstrated by our Production Control employees during the summer of 1999, when a long period of unusually hot and dry weather led to an unprecedented demand for water. Although the 9.8 billion gallons we delivered to our customers in June set a record for one month's pumpage, we couldn't "rest on our laurels" as it soon became apparent that July's pumpage would set an even higher record, which it ultimately did at 11.3 billion gallons.

While there was never any doubt that plenty of water was available as we faced this crisis, another necessity to our operations, electricity, was in short supply. In fact, during one of the summer's hottest evenings, rolling brownouts instituted by the Long Island Power Authority caused some of our pumping stations to "trip off line" and cease pumping water. In certain communities, significant drops in water pressure necessitated the declaration of a "Water Alert" and we asked customers to curtail water usage so system pressures could be maintained for firefighting.

During the most severe part of the crisis in early July, our crews turned on our emergency electricity generators at many of our facilities, thus allowing pump stations and other Water Authority properties to come off the public power system. This enabled us to maintain adequate system pressures and meet customer demand independent of the public power supply while at the same time relieving LIPA of our electricity demands. It was a week that clearly demonstrated the competence and extraordinary dedication of our employees and the reliability of our water delivery system. Ongoing improvements have continued to increase system pressure reliability even under the most adverse conditions.

While we have acquired numerous private water companies over the years, enabling us to improve service and generally reduce water bills, our agreement with the Town of Islip to manage the Brentwood Water District also represented an unprecedented accomplishment. Water districts present a unique challenge in comparison to private acquisitions. Acquisition of a municipal water district requires a public vote and, if approved, the district is dissolved with the proceeds of the purchase used to pay outstanding debt. Any remainder must be paid to the water district taxpayers.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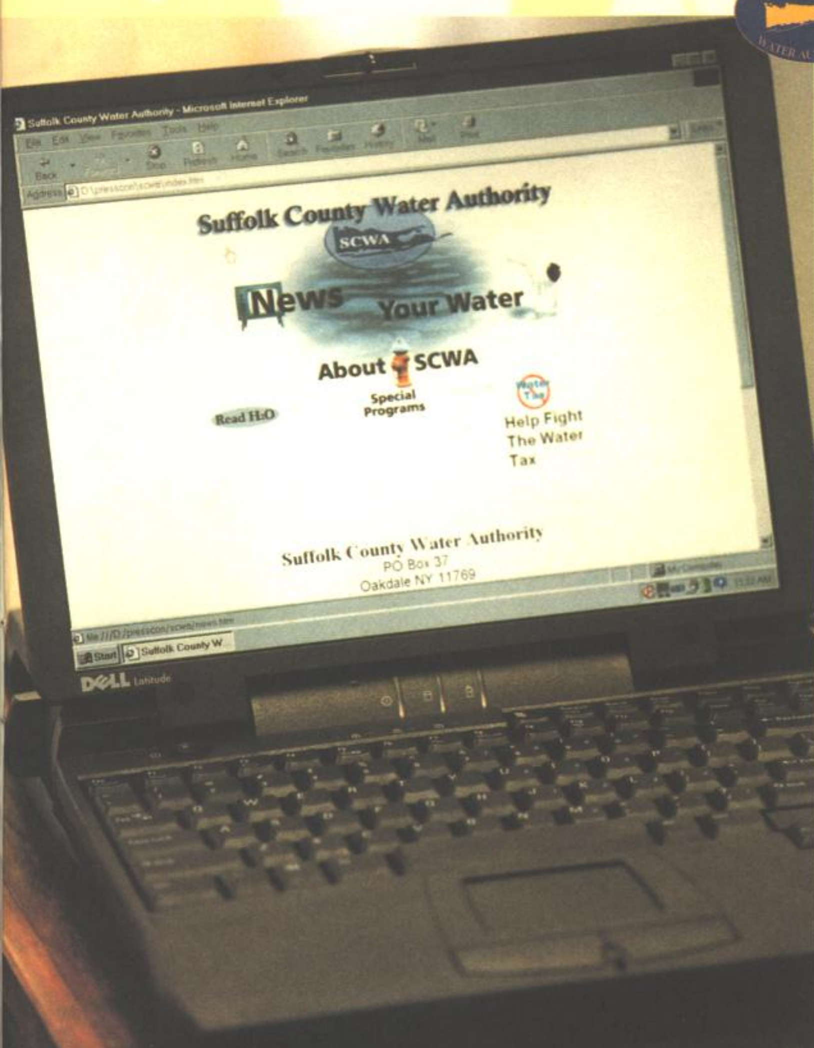
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Suffolk County Water Authority
PO Box 37
Oakdale NY 11769
DELL Latitude

The referendum required for a purchase is frequently used for political purposes by town government adversaries and therefore becomes a stumbling block in our talks with local town governments. However, as the business of supplying potable water has become increasingly more costly, complex and regulated, we have received a number of inquiries from municipally owned water districts. Clearly an approach other than outright purchase was needed.

"While this agreement brought the Authority nearly 7,000 new customers, perhaps the most significant aspect is that it serves as a blueprint for future municipal agreements."

The 40-year management agreement we have now entered into, our first such long-term arrangement, requires us to run and maintain the Brentwood Water District, assuming all costs associated with operating the system, customer service and capital improvements. Islip Town will maintain ownership and full responsibility for the district and be responsible for determining water rates and taxes. In exchange, we now receive a monthly management fee. The district is now connected to the Water Authority's distribution system for increased reliability and will benefit from the economies of scale that association with the Authority brings. While this agreement brought the Authority nearly 7,000 new customers, perhaps the most significant aspect is that it serves as a blueprint for future municipal agreements.

I would like to note that we also continued to expand our service territory in more traditional ways, particularly on the North Fork, where we were able to bring public water to families desperately in need of a safe, reliable supply. Employees did their best to address challenges presented there to keep costs at affordable levels. These include the area's low population density, the fact that the aquifers tend to be shallow, and the threats posed both by the surrounding salt water and by chemicals used on local farms.

Our ongoing efforts to educate the public likewise continued to expand, and our response to one report in particular illustrates how some of our employees, in this case primarily on our Public Relations and Laboratory staffs, were able to address what initially seemed like an attack and turn it into an opportunity. Shortly after the new calendar year began, the safety of the public water supply was seriously questioned after the popular television show *60 Minutes* aired a highly charged piece on the gasoline additive MTBE (methyl tertiary butyl ether) which said 105 of our wells were contaminated by it.

This statement was presented in a highly inflammatory manner, and *60 Minutes* did not contact us ahead of time for background information and comment. This resulted in a number of telephone calls and e-mails from our customers and media representatives, presenting another challenge. I am happy to say our employees who addressed this issue seized upon the interest generated by the program to help callers get the facts. They provided straightforward, detailed information to reassure our customers that the public water supply is safe and, in a short period of time, diffused the issue. At the same time, they made a significant contribution toward increasing the public's understanding of the extensive monitoring we conduct at our state-of-the-art laboratory, not only for MTBE but for some 300 chemical constituents.

Similarly, by the end of the fiscal year, many more people were aware that we started testing for MTBE as soon as it began to be added to much of the nation's gasoline supply, even though such testing was not required at that time. Our employees helped many reporters and customers put the television report into perspective by explaining that while we have detected this substance in 105 wells over more than a decade of testing, most of the readings were at extremely low levels of less than one part per billion, hardly detectable and well below New York State's current drinking water standard of 50 parts per billion. They also let people know that the Water Authority called for a total ban on this substance almost a year before the *60 Minutes* broadcast.


EXIT

In March, we presented detailed testimony to Congress on this issue and saw many legislators on all levels of government join our efforts in favor of an MTBE ban. The Suffolk County Legislature approved a resolution calling for a ban of MTBE; New York State's elected officials passed a similar measure; and, on May 24, 2000, Governor George Pataki signed legislation which will eliminate MTBE from gasoline sold in New York State by January 1, 2004.

"The Suffolk County Legislature approved... and, on May 24, 2000, Governor George Pataki signed legislation which will eliminate MTBE from gasoline sold in New York State by January 1, 2004."

Our campaign to block a proposed tax on water was also successful. Through press conferences, letters to local newspapers, and even our website, we were able to draw the public's attention to a so-called "fee" that would have cost them more than a million dollars per year. After hearing from many SCWA customers, Governor Pataki and his staff removed the water tax from the proposed state budget.

Another important component of our efforts came to fruition in April, when we published a booklet entitled "What You Should Know About the Water You Drink." This booklet, which answers basic questions most people have about drinking water in understandable terms, has now been offered to all our customers. More than 8,000 copies have already been distributed, and we recently ordered a second printing. In other ongoing efforts to educate the public, we expanded the Suffolk County Groundwater Guardian team and its activities while continuing our support of projects such as the Volunteer Environmental Educators Program (VEEP) and our Water Week Slogan Contest.

The Finance Department also reported noteworthy accomplishments during the fiscal year. With sound financial management practices and record revenues recorded, the Water Authority received the highest category bond rating of any revenue Authority in New York State. The AA category rating was given by both Standard and Poor's and Fitch in recognition of our historically strong financial operations, sound systems operations and low-cost water service. With this improved rating, we will save millions of dollars on future borrowing costs. This will allow us to continually upgrade our system to ensure that our customers receive safe, pure and low cost drinking water well into the future.

Many of these achievements are attributable to our Chief Financial Officer Frank Faber who, because of his strong dedication to the Authority, was named Chief Executive Officer after my retirement from that position. In December, upon my recommendation, the SCWA Board of Directors unanimously appointed him to take over the responsibility of directing our day-to-day operations, heading our management team of extraordinary talents. That team has extensive experience and in-depth knowledge of Water Authority operations, to the great benefit of our customers, bond holders and employees.

Finally, just as this highly successful and exciting fiscal year was drawing to a close, the Suffolk County Legislature voted unanimously to reappoint me to a third five-year term as SCWA Chairman. I view it as a great honor and an even greater responsibility, and I am very glad to continue my leadership of the nation's largest groundwater supplier on behalf of more than a million Suffolk County residents as the Water Authority approaches its 50th Anniversary of service in June, 2001.

Michael A. LoGrande

MICHAEL A. LOGRANDE
Chairman

SUFFOLK COUNTY WATER AUTHORITY

Authority Members

(from left to right):

James T.B. Tripp, Esq., John E. Gee, Jr., Michael A. LoGrande, Eric J. Russo, Esq., Melvin M. Fritz, D.O., M.D.

In Fond Memory of Frank Faber, Jr.

This annual report is dedicated to the memory of Frank Faber, Jr., Chief Executive Officer of the Suffolk County Water Authority, who died on November 5, 2000.

Authority Members

Michael A. LoGrande
Chairman

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

John E. Gee, Jr.

Eric J. Russo, Esq.

James T. B. Tripp, Esq.

Management Staff

Frank Faber, Jr.
Chief Executive Officer

Robert G. Graven
Deputy Chief Executive Officer for Customer Service

Herman J. Miller, P. E.
Deputy Chief Executive Officer for Operations

Michael Stevenson
Deputy Chief Executive Officer for Administration

Timothy Hopkins, Esq.
General Counsel

William C. Arabio
Director of Information Services

Steve Burns, P. E.
Director of Distribution

Robert L. Murray
Director of Production Control

Joseph Pokorny, P. E.
Chief Engineer

Karen Randazzo
Director of Laboratory Services

Andrew Varanelli
Director of General Services

Consultants

Van Nostrand & Martin
Counsel

United States Trust Company of New York
Bond Trustee

PricewaterhouseCoopers LLP
Independent Accountants

Salomon Smith Barney
Financial Consultant

Nixon Peabody
Bond Counsel

Leggette, Brashears & Graham, Inc.
Consulting Groundwater Geologists

FINANCIAL Section

May 31, 2000 and 1999

Balance Sheet

(Amounts in thousands)

	May 31, 2000	May 31, 1999
ASSETS		
Water plant, at cost less accumulated depreciation	$729,677	$688,189
Current assets		
Cash and cash equivalents	2,757	5,530
Investments	59,792	31,793
Accounts receivable, less allowance for doubtful accounts of $657 and $700, respectively	9,848	8,887
Accrued water services and fire protection revenues	12,022	12,686
Interest and other receivables	1,186	756
Materials and supplies, at average cost	4,697	5,152
Prepayments and other current assets	523	1,048
Total Current Assets	90,825	65,852
Funds held by fiscal agent	20,827	18,155
Long-term investments	19,141	32,065
Construction fund	52,549	27,680
Intangible assets	7,738	7,964
Other assets	4,128	5,467
	104,383	91,331
Total Assets	$924,885	$845,372
CAPITALIZATION AND LIABILITIES		
Capitalization		
Bonds payable, less current portion and unamortized discount	$318,353	$326,001
Bond anticipation notes payable	126,400	76,600
Contributions in aid of construction	193,087	184,579
Revenue invested in facilities	229,788	205,890
Total Capitalization	867,628	793,070
Current liabilities		
Current maturities of bonds payable	9,162	4,325
Accounts payable	4,234	5,928
Accrued interest	8,989	8,769
Deferred revenue	1,000	1,000
Accrued retirement contributions	1,107	550
Accrued employee welfare	4,856	5,254
Other accrued liabilities	947	1,029
Customer deposits	5,721	5,694
Total Current Liabilities	36,016	32,549
Advances for construction	18,241	15,753
Deferred revenue	3,000	4,000
Commitments and contingencies (Note 10)	—	—
Total Capitalization and Liabilities	$924,885	$845,372

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, 2000	For the Year Ended May 31, 1999
Revenue		
Operating	$103,833	$ 96,962
Interest and other	15,109	14,462
Total revenue	118,942	111,424
Operating expenses		
Operations	45,234	42,545
Maintenance	13,281	12,498
Total operating expenses	58,515	55,043
Revenue invested in facilities before depreciation, amortization, interest and extraordinary loss	60,427	56,381
Deduct:		
Interest expense, net	19,275	18,520
Depreciation and amortization	17,254	16,448
	36,529	34,968
Revenue invested in facilities before extraordinary loss	23,898	21,413
Extraordinary loss (Note 4)	—	831
Revenue invested in facilities	23,898	20,582
At beginning of year	205,890	185,308
At end of year	$229,788	$205,890

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

Statement of Cash Flows

(Amounts in thousands)

	For the Year Ended May 31, 2000	1999
Cash Flows From Operating Activities		
Revenue invested in facilities	$ 23,898	$ 20,582
Adjustments to reconcile revenue invested in facilities to net cash (used in) provided by operations		
Extraordinary loss	—	831
Depreciation and amortization	17,254	16,448
Capitalized interest	(558)	(927)
Changes in operating assets and liabilities		
Accounts receivable, net	(961)	506
Accrued water service and fire protection revenues	664	(1,829)
Interest and other receivables	(430)	2,200
Materials and supplies and prepayments	(279)	(7)
Other assets	2,598	1,862
Accounts payable	(1,232)	217
Accrued interest	220	(897)
Deferred revenue	(1,000)	(1,000)
Accrued retirement contributions	557	(860)
Accrued employee welfare	(398)	91
Other accrued liabilities	(544)	(193)
Customer deposits	27	(105)
Net cash (used in) provided by operating activities	39,816	36,919
Cash Flows From Investing Activities		
Investments, net	(15,075)	(37,845)
Net cash used in investing activities	(15,075)	(37,845)
Cash Flows From Capital Financing Activities		
Additions to water plant, net of retirements	(57,292)	(56,132)
(Designations to) disbursements from the construction fund	(24,869)	37,549
Proceeds from issuance of EFC Bonds	875	5,468
Defeasance of Series 1988 Bonds	—	(18,499)
Proceeds from notes payable	50,000	—
Repayment of notes payable	(200)	(4,800)
Repayment of current maturities of Bonds payable	(4,325)	(8,195)
Proceeds from advances for construction, net of refunds	10,996	11,733
Bond and notes issuance costs	(27)	(250)
Funds held by fiscal agent	(2,672)	13
Net cash provided by (used in) capital financing activities	(27,514)	(33,113)
Net decrease in cash and cash equivalents	(2,773)	(34,039)
Cash and cash equivalents at beginning of year	5,530	39,569
Cash and cash equivalents at end of year	$ 2,757	$ 5,530
Supplemental Disclosures of Cash Flow Information:		
Interest paid	$ 19,614	$ 20,344

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

(Dollar amounts in thousands)

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 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 or Suffolk County Legislative approval.

The Authority complies with all applicable pronouncements of the Governmental Accounting Standards Board ("GASB"). In accordance with GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," the Authority also complies with all authoritative pronouncements applicable to non-governmental entities (i.e., Financial Accounting Standards Board ("FASB") statements) that do not conflict with GASB pronouncements.

Acquisition

During fiscal 2000, the Authority entered into an agreement with the Town of Islip (the "Town") whereby the Authority will assume responsibility for operating the Brentwood, Long Island water district (the "District") located within the Township of Islip, New York. The Authority paid the Town $2.4 million, which the Authority recorded in water plant, for the purchase and use of the assets of the District. In addition, the Authority assumed the responsibility of maintaining the District at its own expense, in exchange for a management fee, for a period of 40 years.

Water Plant

Water plant is carried at original cost. The capitalized cost of additions to water plant include 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. 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

Investments which mature in ninety days or less on date of purchase 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 (or bond insurance, as described in Note 5) be maintained and a bond fund be maintained by a 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.

Construction Fund

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

Intangible Assets

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

Goodwill is recorded for the excess of the purchase price over the fair value of 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.

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.

(Dollar amounts in thousands)

The Federal Government provides monies for certain water plant projects. The costs are billed and credited to Contributions in Aid of Construction upon submission to the Federal agency for reimbursement of expenditures made. No monies were provided by the Federal Government during the fiscal year 2000.

	May 31, 2000	May 31, 1999
Beginning balance	$184,579	$175,383
Federal monies expended	—	248
Other expenditures	8,508	8,948
Ending balance	$193,087	$184,579

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.

Accrued Employee Welfare

The Authority accrues the expected value of all vacation and sick leave benefits earned by employees to date.

Revenue

Revenue is 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.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, as well as disclosures within the financial statements. Actual results could differ from those estimates.

Concentration of Credit Risk

Financial instruments which subject the Authority to credit risk consist principally of residential, commercial and industrial customer receivables. The Authority maintains reserves for potential credit losses from such accounts receivable and actual losses have historically not been materially different from management's estimates.

Reclassifications

Certain fiscal 1999 balances have been reclassified in order to conform with the current year presentation.

Recent Accounting Pronouncements

Management's Discussion and Analysis for State and Local Governments

In June 1999, Governmental Accounting Standards Board issued GASB Statement No. 34, "Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments," which requires the basic financial statements to include management's discussion and analysis ("MD&A") and required supplementary information other than MD&A. The Authority will adopt GASB Statement No. 34 for periods beginning after the fiscal year ended May 31, 2002. The Authority does not expect that GASB No. 34 will have a significant impact on its financial position, results from operations and cash flows.

2. Water Plant

	May 31, 2000	May 31, 1999
Land and land rights	$ 17,055	$ 15,700
Distribution systems	574,104	538,594
Wells, reservoirs and structures	81,913	78,965
Pumping and purification equipment	87,013	84,771
Other	50,020	48,023
Water plant in service	810,105	766,053
Less—accumulated depreciation	189,277	174,955
Net water plant in service	620,828	591,098
Construction in progress	108,849	97,091
Water plant	$729,677	$688,189

Depreciation expense amounted to $16,362 and $15,315 for the years ended May 31, 2000 and 1999, respectively.

3. Cash and Cash Equivalents and Investments

Cash consists of insured (FDIC) or collateralized deposits which have carrying values of $2,757 and $5,530 and bank balances of $5,350 and $6,799 at May 31, 2000 and 1999, respectively.

Investments

Investments consist of the following:

	May 31, 2000	May 31, 1999
Certificates of Deposit	$ 74,824	$ 77,330
Funds Held by Fiscal Agent		
Repurchase Agreements	18,181	17,010
Other	2,646	1,145
Repurchase Agreements	4,276	—
Investment Pool	24,967	13,215
Medium Term Notes	27,110	700
U.S. Treasury Bills	305	293
Investments*	$152,309	$109,693

**Includes Investments, Funds held by Fiscal Agent and Construction Fund*

Accrued interest on investments is included in interest and other receivables on the balance sheet. Investments bear interest rates that range from 5.60% to 7.11% and that mature at various dates through June 2002.

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.

The Authority's investment policies comply with the NYS Comptroller's guidelines for investment policies. Investment policies permit investments in, among others, obligations of the U.S. Treasury, its agencies, and repurchase agreements backed by such obligations. Investments are reported at amortized cost which approximates fair market value.

In addition, the Authority invests in an external investment pool called New York Class. The pool invests in obligations permissible under the Authority's investment policies. The fair value of the position of the pool is equal to the value of the pool shares.

4. Bonds Payable

Outstanding bonds are summarized as follows:

Series	Interest Rate	Final Maturity Date	May 31, 1999	Issued	Matured	May 31, 2000
Water System Revenue Bonds						
1992B Senior Lien[(a)]	5.10–5.625%	2017	$ 56,620	$ —	$ 435	$ 56,185
1993 Senior Lien[(a)]	4.80–5.10%	2013	66,290	—	900	65,390
1993 Subordinate Lien[(a)]	4.80–5.10%	2013	18,250	—	1,335	16,915
1994 Senior Lien[(a)]	5.00–6.00%	2017	64,000	—	—	64,000
1994 Subordinate Lien[(a)]	5.00–6.00%	2017	38,135	—	410	37,725
1997 Senior Lien[(a)]	4.10–5.30%	2012	38,470	—	—	38,470
1997A Senior Lien[(a)]	4.00–5.00%	2022	43,840	—	835	43,005
Environmental Facilities Corporation Revenue Bonds						
1998B[(b)]	3.60–5.20%	2017	5,942	—	220	5,722
1999A[(b)]	2.77–4.905%	2018	5,567	—	190	5,377
2000A[(b)]	3.80–5.96%	2019	—	875	—	875
Less: unamortized discount			6,788	265	904*	6,149
Total bonds outstanding			330,326	$610	$3,421	327,515
Less: Current maturities payable			4,325			9,162
			$326,001			$318,353

**Includes current year amortization.*

(a) The payment of principal and interest is insured by a municipal bond insurance policy issued by MBIA Corporation or AMBAC Indemnity Corporation.

(b) The payment of principal and interest is assured by a minimum debt service fund balance maintained by the Authority.

(Dollar amounts in thousands)

Water System Revenue Bonds

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

In June 1998, the Authority defeased its remaining Series 1988 Water System Revenue Bonds in the amount of $17,960, by making a payment of $18,499 to an irrevocable trust held by the Authority's fiscal agent. The future cash flows from the Trust are equal to the scheduled interest and principal payments of the debt. The transaction effectively transferred the obligation to repay the Series 1988 Bonds from the Authority to the fiscal agent and therefore, constituted a legal defeasance. The carrying amount of the bonds including current maturities, net of unamortized discount of $36 and unamortized bond issue costs of $256, was $17,668. The transaction resulted in an extraordinary loss of $831.

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 (the "Corporation") is responsible for administering the Revolving Fund and to provide financial assistance from the Revolving Fund. The Corporation issues bonds in order to provide loans from the Revolving Fund to 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.

Interest expense on the bonds outstanding during the fiscal year was $16,685 and $16,793 for the years ended May 31, 2000 and 1999, respectively.

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

Fiscal Year	Amount
2001	$ 9,162
2002	9,620
2003	13,723
2004	14,360
2005	15,060

5. 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 Water System Revenue Bonds Series 1992B-1997A plus the EFC Revenue Bonds Series 1998B-2000A or the average of the annual installments of debt service with respect to Water System Revenue Bonds Series 1992B-1997A plus the EFC Revenue Bonds Series 1998B-2000A 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 Water System Revenue Bonds Series 1992B-1997A, for the payment of principal and interest on stated maturity and sinking fund installment dates and in the event of default by the Authority. For the EFC Revenue Bonds Series 1998B, 1999A and 2000A Bonds, the Authority elected to maintain a minimum debt service fund balance of 10% of the proceeds.

Revenue before interest and depreciation was equivalent to 2.32 times (2.68 in 1999) the debt service requirement, for the year ended May 31, 2000. The minimum debt service requirement is 1.10.

6. Notes Payable

Outstanding bond anticipation notes ("BANS") payable are summarized as follows:

Series	Final Maturity Date	Balance at May 31, 1999	Issued	Redeemed	**Balance at May 31, 2000**
1996	02/08/01	$33,900	$ —	$ —	**$ 33,900**
1997	11/01/02	42,700	—	200	**42,500**
2000	05/01/05	—	50,000	—	**50,000**
Total notes outstanding		$76,600	$50,000	$200	**$126,400**

These notes are issued in anticipation of the issuance of long-term revenue bonds. The proceeds of the revenue bonds will be used to repay the notes payable; accordingly, these notes are recorded as non-current at May 31, 2000.

These notes are periodically remarketed, and therefore, interest on these notes is 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 February 8, 2001, November 1, 2002 and May 1, 2005, the date of principal maturity, for the 1996, 1997 and 2000 notes, respectively.

As of May 31, 2000 and 1999, the effective interest rate was 3.39% and 3.07%, respectively.

Interest expense on the BANS was $2,952 and $2,479 for the years ended May 31, 2000 and 1999, respectively.

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, multi-employer, 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 Systems, Gov. Smith State Office Building, Albany, New York 12244. 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 5 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. 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 5 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.

Retirement benefits vest after 5 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 their annual 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.

(Dollar amounts in thousands)

Pension expense contractually required by New York State and recorded in the Authority's accounts was $430, $332 and zero for the years ended May 31, 2000, 1999 and 1998. The zero amount of pension expense was the result of a change in the actuarial method utilized by New York State in 1994 in determining the contributions to be made to the Retirement System. The Authority has recorded an accrued retirement contributions liability for certain pensions costs of employees related to construction work in progress which have been capitalized to water plant.

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 balance sheet. 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 $12,448 and $10,432 at May 31, 2000 and 1999, respectively.

9. Postretirement Benefits

The Authority's employees participate in the New York State and Local 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. The expense amounted to $1,012 and $882 for the years ended May 31, 2000 and 1999, respectively.

10. Commitments and Contingencies

Operating Leases

As of May 31, 2000, the Authority is obligated under several operating leases with various lease terms through 2005, for meter reading and computer equipment and under capital leases, for computer equipment, with initial or remaining terms of one year or more as follows:

Year ending May 31,	
2001	$170
2002	165
2003	143
2004	120
2005	73
	$671

Rental expense for operating leases was $313 and $336 for the years ended May 31, 2000 and 1999, respectively.

Legal Proceedings

The Authority is involved in various litigation resulting from the ordinary course of operations. 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, revenues invested in facilities or cash flows.

11. Subsequent Event

As of May 31, 2000, the Authority had 382 employees who belong to the Utility Workers' Union of America A.F.L.-C.I.O., Local 393, covered by a collective bargaining agreement scheduled to expire on July 19, 2000. Currently, the Authority and the union are in negotiations. Under New York State Taylor law, the union may not strike nor may the Authority engage in a "lockout."

Report of Independent Accountants

July 31, 2000

To the Members of the Board 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, 2000 and 1999 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States. 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 auditing standards generally accepted in the United States 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.

PricewaterhouseCoopers LLP

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Melville, New York

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Sagaponack
Shinnecock Hills
Shirley
Southampton
Southold
Speonk
Village of Southampton
Wainscott
Watermill
Westhampton
Westhampton Beach

*Included in Wholesale Water District

†Serves portion of area


Legend
SCWA Service Areas
SCWA Non-Service Areas

Groundwater Guardian Program

We have continued our involvement with the Groundwater Foundation, a non-profit educational organization based in Lincoln, Nebraska.

Suffolk County was originally named as a Groundwater Guardian Community by the group in 1998. This is a renewable designation, and the team meets on a regular basis to reevaluate its primary concerns and develop and coordinate ways to address them. The team's current focus is on public education, pollution prevention, and other environmental concerns that could affect our groundwater. The nine-member group includes two SCWA staff members, a citizen activist, and representatives from local government, business, agriculture and education.

The Groundwater Guardian designation enables this area to join with Groundwater Guardian communities throughout North America in a unified effort to motivate people to learn more about groundwater and help protect this essential resource

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