

NEW ISSUE

(See "RATINGS" herein.)

In the opinion of Harris Beach PLLC, Bond Counsel to the Authority, based on existing statutes, regulations, court decisions and administrative rulings, and assuming compliance with the tax covenants described herein and the accuracy of certain representations and certifications made by the Authority described herein, interest on the 2012A Notes is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). Furthermore, Bond Counsel is of the opinion that interest on the 2012A Notes is not an "item of tax preference" for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. Interest on the 2012A Notes is, however, included in the computation of "adjusted current earnings" for purposes of calculating the federal alternative minimum tax imposed on certain corporations. Bond Counsel is further of the opinion that, under existing statutes, interest on the 2012A Notes is exempt from personal income taxes imposed by the State of New York and any political subdivision thereof (including The City of New York). See "TAX MATTERS" in this Official Statement.



\$50,000,000
SUFFOLK COUNTY WATER AUTHORITY
NEW YORK
Bond Anticipation Renewal Notes, 2012A

CUSIP¹: 864777AN7, Interest Rate: 2.000%, Yield: 0.200%

Dated: Date of delivery

Due: January 15, 2013

The Authority's \$50,000,000 aggregate principal amount Bond Anticipation Renewal Notes, 2012A (the "2012A Notes") will be issued as registered notes and principal, when due, will be payable to the registered owners upon surrender of the 2012A Notes at the office of the Paying Agent, The Bank of New York Mellon, New York, New York, or its successor (the "Paying Agent"). The 2012A Notes are issuable in book-entry-only form in denominations of \$5,000 and any integral multiple thereof and when issued will be registered in the name of Cede & Co., as Note holder and Securities Depository Nominee of The Depository Trust Company, New York, New York ("DTC"). So long as DTC or its nominee, Cede & Co., is the registered owner of the 2012A Notes, payments of the principal of and interest on the 2012A Notes will be made by the Paying Agent directly to Cede & Co. See Appendix D "Book-Entry-Only System" hereto.

The 2012A Notes are limited obligations of the Authority and are not a debt of the State of New York or of Suffolk County or of any municipality in the State or Suffolk County and neither the State of New York, Suffolk County nor any municipality in the State or Suffolk County shall be liable thereon. The Authority has no taxing power.

Interest on the 2012A Notes is payable from moneys in the General Fund of the Authority. Revenues of the Authority are transferred from the Revenue Fund to the General Fund only after the required payments to the Operating Fund, to the holders of the Original Water Works Revenue Bonds, to the Bond Fund and to the Secondary Bond Fund. The principal amount of the 2012A Notes is payable out of proceeds from the sale of the Series of Bonds in anticipation of which the 2012A Notes are being issued, subject to the rights of the holders of any Bonds Outstanding under the General Resolution, and any available moneys in the General Fund provided that all required payments have been made as described above in the preceding sentence. See "SECURITY FOR THE 2012A NOTES" herein.

The 2012A Notes shall bear interest at the fixed rate shown above. The 2012A Notes shall not be subject to redemption prior to its stated maturity.

Principal of the 2012A Notes is payable at maturity upon presentation and surrender at the designated corporate trust office of the Paying Agent. Interest on the 2012A Notes is payable on July 15, 2012 and upon maturity on January 15, 2013.

The 2012A Notes are offered when, as and if issued and received by the Purchaser and subject to the approval of legality by Harris Beach PLLC, New York, New York, Bond Counsel. Goldman, Sachs & Co. is serving as Financial Consultant to the Authority in connection with the issuance of the 2012A Notes. It is expected that the 2012A Notes will be available for delivery through the facilities of DTC on or about March 30, 2012.

Dated: March 20, 2012

¹CUSIP numbers have been assigned by an organization not affiliated with the Authority and are included solely for the convenience of the holders of the 2012A Notes. The Authority is not responsible for the selection or uses of these CUSIP numbers, nor is any representation made as to their correctness in the 2012A Notes or as indicated above.

Suffolk County Water Authority

Sunrise Highway at Pond Road
Oakdale, New York 11769
Telephone: (631) 563-0264
Facsimile: (631) 218-1156

Members of the Board

James F. Gaughran	Chairman
Patrick G. Halpin	Secretary
Jane R. Devine	Member
Frank J. Pellegrino	Member
Errol D. Toulon, Jr., Ed. D.	Member

Executive Staff

Jeffrey W. Szabo	Chief Executive Officer
Larry B. Kulick, CPA	Chief Financial Officer
Janice E. Tinsley, Esq.	Deputy Chief Executive Officer for Customer Service
Herman J. Miller, P.E.	Deputy Chief Executive Officer for Operations
Timothy J. Hopkins, Esq.	General Counsel
Donna Mancuso	Director of Administration
Carrie Meek Gallagher	Chief Sustainability Officer

Authority Advisors

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

REGARDING THIS OFFICIAL STATEMENT

The Suffolk County Water Authority has executed and issued this as its Official Statement with respect to its 2012A Notes, has authorized the initial purchaser (the “Purchaser”) to offer the 2012A Notes for sale to the public by means of this Official Statement and has approved the inclusion of information within this Official Statement as being, as of the date hereof, in full disclosure of all material facts of interest to prospective purchasers contemplating purchase of the 2012A Notes.

No purchaser, dealer, broker, salesperson or other person has been authorized by the Authority to give any information or to make any representations with respect to the 2012A Notes, other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the Authority. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the 2012A Notes by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. Certain information contained herein has been obtained from sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness and it is not to be construed as a representation of the Authority. The information and expressions of opinion contained herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority or of Suffolk County or the other matters described herein since the date hereof.

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

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

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

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

IN CONNECTION WITH THE OFFERING OF THE 2012A NOTES, THE PURCHASER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT MAY STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH 2012A NOTES AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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OFFICIAL STATEMENT

Relating to

\$50,000,000

**SUFFOLK COUNTY WATER AUTHORITY
NEW YORK**

Bond Anticipation Renewal Notes, 2012A

INTRODUCTION

The purpose of this Official Statement is to set forth certain information pertaining to the Suffolk County Water Authority (the "Authority"), its water supply and distribution system and the revenues generated by it, the Authority's \$50,000,000 Bond Anticipation Renewal Notes, 2012A (the "2012A Notes"), and the resolution pursuant to which they were issued, and other related matters in connection with the sale of the 2012A Notes. Capitalized terms used but not otherwise defined in this Official Statement have the meanings given them in the section entitled "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Definition of Certain Terms" in Appendix A hereto.

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

The Authority proposes to issue the 2012A Notes pursuant to the Act, the Water System Revenue Notes Bond Resolution adopted by the Authority on September 27, 1988, as amended on October 27, 1988 and as further amended on March 30, 1993 and on November 29, 1994 (the "General Resolution"), a supplemental resolution adopted by the Authority on December 21, 2010, as amended by a supplemental resolution of the Authority adopted December 1, 2011 (the "Supplemental Resolution") and a Certificate of Determination executed by the Chairman of the Authority (the "Certificate of Determination," and together with the General Resolution and the Supplemental Resolution, the "Resolution"). The 2012A Notes are being issued to renew certain bond anticipation notes of the Authority heretofore issued on April 6, 2011 and maturing on April 1, 2012 (the "2011A Notes"), which 2011A Notes were issued in anticipation of the issuance of the Series of Bonds authorized to be issued in the amount of not to exceed \$120,000,000 pursuant to the Supplemental Resolution (the "Authorized Series of Bonds"). Pursuant to the provisions of the Act and the Resolution, the term of bond anticipation notes of the Authority and any renewals thereof may not exceed five (5) years from their original date of issuance. The 2012A Notes are being issued in renewal of the 2011A Notes. Accordingly, the term of the 2012A Notes and any renewals thereof may not exceed five (5) years from the original date of issuance of the 2011A Notes. The proceeds of the 2012A Notes are to be deposited in the New Construction Fund of the Authority to provide moneys to pay the principal of the 2011A Notes at maturity. The 2011A Notes were issued to finance the Cost of Acquisition and Construction of improvements and additions to the Water System. See "CAPITAL IMPROVEMENT PLAN" herein.

The 2012A Notes shall not constitute a general obligation of the Authority. Neither the faith and credit nor the taxing power of the State of New York or of any political subdivision thereof are pledged for the payment of the principal of, premium, if any, or interest on the 2012A

Notes, and no holder of the 2012A Notes shall have the right to compel the exercise of the taxing power of the State of New York or of any political subdivision thereof in connection with any default with respect to the 2012A Notes. The 2012A Notes are not a debt of the State of New York or of Suffolk County or of any municipality in Suffolk County, neither the State nor Suffolk County nor any municipality in Suffolk County is liable for the payment of the 2012A Notes, nor are the 2012A Notes payable out of any funds other than those of the Authority pledged for the payment of the 2012A Notes under the Resolution.

The principal of the 2012A Notes at maturity is payable solely from the proceeds of sale of the Authorized Series of Bonds. Subject to the ability of the Authority to meet the additional Bonds test and certain other conditions under the General Resolution, the Authorized Series of Bonds may be issued at any time hereafter and, if and when issued, will be Senior Lien Bonds secured on a parity with all other Senior Lien Bonds now or hereafter issued and from time to time outstanding under the Resolution. The specific terms, amortization and conditions of sale of the Authorized Series of Bonds must be determined by the Authority in a supplemental resolution to be adopted at a future date. While the Authority may legally make payments of principal of the 2012A Notes from sources other than the proceeds of sale of the Authorized Series of Bonds, the Authority makes no representation as to the availability of any such funds. The Authority has no taxing power.

The 2012A Notes will be registered initially in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York. Individual purchases of beneficial ownership interests in the 2012A Notes will be made in book-entry form only in denominations of \$5,000 or any integral multiple thereof. See “Appendix D—Book-Entry Only System” hereto. The 2012A Notes shall be dated as of the date of delivery and will bear interest at a fixed rate until maturity, payable on July 15, 2012 and upon maturity on January 15, 2013.

Principal of the 2012A Notes is payable at maturity, upon presentation and surrender at the designated corporate trust office of The Bank of New York Mellon, as Paying Agent. If the date for payment of the principal of or interest on the 2012A Notes is a day other than a Business Day, then the date for such payment shall be the next succeeding Business Day, and payment on such day shall have the same force and effect as if made on the nominal date of payment.

The 2012A Notes are not subject to optional redemption prior to maturity. See “DESCRIPTION OF THE 2012A NOTES” herein.

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

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

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

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

The 2012A Notes are authorized and secured in accordance with the provisions of the Act and the Resolution. Notwithstanding that certain provisions of the Resolution are summarized hereinafter in this Official Statement, reference should be made by investors and other interested parties to the complete Resolution and any and all modifications and amendments thereof for a description of the nature and extent of (i) the security for the 2012A Notes, (ii) the security for any parity bonds heretofore and hereafter issued under the General Resolution (all of such bonds being herein collectively called the “Senior Lien Bonds”), (iii) the funds and revenues pledged to the payment of the 2012A Notes, (iv) the nature and extent and manner of enforcement of the pledge, the rights and remedies of the holders of such 2012A Notes with respect thereto, (v) the terms and conditions upon which such 2012A Notes are issued and (v) a statement of rights, duties, immunities and obligations of the Authority.

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

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

DESCRIPTION OF THE 2012A NOTES

Set forth below is a narrative description of certain provisions relating to the 2012A Notes. These provisions have been summarized, and this description does not purport to be complete. Reference should be made to the Resolution, copies of which are on file with the Authority. See also Appendix A hereto, for an additional description of certain provisions of the 2012A Notes.

Upon initial issuance, the 2012A Notes will be registered in the name of and held by Cede & Co. as nominee for The Depository Trust Company (“DTC”), an automated depository for securities and a clearinghouse for securities transactions. So long as DTC or Cede & Co. is the registered Owner of the 2012A Notes, payments of the principal of, and interest on the 2012A Notes held by Cede & Co. will be mailed directly to DTC or Cede & Co., which is to remit such payments to the Participants (as defined herein) of DTC, which in turn are to remit such payments to the Beneficial Owners (as defined herein) of the 2012A Notes. See Appendix D — “Book-Entry Only System” hereto.

The 2012A Notes are issuable only in the form of fully registered notes in denominations of \$5,000 each or any integral multiple thereof. Interest on the 2012A Notes is payable by check or draft mailed to the holders thereof as shown on the registration books of The Bank of New York Mellon, as Registrar and Paying Agent (the “Registrar” and “Paying Agent”), at the close of business on the last Business Day next preceding each interest payment date. The principal of and premium, if any, on the 2012A Notes is payable upon presentation and surrender at the designated corporate trust office of the Paying Agent.

The 2012A Notes will be dated its date of delivery, bear interest at the rate shown on the outside cover hereof, payable semiannually on July 15, 2012 and upon maturity on January 15, 2013. Interest on the 2012A Notes shall be computed on a 360-day year and 30-day month basis.

The 2012A Notes are not subject to redemption prior to maturity.

SOURCES AND USES OF FUNDS

The proceeds to be received from the sale of the 2012A Notes are estimated to be applied as follows:

Sources of Funds	
Principal Amount of 2012A Notes.....	\$50,000,000.00
Net Original Issue Premium.....	<u>711,500.00</u>
Total Sources.....	<u>\$50,711,500.00</u>
Use of Funds	
Retire 2011A Notes.....	\$50,000,000.00
Deposit to pay interest on 2012A Notes.....	570,338.50
Costs of Issuance ¹	<u>141,161.50</u>
Total Uses.....	<u>\$50,711,500.00</u>

¹ Includes Underwriter's Discount.

SECURITY FOR THE 2012A NOTES

The 2012A Notes are authorized and will be issued in accordance with the Constitution and statutes of the State of New York (the "State"), including the Act, and will constitute valid and legally binding obligations of the Authority; provided, however, that the 2012A Notes will be secured by a lien on and pledge of the Revenues junior and inferior and subject to the lien on and the pledge of the Revenues created for the payment and the security of any and all Bonds heretofore and hereafter issued under the General Resolution. Payments of interest on the 2012A Notes will be made from moneys on deposit in the General Fund of the Authority. Revenues are transferred from the Revenue Fund to the General Fund only after the required payments to the Operating Fund, to the holders of the Original Bonds (as described below), to the Bond Fund and to the Secondary Bond Fund. The principal of the 2012A Notes will be payable solely out of the proceeds of the sale of the Authorized Series of Bonds in anticipation of which the 2012A Notes are being issued, subject to the rights of the holders of any Bonds Outstanding under the General Resolution; provided that the Authority may apply to the payment of the principal of the 2012A Notes any available moneys in the General Fund, after the required payments have been made in accordance with the Resolution as described above. The pledge of the Revenues is a covenant with the Note holders to apply the Revenues to the purposes and in the order of priority described above. The General Fund is held and invested by the Authority in accordance with the Act and the Resolution. See "REVENUES AND OPERATING EXPENSES - Investment Policy" herein.

As a condition precedent to the sale and issuance of the Authorized Series of Bonds, the Authority is required to file a certificate demonstrating compliance with the additional Bonds test described in the subsection "Additional Bonds" below and in SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION - Issuance of Bonds Other Than Refunding Bonds" in

Appendix A hereto. Pursuant to the provisions of the Act and the Resolution, the term of bond anticipation notes of the Authority and any renewals thereof may not exceed five (5) years from their original date of issuance. The 2012A Notes are being issued in renewal of the 2011A Notes. Accordingly, the term of the 2012A Notes and any renewals thereof may not exceed five (5) years from the original date of issuance of the 2011A Notes.

The rights of the holders of the 2012A Notes under the Constitution, the statutes, other applicable law and the Resolution and the enforceability of the 2012A Notes under the same may be subject to judicial discretion, the exercise of the sovereign police powers of the State and the constitutional powers of the United States of America and to valid bankruptcy, insolvency, reorganization, moratorium and other laws affecting the relief of debtors.

Certain bonds (the "Original Bonds") of the Authority issued under a prior resolution adopted May 21, 1951, as amended and supplemented (the "Original Resolution"), will be outstanding on the date of delivery of the 2012A Notes. In November 1988, the Authority issued \$139,235,000 principal amount of Water System Revenue Bonds, Series 1988 Refunding (the "Series 1988 Bonds"), a portion of the proceeds of which, and certain other funds of the Authority, were irrevocably deposited in trust with The Bank of New York Mellon, New York, New York, as refunding trustee, and invested in direct obligations of the United States of America in an amount sufficient, together with interest earnings thereon, to provide for the payment when due of principal and interest on the Original Bonds. The Original Bonds will continue to have a lien on the revenues of the Authority pledged under the Original Resolution which will be a prior lien to the lien of the holders of all outstanding Bonds, including the 2012A Notes of the Authority. However, because such trust funds have been deposited under a refunding trust agreement in an amount sufficient to make all payments of principal and interest on the Original Bonds, none of the revenues subject to the lien of the Original Bonds is expected to be used to pay the Original Bonds. At the time of the issuance of the Series 1988 Bonds, Wood Dawson Smith & Hellman, bond counsel to the Authority in connection with the issuance of the Series 1988 Bonds, issued their opinion that, as a result of the issuance of the Series 1988 Bonds and the application of the proceeds thereof as described above, the Authority has a reasonable basis for not complying with certain restrictions and covenants contained in the Original Resolution and should not be obligated to comply with them.

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

Flow of Funds

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

1. to the Operating Fund, the amounts required to pay Operation and Maintenance expenses;
2. to the Original Bonds Trustee an amount sufficient to pay the principal, redemption price and interest on the Original Bonds in the event that that amounts on deposit in the Original Bonds Trust Fund shall be insufficient to pay the principal or redemption price of and the interest on the Original Bonds, as the same shall become due;

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

Additional Bonds

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

Before the sale and issuance of the Authorized Series of Bonds in anticipation of which the 2012A Notes are being issued, the Authority will be required to file either (1) a certificate signed by an Authorized Officer of the Authority showing that the average of the Net Revenues (less payments, if any, required to be made with respect to the Original Bonds as set forth in the Resolution) for any consecutive 24-month period out of the 36-months immediately preceding the month in which such Authorized Series of Bonds are to be issued were equal to not less than one hundred ten percent (110%) of the average annual Debt Service on all outstanding Bonds of the Authority (including the Authorized Series of Bonds) for the then current and all future Fiscal Years; or (2) a certificate of the

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

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

For a more extensive discussion of the terms and provisions of the Resolution, including the security for the 2012A Notes, the funds and accounts established by the Resolution and the purposes to which moneys in such funds and accounts may be applied, see “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION” in Appendix A hereto.

State of New York and Political Subdivisions not Liable

Neither the members of the Authority nor any person executing the 2012A Notes will be liable personally on such 2012A Notes by reason of the issuance thereof. The 2012A Notes will not be a debt of the State or of Suffolk County or any municipality or governmental entity (other than the Authority) therein, and neither the State nor Suffolk County nor any municipality or governmental entity (other than the Authority) therein will be liable thereon.

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AUTHORITY DEBT

The following table sets forth the Authority's outstanding Bonds as of January 31, 2012:

<u>Senior Lien Bonds</u>	<u>Original Principal Amount</u>	<u>Principal Outstanding at January 31, 2012</u>
Water System Revenue Bonds, Series 2002A (EFC Series), dated March 14, 2002	10,869,331	6,710,000
Water System Revenue Bonds, Series 2003 (Refunding), dated June 19, 2003	67,395,000	7,000,000
Water System Revenue Bonds, Series 2003B (EFC Series), dated July 24, 2003	9,130,775	5,800,000
Water System Revenue Bonds, Series 2004A (EFC Series), dated July 22, 2004	6,605,448	4,920,000
Water System Revenue Bonds, Series 2005B (EFC Series), dated July 28, 2005	7,047,361	5,315,000
Water System Revenue Bonds, Series 2005C, dated December 1, 2005	60,000,000	60,000,000
Water System Revenue Bonds, Series 2006A, dated May 23, 2006	70,000,000	70,000,000
Water System Revenue Bonds, Series 2007A, dated December 20, 2007	45,000,000	45,000,000
Water System Revenue Bonds, Series 2009, (Refunding), dated November 16, 2009	13,415,000	10,635,000
Water System Revenue Bonds, Series 2009A, dated November 16, 2009	66,395,000	57,740,000
Water System Revenue Bonds, Series 2009B (Federally Taxable-Build America Bonds), dated November 16, 2009	100,000,000	100,000,000
Water System Revenue Bonds, Series 2010C (EFC Series), dated June 24, 2010	2,902,750	2,385,000
Water System Revenue Bonds, Series 2011 (Refunding), dated April 6, 2011	24,930,000	24,930,000
Water System Revenue Bonds, Series 2011A (EFC Series), dated March 15, 2011	7,384,173	6,695,382
Water System Revenue Bonds, Series 2011C (EFC Series), dated July 21, 2011	10,946,917	10,323,856
Water System Revenue Bonds, Series 2012 (Refunding), dated January 24, 2012	83,635,000	83,635,000
 Total Outstanding Senior Lien Bonds		 <u>\$501,089,238</u>

<u>Subordinate Lien Bonds</u>	<u>Original Principal Amount</u>	<u>Principal Outstanding January 31, 2012</u>
Water System Revenue Bonds, Series 1994 Subordinate Lien Refunding, dated February 15, 1994	\$38,135,000	\$ 695,000
Water System Revenue Bonds, Series 2005 Subordinate Lien Refunding, dated December 1, 2005	71,905,000	<u>71,905,000</u>
Total Outstanding Subordinate Lien Bonds		<u>\$72,600,000</u>

The Authority has issued from time to time bond anticipation notes to finance improvements and additions to the Water System. These notes are redeemed from the proceeds of the Bonds in anticipation of which they are issued. As of January 31, 2012, the Authority had the following bond anticipation notes outstanding:

<u>Bond Anticipation Notes</u>	<u>Original Principal Amount</u>	<u>Principal Outstanding January 31, 2012</u>
Variable Rate Bond Anticipation Notes, 2008, dated January 17, 2008, maturing January 15, 2013	\$70,000,000	\$ 70,000,000
Fixed Rate Bond Anticipation Notes, 2011A, dated April 6, 2011, maturing April 1, 2012*	50,000,000	50,000,000
Variable SIFMA Rate Bond Anticipation Notes, 2011B, dated April 6, 2011, maturing April 1, 2014	50,000,000	<u>50,000,000</u>
Total Outstanding Bond Anticipation Notes		<u>\$170,000,000</u>

*A portion of the proceeds of the 2012A Notes are to be deposited in the New Construction Fund of the Authority to provide moneys to pay the principal of the 2011A Notes at maturity.

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DEBT SERVICE REQUIREMENTS

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

<u>Date</u>	<u>Senior Debt Service*</u>	<u>Subordinate Debt Service</u>	<u>Total Debt Service</u>
2012	\$ 22,390,743	\$ 3,259,540	\$ 25,650,283
2013	24,507,183	3,259,540	27,766,723
2014	24,501,135	3,259,540	27,760,675
2015	26,631,214	3,259,540	29,890,754
2016	26,369,616	3,912,840	30,282,456
2017	28,333,886	3,217,840	31,551,726
2018	31,067,923	3,217,840	34,285,763
2019	27,257,347	8,132,965	35,390,312
2020	29,415,428	7,605,665	37,021,093
2021	32,538,244	7,677,603	40,215,846
2022	33,916,821	3,927,803	37,844,623
2023	33,779,731	9,030,900	42,810,631
2024	31,829,772	7,913,400	39,743,172
2025	31,042,292	10,097,750	41,140,042
2026	34,790,919	8,260,500	43,051,419
2027	33,320,888	9,208,625	42,529,513
2028	25,338,138	18,525,000	43,863,138
2029	43,662,350	—	43,662,350
2030	43,698,675	—	43,698,675
2031	43,522,588	—	43,522,588
2032	43,438,925	—	43,438,925
2033	45,661,625	—	45,661,625
2034	45,876,406	—	45,876,406
2035	45,838,791	—	45,838,791
2036	45,808,250	—	45,808,250
2037	3,366,000	—	3,366,000
2038	3,357,000	—	3,357,000
2039	3,350,750	—	3,350,750
2040	3,346,750	—	3,346,750
2041	<u>3,335,000</u>	<u>—</u>	<u>3,335,000</u>
Totals [†]	<u>\$871,294,385</u>	<u>\$113,766,891</u>	<u>\$ 985,061,276</u>

* Senior Debt Service is net of interest subsidy received on the Authority's \$100,000,000 Water System Revenue Bonds, Series 2009B (Federally Taxable – Build America Bonds).

† Totals may not add due to rounding.

THE AUTHORITY

Certain Powers

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

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

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

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

Members

Under the Act, the five members of the Authority, who must be residents of Suffolk County, are appointed by the Suffolk County Legislature for five-year overlapping terms. Vacancies, other than by expiration of term, are filled by the Suffolk County Legislature by appointment for the unexpired term. The Chairman of the Authority is also appointed by the Suffolk County Legislature.

The present members of the Authority and the dates of expiration of their terms as members are as follows:

JAMES F. GAUGHRAN, Chairman, term as member expires in March 2013. Mr. Gaughran is an attorney in private practice, having begun his practice in 1984. He is admitted to practice in the New York State and U.S. Eastern District of NY Courts. Mr. Gaughran has held a number of

public sector appointments over the years including service as counsel to the Huntington Community Development Agency, Village of Northport, Town of Babylon and staff service to Congressman Gary Ackerman and the New York State Senate. From 1984-1987 he was an elected member of the Huntington Town Board, which included service as a Commissioner of the Dix Hills Water District. From 1988–1993 Mr. Gaughran was an elected member of the Suffolk County Legislature, representing the 17th District, during which time the Legislature aggressively supported and funded the Suffolk County Drinking Water Protection Program. Mr. Gaughran received a Bachelor of Arts degree in Political Science from Stony Brook University and a Juris Doctor degree from Hofstra University School of Law.

PATRICK G. HALPIN, Secretary, term as member expires on March 2016. Mr. Halpin is Executive Vice President for External Affairs for the Institute for Student Achievement (ISA). Mr. Halpin has been with ISA since 1994. Prior to joining the ISA, Mr. Halpin had an extensive career in local and state politics, which began in 1979 when he was elected to the Suffolk County Legislature. In 1982 he was elected to the New York State Assembly and served three terms in that office. In 1988, Mr. Halpin was elected to the office of County Executive of Suffolk County, serving in that role until 1992. Mr. Halpin currently serves as a trustee of the Long Island Chapter of the Nature Conservancy and is Director of the Long Island Housing Partnership, Vision Long Island and the advisory board of the Long Island Index. Mr. Halpin received a Bachelor of Arts degree in Political Science and Economics from Old Dominion University.

JANE R. DEVINE, term as member expires May 2012. Ms. Devine has held a variety of positions in public service. Most recently, she has served on the Town of Huntington Planning Board. Other positions held include, Commissioner of Consumer Affairs for Suffolk County and Suffolk County Legislator. Ms. Devine holds a Bachelor of Arts degree from the College of New Rochelle and a Master of Arts degree from Long Island University, College of Management.

FRANK J. PELLEGRINO, term as member expires in March 2014. Mr. Pellegrino currently serves as the Funds Administrator of Plumbers Union Local 200, with jurisdiction in both Nassau and Suffolk Counties. Mr. Pellegrino oversees a staff of field representatives covering all construction sites in both counties, and negotiates both special and general labor agreements with the Plumbing Contractors Association and with a variety of large development companies and agencies. Mr. Pellegrino is conversant with all aspects of state and federal labor law, collective bargaining, benefit fund administration and the oversight of consultants retained for the furtherance of legal, accounting, investment and insurance services related to the conduct of union business. Mr. Pellegrino has experience as both Chair of the apprenticeship training committee and as an Instructor in the Apprenticeship Training Program.

ERROL D. TOULON, Jr. Ed.D., term as member expires May 2015. Dr. Toulon is a retired New York City Correction Captain. During his twenty-two year career with the New York City Department of Correction, Dr. Toulon was assigned as a captain to the Emergency Service Unit and the Firearms & Tactics Unit. During the final year of his law enforcement career, Dr. Toulon was assigned to an independent unit that reported directly to a federal court judge monitoring environmental issues in the city's jails. Dr. Toulon is certified through the Department of Homeland Security in Emergency Planning, Radiological Emergency Management, Incident Response to Terrorist Bombing, Weapons of Mass Destruction Threat and Risk Assessment and State Disaster Management. In addition, Dr. Toulon is certified to teach Weapons of Mass Destruction Awareness, National Incident Management System, and Domestic Terrorism and Hate Crimes. Dr. Toulon received his Master's degree in Business Administration from Dowling College, and Advanced Certificate in Homeland Security Management from Long Island University and recently completed his Doctorate in Educational Administration.

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

Executive Staff

The executive staff of the Authority consists of a Chief Executive Officer, a Chief Financial Officer, a Deputy Chief Executive Officer for Customer Service, a Deputy Chief Executive Officer for Operations, General Counsel, Director of Administration and a Chief Sustainability Officer.

JEFFREY W. SZABO, Chief Executive Officer. Prior to being named Suffolk County Water Authority CEO in May 2010, Mr. Szabo served as Special Projects Coordinator beginning in July 2009. In this capacity he was involved in every aspect of the Authority's operation and management. Prior to joining the Authority, Mr. Szabo served as Deputy County Executive and Chief of Staff for Suffolk County, New York. Mr. Szabo was an integral part of the administration's successful management of a county with an annual operating budget of \$2.5 billion and an employee base that exceeds 11,000 individuals. He is credited with implementing many of the administration's successful reform measures. As a Deputy County Executive, Mr. Szabo oversaw the departments of Public Works, Police, Parks, Probation, Civil Service, Fire, Rescue and Emergency Services, Information Technology, Labor, Women Services, Handicapped Services, Youth, Aging, Veterans, Consumer Affairs and Minority Affairs. Mr. Szabo also oversaw personnel and human resources for the County Executive's Office. Mr. Szabo holds a Bachelor of Arts degree from Long Island University.

LARRY B. KULICK, CPA, Chief Financial Officer. Mr. Kulick was appointed Chief Financial Officer in April 2006. Mr. Kulick is a graduate of the University of Miami, with a Bachelor of Science degree in Accounting. A Certified Public Accountant, he is a member of the American Institute of Certified Public Accountants, New York State Society of Certified Public Accountants, and New York State Government Financial Officers Association. After working in public accounting for four years, he has been employed with the Authority since 1982 serving in various capacities including Accounting Department Manager, Assistant Director of Finance, and Director of Finance.

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

HERMAN J. MILLER, P.E., Deputy Chief Executive Officer for Operations. Mr. Miller has been with the Authority since 1972 and has held numerous positions with increasing responsibility in the operations area. In 1993, Mr. Miller was promoted to his current position of Deputy Chief Executive Officer for Operations. In this capacity, Mr. Miller has overall responsibility for the Operations Division of the Authority which includes the Engineering, Construction and Maintenance, and Production Control Departments. Mr. Miller is a 1972 graduate of Manhattan College where he received his Bachelor of Science degree in Electrical Engineering, and is a licensed Professional Engineer in the State.

TIMOTHY J. HOPKINS, Esq., General Counsel. Mr. Hopkins joined the Authority in 1992. He is responsible for managing the Authority's Legal Department and outside counsel, and

conducts litigation for the Authority. Prior to joining the Authority Mr. Hopkins was an associate of Farrell Fritz of Uniondale, New York where he was a member of the municipal litigation department. Mr. Hopkins received his Juris Doctor in 1992 from Touro College Jacob D. Fuchsberg Law Center and his Bachelor of Science degree in Industrial Economics in 1986 from Union College. Mr. Hopkins is admitted to practice in the State of New York, the Eastern and Northern Districts of New York of the United States District Court and the United States Court of Appeals for the Second Circuit.

DONNA MANCUSO, Director of Administration. Ms. Mancuso has been with the Authority since 1985. She began her career as a customer service clerk in the Babylon Office and then transferred to a position in the Engineering Department. In 1995, she was selected by the Members of the Board to hold the position of Secretary of the Board and she has continued to serve in that role to the present. In addition, Ms. Mancuso is responsible for the Authority's successful educational outreach program. Ms. Mancuso was appointed Director of Administration in December 2010. She holds a Bachelor of Arts degree in Music from California Lutheran University, has completed graduate studies toward a Master of Science degree in Education, and is currently working toward an MBA in Public Management at Dowling College.

CARRIE MEEK GALLAGHER, Chief Sustainability Officer. Ms. Gallagher joined the Authority in January 2011. She is responsible for implementing a sustainability program, including source water protection, water quality improvement, water conservation, energy efficiency, renewable energy, recycling, green buildings and procurement, waste reduction, and environmental education. Previously, she served as Suffolk County Commissioner of the Department of Environment and Energy, Deputy Director of Planning for Suffolk County; inaugural director of the Long Island Index, an indicators project that measures the region's progress toward improving the quality of life for all Long Islanders; headed the Nassau County Economic Development Resource Center under County Executive Tom Suozzi; and developed Sustainable Long Island's Brownfields Redevelopment program. Ms. Gallagher earned a Bachelor of Arts in Sustainable Development and Latin American Studies from Amherst College, a Master of Science in Conservation Biology and Sustainable Development from the University of Maryland at College Park and an MBA from the Frank G. Zarb School of Business at Hofstra University. Additionally, Long Island Business News selected her as one of its 40 Rising Stars Under 40, Class of 2003.

Authority Advisors

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

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

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

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

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

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

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

CAPITAL IMPROVEMENT PLAN

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

The following is management’s forecast of capital expenditures which average \$58.3 million for the next five Fiscal Years:

	Forecasted Capital Costs				
	Fiscal Years Ending May 31,				
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Water Main Installations	\$19,724,000	\$21,223,000	\$22,222,000	\$23,200,000	\$23,664,000
Meters, Services, and Hydrants	15,505,000	15,405,000	15,205,000	15,205,000	15,509,100
Treatment and Remediation	3,800,000	4,750,000	4,250,000	3,950,000	4,029,000
Plant Facilities	15,955,000	13,830,000	14,080,000	13,380,000	13,647,600
Miscellaneous Equipment					
/Facilities	<u>2,660,000</u>	<u>2,668,000</u>	<u>2,571,000</u>	<u>2,574,000</u>	<u>2,625,480</u>
	<u>\$57,644,000</u>	<u>\$57,876,000</u>	<u>\$58,328,000</u>	<u>\$58,309,000</u>	<u>\$59,475,180</u>

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

For the twelve months ending May 31, 2012 (the “2012 Fiscal Year”) the Authority has approved a capital budget totaling \$58,344,750 (the “2012 Capital Budget”).

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

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

Water Main Installations

There are three components to the Authority's water main installation program: (1) the installation of new water mains to serve communities that were previously served by private wells, (2) the replacement of existing water mains, and (3) improvements to the distribution system to provide better service within existing service areas. With respect to the first component, the fear of private well contamination, the security of having water that is constantly tested, and the safety offered by the presence of public fire hydrants are issues that drive the demand for public water and amount to \$4.9 million in the 2012 Capital Budget. The second part of the program relates to the replacement of existing water mains. Incorporated in the 2012 Capital Budget is a long-term program of pipeline replacement to improve pressure and volume distribution, fire protection and reduce main breaks. The selection of water mains targeted for replacement is based on repair history and the age of the water main. The Authority's commitment to replacement of this critical infrastructure is supported by its inclusion of \$12.0 million in the 2012 Capital Budget for this purpose. Water mains typically have useful lives of 100 years or more. While most of the Authority's distribution system is relatively young, there are several areas where the water mains are nearing the end of their useful lives and must be replaced. Additionally, when a particular section of water main has required excessive amounts of repair, it is included in the replacement program. The final component of the program relates to improvements to the distribution system in order to provide enhanced service within existing service areas, such as the replacement of existing water mains with larger mains to provide increased water flow. The amount included in the 2012 Capital Budget for this component is \$2.0 million.

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

Twenty-seven miles of new and replaced water mains were installed in the 2011 Fiscal Year. The Budget for the 2012 Fiscal Year includes \$18.9 million dollars for the installation of approximately 29.8 miles of new and replaced water mains.

Meters, Services, and Hydrants

The Authority has budgeted 919 new customers and 79 new hydrants for the 2012 Fiscal Year. To avoid disruption of roadways and reduce the costs of connecting future customers to new pipes being installed underground, the Authority is providing easy connections to the water supply ("stub services") where existing homes are not immediately connecting to the water supply system but are expected to in the future. For the 2012 Fiscal Year, the Authority's budget includes an aggregate amount of \$5.5 million for these services.

The Authority has implemented a program to replace its meters with Automated Meter Reading ("AMR") devices. This will allow for timely and accurate meter readings without the inhibitions from weather, or the need for Authority personnel to enter a residence or leave their vehicle. By having access to timely accurate meter readings, the Authority will be able to evaluate its rate structure quickly and make any needed adjustments. The Authority expects this program to be phased in over a ten year period. For the 2012 Fiscal Year, the fifth year of the ten year period, the Authority budgeted \$6.2 million for the AMR project.

Normal replacement and upgrades of its residential customers will continue to be reflected in the Authority's annual capital improvement budget in future years. For the 2012 Fiscal Year, the Authority has budgeted \$3.82 million for new and replacement residential meters.

Treatment Facilities

Water quality regulations are promulgated by the United States Environmental Protection Agency ("EPA") and the New York State Department of Health. In addition, in some instances the Authority has adopted its own water quality standards that are more stringent than those imposed by the regulations of the New York State Department of Health. In order to provide water that meets these regulations and the Authority's internal standards, the Authority from time to time, has to treat water to remove volatile organic chemicals, pesticides, herbicides and other contaminants through the utilization of filtration systems, such as granular activated carbon or ion exchange. It is anticipated that water treatment will be ongoing since contamination, inevitably, will be detected for the first time each year in a few wells and new contaminants may be added and/or the level of the standard requiring remediation may be changed in the regulations of the United States Environmental Protection Agency ("EPA") and/or the New York State Department of Health. The Authority also utilizes filtration systems to remove excess iron primarily for aesthetic reasons (the presence of iron in drinking water poses no known health hazard). Currently, the Authority has over 132 filtration systems in operation. For the 2012 Fiscal Year, the Authority has adopted a budget of \$3.01 million for treatment facilities.

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

The Water System operates 45 separate and distinct pressure distribution zones. The wells have a capacity to pump in excess of 800 million gallons of water per day. (For a more detailed description of the Water System, see the subsection entitled "Physical Plant" below.) On July 6, 2010, the Authority set its peak single day pumpage record of 538,033,000 gallons. In July 2010, the Authority set its peak monthly pumpage record of 12,760,000,000 gallons. During these peak events, the Water System provided all the water needed by its customers and still had appropriate reserves for firefighting needs. The Authority's engineering staff believes the demand for water will increase, both from existing customers and through expansion of the Water System. In order to meet this demand, the Authority has budgeted for new well construction and replacement of wells that are reaching the end of their useful lives. The Authority budgeted \$17.81 million for the 2012 Fiscal Year. (Budget for new and replacement wells totaled \$9.27 million in Fiscal Year 2012).

Operation Facilities

To operate the Water System, the Authority must continually add or replace certain support equipment in the information technology, transportation, and clerical areas. This includes the upgrading of computer equipment, vehicles, field and office equipment, and the undertaking of various site improvements. For the 2012 Capital Budget, as amended, the Authority has budgeted \$3,104,750.

2012 Capital Budget

On March 28, 2011, the Board of the Authority authorized and approved a capital budget totaling \$57,152,000 which has been amended and increased to \$58,344,750 for the 2012 Fiscal Year. As in the past, the Authority anticipates financing the costs of these capital expenditures with the proceeds of notes and bonds issued for such purposes as well as net revenues from operations.

The following is a comparison of the adjusted capital improvement budget for the 2012 Fiscal Year compared to the final authorized capital improvement budget for the fiscal year ended May 31, 2011 (the “2011 Fiscal Year”).

	<u>2012 Fiscal Year</u>	<u>2011 Fiscal Year</u>
Water Main Installations	\$18,900,000	\$19,036,208
Meters, Services and Hydrants	15,520,000	18,746,583
Plant Facilities	17,810,000	15,865,439
Treatment and Remediation	3,010,000	4,450,000
Misc Equipment / Facilities	<u>3,104,750</u>	<u>1,897,181</u>
TOTAL	<u>\$58,344,750</u>	<u>\$59,995,411</u>

SERVICE AREAS, PLANT FACILITIES AND WATER SUPPLY

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

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

Customer Count

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

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

Facilities owned and operated by the Authority	94.5%
Facilities lease-managed by the Authority	3.0%
Wholesale service to other systems	2.5%

As of May 31, 2011, 389,022 customers were served by the Authority, compared to 388,660 at May 31, 2010, an increase of 362 customers. The following table details the number of customers, by region, served directly by the Authority, customers served through operating agreements and customers served through wholesale service as well as their respective percentage growth over the two most recent Fiscal Years.

<u>Customers served directly</u>	<u>Fiscal Year Ended May 31,</u>		
<u>Region</u>	<u>2011</u>	<u>2010</u>	<u>% Growth</u>
Western	172,106	171,967	0.08%
Central	128,885	128,854	0.02
Eastern	<u>66,551</u>	<u>66,091</u>	<u>0.70</u>
Subtotal	<u>367,542</u>	<u>366,912</u>	<u>0.17</u>
<u>Customers Served through</u>			
<u>Operating Agreements</u>			
Brentwood Water District	6,475	6,683	(3.11)
Fair Harbor Water District	488	489	(0.20)
Stony Brook Water District*	1,621	1,654	(2.00)
Riverside Water District	585	609	(3.94)
East Farmingdale Water District	<u>2,396</u>	<u>2,398</u>	<u>(0.08)</u>
Subtotal	<u>11,565</u>	<u>11,833</u>	<u>(2.26)</u>
<u>Wholesale Customers</u> [†]			
St. James Water District	3,100	3,100	0.00
Smithtown Water District	5,915	5,915	0.00
Village of Greenport	<u>900</u>	<u>900</u>	<u>0.00</u>
Subtotal	<u>9,915</u>	<u>9,915</u>	<u>0.00</u>
TOTAL	<u>389,022</u>	<u>388,660</u>	<u>0.09%</u>

* The Authority serves customers through an operating agreement and Stony Brook Water District is sold water at wholesale rates.

† The number of customers served by the Authority's Wholesale Customers is derived from information provided by the respective Districts and Village of Greenport.

The number of customers served as of May 31, 2007 through May 31, 2011 is presented below.

<u>Year</u>	<u>Number of Customers</u>
2011	389,022
2010	388,660
2009	385,450
2008	384,738
2007	383,790

The Authority's customers are approximately 95% residential and 5% commercial and municipal. The following chart lists the top ten metered account users of water and their corresponding water consumption for the 2011 Fiscal Year. The customers listed below and their corresponding usage reflect individual metered accounts; each such customer may have more than one account with the Authority.

	<u>User</u>	<u>Consumption (gallons)</u>
1	Smithtown Water District ¹	1,034,409,000
2	St. James Water District ¹	570,913,000
3	State University of New York at Stony Brook ²	376,539,086
4	Stony Brook Water District ¹	236,578,188
5	State University of New York at Stony Brook ²	115,135,900
6	Department of Public Works (County of Suffolk)	103,467,100
7	National Grid	99,435,380
8	Artists Lake Homeowners Association	80,152,613
9	Bretton Woods Home Owners Association	76,932,548
10	Waterways/Fairfield	66,680,460

1. Reflects water sold at wholesale rates of \$1,042 per million gallons. Effective January 1, 2012, the rate changed to \$1,153 per million gallons. All other accounts, except where noted are billed at \$1,520 per million gallons.
2. Consumption reflects activity for one metered account. User has multiple accounts at different locations.

Acquisitions of water systems, creation of lease-managed systems, expansion onto the North Fork of Long Island and special contractual arrangements with Federal and State agencies have resulted in average customer growth of approximately one-third of one percent each year over the last five (5) years. The Authority also anticipates customer growth at approximately one-quarter percent each year for budgeting purposes.

According to the Five Year Engineer's Report issued in June 2009 by the Authority's consulting engineers, Hazen & Sawyer, PC (the "Engineer's Report"), the pumping and storage facilities are adequately maintained in accordance with accepted standards for the supply of drinking water.

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Physical Plant

The following table presents certain data relating to the major physical properties of the Authority as of May 31, 2011:

<u>Town</u>	<u>Wells</u>		<u>Pumping Plants</u>		<u>Storage Facilities</u>	
	<u>Active</u>	<u>Inactive</u>	<u>No.</u>	<u>Capacity (gpm)</u>	<u>No.</u>	<u>Capacity*</u>
Brookhaven	170	7	73	198,943	19	21.89
Babylon	56	4	24	72,080	8	8.22
East Hampton	38	1	17	17,730	3	3.42
Huntington	51	2	24	50,988	10	12.52
Islip	107	10	42	117,427	11	12.19
Riverhead	4	0	1	1,150	0	0.00
Smithtown	52	0	22	66,850	5	3.50
Southampton	56	5	19	44,688	4	3.75
Southold	<u>41</u>	<u>1</u>	<u>16</u>	<u>7,390</u>	<u>3</u>	<u>1.95</u>
Totals	<u>575</u>	<u>30</u>	<u>238</u>	<u>577,246</u>	<u>63</u>	<u>67.44</u>

* Millions of gallons

As of May 31, 2011, there were a total of 5,900 miles of water mains in use, an increase of 27 miles since May 31, 2010, and there were 36,714 fire hydrants in service, an increase of 92 hydrants since May 31, 2010.

The capital improvement budget for the Water System for the 2012 Fiscal Year included provisions for additional wells, pumping equipment and storage capacity amounting to approximately 30% of the total amount budgeted in the Authority's capital improvement budget. (See "CAPITAL IMPROVEMENT PLAN – Additional Facilities – Storage, New Wells, Replacement Wells, Tanks" herein.) Additional wells under construction, not classified as "In Service" as of May 31, 2011, is expected to increase the capacity of major facilities over the next twelve months as follows:

<u>Site Locations</u>	<u>Wells and Pumping Equipment Gallons per Day (in thousands)</u>
Port Jefferson	558,720
East Hampton	<u>2,160,000</u>
TOTAL	<u>2,718,720</u>

Source of Supply

Management believes the Authority is the largest groundwater-based water purveyor in the United States. All water that the Authority sells is pumped from large reserves of water located underground called aquifers. Aquifers are large geologic sand and gravel formations saturated with groundwater. There are three aquifers beneath Long Island. The deepest aquifer is called the Lloyd Aquifer, and it holds water that can be as old as 1,000 years. The Authority draws very little water from this aquifer. The middle aquifer, called the Magothy Aquifer, holds water that may be as much as 500 years old in its deepest layers. The Authority draws the majority of its water from this Aquifer. The third and shallowest aquifer is called the Upper Glacial Aquifer, which may be up to several hundred feet deep in some locations. Approximately 44% of Authority wells draw from this aquifer.

Management studies have determined that significantly more water enters the aquifer system than is removed. The United States Department of Interior's United States Geological Survey reports that there is over 70 trillion gallons of water stored within these underground aquifers. The Authority pumps about 70 billion gallons per year. Studies indicate this level of pumpage is not reducing the level of water in the aquifers due to the replacement of water annually by rain and snow absorbed into the aquifers. Since 1987, the County of Suffolk has been acquiring and preserving thousands of acres specifically for drinking water protection purposes, using funds generated by one-quarter of one percent of the local sales and use tax. In 2010 the Authority completed a transaction with the County of Suffolk that gives the Authority easement rights to drill wells on 36 separate sites of up to five acres a piece from 18,871 acres that were ultimately acquired in the aforementioned original 1987 drinking water protection program. This transaction gives the Authority access to new well sites for the future. New well sites in protected lands should result in lower costs, since the cost to remediate older wells is becoming more expensive than pumping water from new uncontaminated sites. Large expanses of watershed protection areas are preserved for future use. The Authority accesses these lands through an easement given in perpetuity for drinking water purposes in exchange for a modest one-time payment. Raw water quality in these areas is expected to be very good requiring minimal treatment measures. In early 2005, the Authority began operating its first pump station on County Drinking Water Protection lands. Other facilities are in various stages of planning and development. The Authority is the 2006 recipient of the nationally prestigious "Exemplary Source Water Protection Award," given annually by the American Water Works Association ("AWWA")

Water Quality

The quality of the drinking water provided by the Water System surpasses accepted standards for physical, chemical and bacteriological content. According to the Engineers Report, the pumping and storage facilities are adequately maintained in accordance with accepted standards for the supply of drinking water. Approximately 22% of the Authority's wells are treated using granular activated carbon to remove contaminants such as volatile organic compounds, pesticides and herbicides. Approximately 12% of the Authority's wells are filtered to remove iron and manganese. Other treatment technologies, such as air strippers, ion exchange and reverse osmosis units are used as needed. Due to standards imposed which regulate organic compounds, nitrates, pesticides and herbicides, it is necessary for the Authority to periodically take wells out of service. The Authority has been able to remediate numerous wells, allowing these wells to be placed back on line for routine service. Bacterial contamination in water from wells of the type constructed by the Authority is rare. A small amount of chlorine is added to the water as required by the State Department of Health as precautionary protection against any bacterial contamination, which might result from repairs or additions to the distribution system. The acidity of the water is buffered to guard against possible corrosion of the lead and copper in home plumbing systems. The high standards of design, construction and quality control employed by the Authority's staff assure the production of an adequate quantity of potable water conforming to the requirements of the State Department of Environmental Conservation, State and County Departments of Health, and the EPA.

The Authority has taken major steps in watershed protection and stewardship. The Authority has participated with the Pine Barrens Commission to oversee vast tracts of undeveloped land in the center of Suffolk County to ensure that the water recharging the aquifer system remains unspoiled. The Authority has aggressively and successfully brought suit against identified polluters whose activities or products have resulted in contamination of Authority wells. The Authority is also a financial sponsor of the United States Geological Survey and of the Long Island Groundwater Research Institute at the State University of New York at Stony Brook, both of which researches issues related to the management and protection of the aquifers. Recently, the Authority updated its Water Conservation Program and is

currently developing an official Source Water Protection Program to further ensure the protection of the aquifers.

In August 2002, the Authority commenced legal action against most of the major petroleum companies for contaminating Suffolk County water supplies with the gasoline additive methyl tertiary butyl ether (“MTBE”). During the fiscal year ending May 31, 2009, the Authority reached settlement with all of the defendants, except one minor defendant, and received \$78.5 million in net settlement proceeds. In 2010, the Authority settled with the remaining minor defendant and received approximately \$370,000 in net settlement proceeds. The Authority served as lead plaintiff in this multi-district federal litigation.

The Authority recently commenced an action in state court against the manufacturers of dry cleaning equipment and dry cleaning chemicals (perchloroethylene and related solvents). The action is currently in the discovery phase of the litigation.

The Authority operates a groundwater testing laboratory which is both state and nationally certified. The Authority’s laboratory employs over 45 chemists, technicians, and support staff, with an annual operating budget of \$4.7 million for the 2012 Fiscal Year. Last year, the laboratory staff conducted approximately 187,000 tests, from over 66,000 water samples. The water samples were collected from the wells operated countywide and from over 5,900 miles of water main making up the water distribution system. Reflecting the Authority’s conservative approach to water quality and safety, tests are done for over 286 chemical constituents, nearly twice the number required by federal or state regulation. The laboratory has developed specialized testing methodologies that have been adopted by the EPA and published in the Federal Register for use by laboratories throughout the United States. In order to maintain its certifications, the laboratory must pass rigorous proficiency tests twice each year and is subject to an audit of its Quality Assurance Program and quality control data every other year. Sophisticated laboratory equipment allows the Authority to measure some contaminants to levels as low as 2 parts per trillion. The laboratory, which encompasses 28,000 square feet, is highly automated and operates 24 hours a day, seven days a week.

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

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

The EPA has adopted the Groundwater Rule (“GWR”) which is designed to provide protection from microbial pathogens where a well is vulnerable to such contamination. The GWR requires increased chlorine contact time, referred to as “4-log treatment” for wells with positive fecal indicator results. The Authority routinely chlorinates all raw water and maintains a free chlorine residual of 1.0 ppm leaving the pump station. There have been no positive fecal results for any of the Authority’s wells. Therefore, a total coliform-positive result from a routine sample collected for the Total Coliform Rule (“TCR”) will trigger GWR source water monitoring. GWR source water monitoring requires a sample be collected from any well running in the pressure zone 24-hours prior to sample collection for the TCR coliform-positive sample along with the repeat samples required for TCR compliance. The

Authority has determined the well(s) from which samples will be collected for all GWR source water triggered monitoring events. This information is part of the TCR monitoring plan update submitted to the Suffolk County Department of Health Services. A coliform-positive sample result from a well will require corrective action, which most likely will result in taking the well out of service and disinfecting it before returning it to routine operation.

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

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

Protection of Water System

In recent years, the Authority has taken a number of steps to enhance its security arrangements to protect the Water System, including more frequent monitoring of the water supply for contaminants, severely restricting access to certain facilities, additional fencing installations, upgrading locks and alarming entry points within the Water System. In addition, during 2002 the Authority contracted with an EPA approved consultant to perform a vulnerability assessment on the Water System, in accordance with EPA protocols. The report was completed in March 2003 and identified the Water System’s vulnerabilities. The report provides a prioritized plan for security upgrades, modifications of operational procedures and/or policy changes to mitigate risks to critical assets. The assessment also provides a basis for comparing the cost of protection against the risks posed. The Authority is using these recommendations to establish a cost effective, balanced security protection system. To protect against potentially severe weather conditions, the Authority has refined its Emergency Preparedness Plan to contemplate and plan for severe damage scenarios. Based on the findings of the report the Authority estimated that it would cost approximately \$2.0 million to implement the report’s recommendations. The Authority continues to include approximately \$150,000 annually in order to continue the implementation of the report’s recommendations. By the end of the 2012 Fiscal Year the Authority expects to have spent approximately \$1,050,000 incorporating the recommendations in the report.

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

comprehensive and coordinated approach to incident command and management resources communications and support efforts during any significant incident or event.

Water Plant Account

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

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

	<u>Water Plant Account</u>				
	(in thousands)				
	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Water Plant at Cost	\$1,521,642	\$1,468,931	\$1,405,632	\$1,352,269	\$1,298,034
Less: Accumulated Depreciation	<u>468,371</u>	<u>437,658</u>	<u>407,978</u>	<u>377,011</u>	<u>347,010</u>
Net Water Plant	<u>\$ 1,053,271</u>	<u>\$1,031,273</u>	<u>\$ 997,654</u>	<u>\$ 975,258</u>	<u>\$ 951,024</u>

The Original Resolution does not provide for payments into a depreciation reserve account, and consequently the provisions for depreciation are unfunded. According to the Resolution, after allowance for (i) payment of operating and maintenance expenses, (ii) payments on the Original Bonds (if any), (iii) payments on Outstanding Senior Lien Bonds issued under the Resolution, and (iv) payments on Outstanding Subordinate Lien Bonds issued under the Resolution, Revenues of the Water System are paid to the General Fund. Amounts in the General Fund may be transferred to the New Construction Fund from time to time as desired by the Authority.

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

In June 2009, the Authority, in accordance with the requirements of Section 8.5 of the General Resolution, filed with the Bond Fund Trustee, the Engineers Report on the properties and operations of the Water System. A copy of this report is available for inspection, upon request, during regular business hours at the offices of the Authority. It is the policy of the Authority, after the acquisition of any properties, to extend to new customers the Authority’s uniform, system-wide rate schedules for water service. Such rates generally have been lower than those which had been charged by the former water companies. The Authority intends to continue this policy. However, from time to time, the Authority has, and may in the future find it necessary to create rate structures for new service areas which are different from the Authority’s uniform, system-wide rate schedules for water service. See “WATER RATES” herein.

Construction Contracts

In its rules and regulations, the Authority has provided terms and conditions upon which it will install, at the expense of a real estate developer, the necessary mains to provide for a water supply within a designated area. Such terms and conditions are set forth in a construction contract between the developer and the Authority, which, in some cases, is supplemented by additional provisions relating to transmission mains. Such construction contracts provide that the Authority will receive certain advances of moneys from developers requiring construction of mains. When these mains are placed in service, these advances are reflected as Construction Reimbursement Fees.

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

WATER RATES

The Authority covenants that it will furnish no free service by the Water System to any person, firm or corporation, public or private. The Authority's water rate schedules applicable to residential, commercial, industrial and certain public users are uniform for approximately 96% of its service areas. In addition, the Authority charges certain customers pursuant to different rate schedules. In 2010, the Authority retained Black & Veatch Corporation for the purpose of preparing a rate study for the Authority. After considering this study, in January 2011 the Authority adopted the final report. On February 27, 2012 the Authority adopted certain changes in the rate schedules for the Water System effective April 1, 2012 and is set forth in the table below. Copies of the Authority's Rules and Regulations setting forth all of its present rate schedules are available for inspection, upon request, during regular business hours at the offices of the Authority.

General Rates

Service Classification No. 1 Quarterly

Service Charge - \$19.77

Commodity Charge - \$1.182/hundred
cubic ft.

Service Classification No. 1A Monthly

Service Charge - \$6.59

Commodity Charge - \$1.182/hundred
cubic ft.

Bridgehampton/Surfside Service Area Rates

Service Classification No. 1 Quarterly

Service Charge - \$15.21

Commodity Charge - \$1.182/hundred
cubic ft.

Service Classification No. 1A Monthly

Service Charge - \$5.07

Commodity Charge - \$1.182/hundred
cubic ft.

Shorewood Service Area Rates

Service Classification No. 1 Quarterly

Service Charge – \$16.47

Commodity Charge - \$1.3464/hundred
cubic ft.

Service Classification No. 1A Monthly

Service Charge - \$5.49

Commodity Charge - \$1.3464/hundred
cubic ft.

Greenport Service Area Rates

Service Classification No. 1 Quarterly

Service Charge - \$18.60

Commodity Charge - \$1.3464/hundred
cubic ft.

Service Classification No. 1A Monthly

Service Charge - \$6.20

Commodity Charge - \$1.3464/hundred
cubic ft.

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

Service Classification No. 1B relates to water provided on a wholesale basis to water districts within the Authority's service area. The following water districts within the service area of the Authority: Village of Greenport, Stony Brook Water District, St. James Water District, and Smithtown Water District are billed at the rate of \$1,153 per one million gallons, payable monthly. In February 2012, the Authority adopted an increase in this rate classification to \$1,199 per million gallons effective January 1, 2013.

Service Classification No. 1C relates to water provided on a stand-by wholesale basis to private water utilities interconnected with the Authority's service facilities, provided adequate capacity is available. The rate applicable to such service includes a service charge of \$5.40 per gallon per minute (gpm) of delivery capability, as determined by the Authority, but not less than 500 gpm and \$802 per one million gallons, payable monthly.

In addition, there is also a separate rate schedule for customers on Fire Island. The Authority has been acquiring various water systems on Fire Island since 1994. For the most part these systems had unmetered flat rates based on various factors including number of rooms in the premise or water-using devices. Over time, meters were installed and a rate structure created, including an annual minimum and consumption charge. In connection with the aforementioned rate study, the Authority will increase the annual minimum from \$156 to \$162 and the consumption rate from \$1.5858 to \$1.646 per hundred cubic feet effective April 1, 2012.

Effective April 1, 2012, the commodity charge for Service Classification No. 1 and 1A will increase from \$1.137 to \$1.182 per hundred cubic feet. Previous rate increases became effective in 1973, 1975, 1977, 1980, 1985, 1986, 1989, 1992, 1994, 1995, 1997, 1999, 2001, 2005, 2006, 2007 and 2011. An increase in the general rate quarterly service charge for Service Classification No. 1 from \$18.93 to \$19.77 and in the monthly service charge for Service Classification No. 1A from \$6.31 to \$6.59 will become effective April 1, 2012.

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

The minimum bill is charged to each of the Authority's customers in advance and any excess consumption is billed following the end of the period of service. Bills are rendered for the net amount and are payable within fifteen days after presentation. A late charge of one and one-half percent (1½%) per month is applied to all outstanding water bills rendered in excess of 45 days. The Authority establishes a reserve for accounts deemed uncollectible. The reserve as of May 31, 2011 was \$1,394,706.

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

Rates for fire protection, for the most part, include rentals for public hydrant service which are billed semiannually following the period of service. The Authority's system-wide uniform rate schedule for public fire protection service is \$160.20 per hydrant per annum effective July 1, 1994 except for the Shorewood service area where it is \$312.00 per hydrant per annum. The category Private Hydrant Rates was extracted from the system-wide uniform rate schedule and the rate of \$184.20 per hydrant per annum became effective as of March 1, 2011.

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

Comparative Rates

The following table compares the estimated amount that will be charged by the Authority (during the 2012 Calendar Year) for customers who use an average of 40,000 gallons per quarter with amounts charged by several other public water suppliers that do not derive any of their revenue from real property taxes.

Suffolk County Water Authority	\$332
Water Authority of Great Neck North	845
Erie County Water Authority	580
Monroe County Water Authority	466
Onondaga County Water Authority	637

Source: Comparative rates from the web site of each respective public water supplier are as of February, 2012.

REVENUES AND OPERATING EXPENSES

Revenues, Operating and Maintenance Expense

The revenues, expenses of operation and maintenance and the resulting net revenues of the Authority for the five most recent fiscal years and the eight-month period ended January 31, 2012 and 2011, are set forth in the following table. After provision for the stated debt service charges, the remaining revenues are available for new construction and other corporate purposes of the Authority. The table sets forth the application of the revenues of the Water System in accordance with the provisions of the Resolution. For a discussion of the Authority's 2011 Fiscal Year results, see "Management's Discussion and Analysis" in the Authority's Financial Statements attached hereto as Appendix B.

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HISTORICAL FINANCIAL DATA¹

(000's omitted)	Fiscal Year Ended May 31,					8-months Ended January 31,	
	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2012</u>	<u>2011</u>
	(audited)	(audited)	(audited)	(audited)	(audited)	(unaudited)	(unaudited)
Revenue:							
Operating Revenue							
Residential & Commercial	\$118,019	\$101,750	\$106,160	\$114,124	\$106,949	\$85,696	\$89,459
Public & Private Fire Protection	7,822	7,789	7,773	8,003	7,541	5,624	5,538
Public Authority & Water Districts	6,019	5,040	5,308	5,559	5,120	4,293	4,878
Miscellaneous	16,800	14,663	14,306	12,277	10,540	11,050	11,147
Total Operating Revenue	148,660	129,242	133,547	139,963	130,150	106,663	111,022
Other Revenue	22,059	24,736	106,316 ²	31,281	19,454	15,131	15,174
Total Revenue	\$170,719	\$153,978	\$239,863	\$171,244	\$149,604	\$121,794	\$126,196
Operating Expenses:							
Operations	83,228	76,654	83,579	78,888	64,293	56,233	56,510
Maintenance	19,746	20,417	19,897	18,666	20,298	14,220	13,926
Total Operating and Maintenance Expenses	\$102,974	\$97,071	\$103,476	\$97,554	\$84,591	70,453	70,436
Net Revenues Before Debt Service	\$67,745	\$56,907	\$136,387	\$73,690	\$65,013	\$51,341	\$55,760
Debt Service:							
Interest on Bonds & Notes	\$26,981	\$24,853	\$24,184	\$23,680	\$23,237		
Principal of Serial Bonds	6,159	9,755	10,968	10,652	10,232		
Total Debt Service	\$33,140	\$34,608	\$35,152	\$34,332	\$33,469		
Available for New Construction Fund, General Fund and general corporate purposes, subject to the provisions of the Original Resolution Senior Lien Bond Debt Service Coverage (Times)	\$34,605	\$22,299	\$101,235	\$39,358	\$31,554		
Senior Lien Bond Debt Service Coverage (Times)	2.55	2.01	4.71 ³	2.75	2.62		
Total Debt Service Coverage (Times)	2.04	1.64	3.88 ³	2.15	1.94		

¹ The annual information in this table is derived from the Authority's audited financial statements, however, some of the information, including (i) the 8-month interim figures, (ii) the individual components of Operating Revenue, (iii) Debt Service, (iv) Available for New Construction Fund, General Fund and general corporate purposes and (v) Debt Service Coverage are not audited. Debt service reflects the principal portion of bonds paid off during the fiscal year. Please refer to Exhibit A hereto for the audited financial statements of the Authority. Effective with the May 31, 2008 financials OPEB reporting is in effect.

² In November of 2008, the Authority received a settlement of \$78.5 million dollars (net of legal fees) as a result of MTBE litigation.

³ Excluding the \$78.5 million MTBE settlement, the Senior Lien Bond Debt Service Coverage and Total Debt Service Coverage equals 2.0x and 1.65x respectively.

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

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

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

Expenses incurred include all proper and necessary costs to satisfactorily operate and maintain a water system that as of May 31, 2011 includes 5,900 miles of water main, 36,714 hydrants, and 389,022 customers and generates approximately 70 billion gallons of water annually. Major components of these expenses are discussed below.

Power Costs

The cost of purchasing electrical power continues to be the Authority's second highest single operating expense, representing approximately 26% of the Authority's operating and maintenance budget. The Authority is the second largest power user in Suffolk County.

The Long Island Power Authority ("LIPA") is the power provider to the Authority. LIPA recoups increased fuel and purchased power costs through a purchased power and fuel adjustment clause in the rate tariff. Over the past five fiscal years, the surcharge provided by this fuel adjustment clause has translated into aggregate increases in excess of approximately \$2.0 million. For the 2012 Fiscal Year the Authority has budgeted, based on average consumption, power costs of \$20.3 million.

The Authority will continue to do everything possible to minimize the cost of power. The Authority entered into a contract in August 2006 to participate in the New York Independent System Operator ("NYISO") Installed Capacity and Special Case Resource programs. The NYSIO operates the state's high voltage electric transmission system and administers the state's wholesale energy markets. Under these programs, large consumers of electric power are paid capacity and energy payments in exchange for their commitment to curtail electric use when requested to do so by NYSIO. The Authority's participation in this program has resulted in a savings of approximately \$355,000 since inception. The Authority is working in a joint effort with twenty-four other Long Island water suppliers to maximize the potential electric load being offered for curtailment, which will result in the highest possible return for participation.

Wages and Employees

The Authority employed 563 full time employees as of May 31, 2011. Total payroll for the 2012 Fiscal Year is budgeted at \$42,146,000, of which approximately \$29,700,000 is charged to the operation and maintenance of the Water System. The Authority has made a conscious effort over the past decade to control payroll costs since wages represent approximately 31% of the operating and maintenance budget. The Authority participated in the New York State Retirement Incentive Program with an open period of September 1, to November 28, 2010. Thirty-eight employees took advantage of this program of which the Authority has filled, at lower level salaries approximately 10 positions.

The Authority has approximately 342 employees who belong to the Utility Worker’s Union of America A.F.L. C.I.O., Local 393 (the “Local”), covered by a collective bargaining agreement. In August 2010 both parties agreed to a new collective bargaining agreement for the period July 1, 2009 through June 30, 2013. Terms of the agreement include increases of 2% effective July 1, 2010, 2011, and 2012. Employees of the Authority are subject to the State’s Taylor Law prohibiting the employees from striking, but are not subject to the State’s Civil Service Law. In January 2008, the Authority recognized a separate bargaining unit for approximately 26 laboratory employees. The contract with the Laboratory Bargaining Unit was ratified on April 25, 2011 and is in force until June 30, 2013. The terms included a lump sum payment of 1.25% of base salary as of February 1, 2008 and retroactive wage increases of 2% effective dating back to January 1, 2009, January 1, 2010 and April 26, 2011. On October 14, 2011, an additional memorandum of agreement was issued to include an increase in salary for 11 laboratory employees effective October 18, 2011 due to promotions to different positions. Effective July 1, 2012, each employee will be entitled to a 2% salary increase.

Pension System

The Authority makes annual contributions to the State and Local Employee’s Retirement System (the “Retirement System”) to provide retirement benefits for its employees as determined by the State. All personnel employed before July 27, 1976 are on a non-contributory basis, with the total retirement expense funded by the Authority. Those employees hired after July 27, 1976 are required to contribute 3% of their gross salaries and wages to partially offset the Authority’s cost. Employees in Tier III and Tier IV (hired on or after July 27, 1976), achieving ten years of service in the Retirement System are no longer required to contribute 3% of their gross salaries and wages. Tier V employees (hired on or after January 1, 2010) are required to contribute 3% of their gross salaries and wages for the entire length of their public service.

The Authority’s expense in connection with the Retirement System is funded on an actuarial basis determined by the State. The Authority is assessed on an annual basis for its share of the Retirement System’s pension and group term life insurance costs. The amounts of the Authority’s contributions for the Fiscal Years 2007 through 2011 are shown on the following schedule.

	Payments to Employees’ Retirement System				
	Fiscal Year ending May 31,				
	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Regular Pension and Group Term Life Insurance Contribution	\$4,720,000	\$3,040,330	\$2,940,309	\$3,576,261	\$3,558,955

On December 15, 2011, the Authority remitted payment in the amount of \$7,117,314 for the New York State Employees Retirement System Fiscal Year ending March 31, 2012. Included in this payment is \$1,750,000 representing a one-time lump sum payment for the New York State Retirement Incentive Program.

Effective May 14, 2003, legislation was passed allowing the Office of the State Comptroller to establish contribution rates for a given fiscal year based on the value of the pension fund as of the prior April 1. The legislation also establishes a minimum 4.5% payment. The Authority has been advised that the contribution rate for the period April 1, 2012 through March 31, 2013 (payment due February 1, 2013) is:

<u>Tiers</u>	<u>Years</u>	<u>March 31, 2013</u>
Tier I	Employees who joined prior to 7/1/73	25.4%
Tier II	Employees who joined on or after 7/1/73 and prior to 7/27/76	23.2
Tier III and Tier IV	Employees who joined on or after 7/27/76	18.6
Tier V	Employees who joined on or after 01/01/10	15.1

Based on the contribution rate for the twelve month period ending March 31, 2013, the Authority estimates the cost to fund the payment to the Retirement System to be approximately \$7.1 million.

Other Post Employment Benefits

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

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

Under GASB 45, based on actuarial valuation, an annual required contribution (“ARC”) will be determined for each state or local government employer. The ARC is the sum of (a) the normal cost for the year (the present value of future benefits being earned by current employees) plus (b) amortization of the unfunded accrued liability (benefits already earned by current and former employees but not yet provided for), using an amortization period of not more than 30 years. If a government employer contributes an amount less than the ARC, a net incremental OPEB obligation will result, which is required to be recorded as a liability on its financial statements.

GASB 45 does not require that the unfunded liabilities actually be funded, only that employers account for unfunded accrued liability and compliance in meeting the ARC. Actuarial valuations are required every 2 years for each government employer including the Authority. The Authority implemented the requirements of GASB 45 in connection with the reporting of its financial statements for the 2008 Fiscal Year.

As permitted by Statement No. 71 of the Financial Accounting Standards Board, “Accounting for the Effects of Certain Types of Regulation,” the Authority intends to defer the impact of implementing GASB 45 on its financial statement until such costs are raised in future water rates.

The Authority engaged a consultant to assist in estimating its actuarial unfunded OPEB liabilities based on existing plan benefits and certain assumptions. These assumptions include (i) 4% rate of return on assets, (ii) various increases in insurance premiums from 10% grading down to 5% for medical, dental 5% grading down to 4%, and optical 3%, (iii) all active employees will retire and receive OPEB, (iv) face value of life insurance benefit remains constant, (v) spouses are assumed to be the same age as retiree, (vi) upon reaching the age of 65 all retirees will participate in Medicare Part B and (vii) all active employees and retirees currently opting out of health insurance coverage are assumed to continue this election. The report estimated an actuarial OPEB liability of \$170.3 million and the annual net ARC of approximately \$12.8 million as of May 31, 2010. This analysis is subject to further review and adjustment in future years based in part on further examination of the relevant assumptions, measures, which the Authority may consider to manage plan benefits, and ongoing changes in health care costs and the delivery of health care services. For the 2011 Fiscal Year (non actuarial valuation year), the Authority was required to update the calculation for the current years unfunded OPEB liabilities. The Authority estimated the OPEB liability to be \$180.0 million and annual net ARC to be \$13.6 million as of May 31, 2011. The Authority expects that as this process continues, estimates of its actuarial unfunded OPEB liability may vary substantially, based in part on costs and assumptions used over which the Authority may have limited or no control. From time to time, the Authority may consider the legal and economic feasibility of financing all or a portion of the OPEB liabilities, as well as available options for managing plan benefits. The Authority has not yet adopted a comprehensive financing plan for its OPEB liabilities. However, in an effort to begin, the Authority has included \$1.0 million in its operating and maintenance budget for this purpose.

Insurance

The Authority renewed its insurance coverage on April 1, 2011. Overall, premiums and claim costs decreased by 2% over last year, amounting to a total program cost of \$3,549,307. The Authority continues to review its insurance needs annually in an effort to manage its risk while at the same time managing its costs.

The Authority maintains an insurance policy for both general liability and automobile liability coverage. These policies provide a coverage limit of \$1.0 million in excess of self-insured retention of \$500,000. Claims handling is performed by a third party claims administrator, and legal defense is under the direction of the Authority's General Counsel. Some claims are defended through the use of in-house counsel while others are outsourced to a panel of attorneys. Excess liability insurance was purchased in the amount of \$50.0 million to provide coverage over the above primary policies.

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

The Authority's workers compensation coverage is in accordance with New York statutory regulations. The policy is written through Liberty Mutual Insurance Group containing a minimum and maximum component. Both components are subject to audit of payroll at policy expiration.

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

Collections

The Authority's collection activities have resulted in a collection rate on revenues (revenues less uncollectible accounts) of 99.6% in the 2011 Fiscal Year. Total revenues, uncollectible accounts and collection percentage for each of the Fiscal Years 2007 through 2011 are set forth below:

<u>Fiscal Year</u>	<u>Water Service Revenues</u>	<u>Uncollectible Accounts</u>	<u>Collection Percentage</u>
2011	\$131,860,000	\$559,696	99.6%
2010	114,579,000	609,110	99.5
2009	119,241,000	567,008	99.5
2008	127,686,000	477,483	99.6
2007	119,610,000	443,035	99.6

Authority rules and regulations state that all bills are due and payable, net cash, 12 working days from date of bill. A late charge of 1½% per month is applied to all outstanding bills in excess of forty-five (45) days. The Authority's regulations also provide for discontinuance of water service, in conformance with law, when necessary.

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

Operating and Maintenance Budget for the 2011 Fiscal Year

<u>Category</u>	<u>Budget - FYE May 31, 2012</u>	<u>Actual - FYE May 31, 2011</u>
Construction Maintenance	\$ 3,803,000	\$ 4,102,000
Customer Service	420,000	326,000
Engineering	4,096,000	3,764,000
Facilities Management	1,237,000	1,220,000
Finance/Administration	4,233,000	3,752,000
Human Resources/Risk Mgt.	22,058,000	19,022,000
Information Technology	1,100,000	892,000
Laboratory	625,000	584,000
Production Control	4,735,000	4,619,000
Safety	135,000	168,000
Stores	300,000	221,000
Telecommunications	974,000	821,000
Accrued Expenses - OPEB	13,000,000	12,984,000
Power Purchase	20,300,000	21,373,000
Transportation	1,845,000	1,791,000
Payroll	<u>29,700,000</u>	<u>27,335,000</u>
TOTAL	<u>\$108,561,000</u>	<u>\$102,974,000</u>

The Authority has budgeted \$108,561,000 in operation and maintenance expenses for the 2012 Fiscal Year. This figure represents an increase of 5.14% or \$5,587,000 over the actual operating and maintenance expenses for the 2011 Fiscal Year. The increase is attributable to, among other things payroll (\$2.4 million) and benefit costs, including an increase in the Retirement System (\$1.6 million). Other increases include an increase in costs associated with Risk Management and Human Resources of \$0.6 million. The above reflects the line item breakdown of the Authority's operation and maintenance budget for the 2012 Fiscal Year compared to actual operation and maintenance expense in the 2011 Fiscal Year.

Investment Policy

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

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

The 2012A Notes are not a debt of Suffolk County, nor is Suffolk County in any way, directly or indirectly, obligated for the repayment thereof. However, the service area of the Authority is generally coterminous with the geographical area of Suffolk County and therefore certain demographic, economic and statistical information relating to Suffolk County may be relevant to prospective purchasers of the 2012A Notes. Therefore, the Official Statement of the County of Suffolk, dated December 7, 2011, relating to the County of Suffolk New York \$71,540,000 Refunding Serial Bonds – 2012 Series A and \$16,580,000 Refunding Serial Bonds – 2012 Series B, as supplemented on December 15, 2011, filed with the Municipal Securities Rulemaking Board (the "MSRB"), but only to the extent of the information contained in "APPENDIX A – THE COUNTY OF SUFFOLK" under the captions and subcaptions entitled "THE COUNTY OF SUFFOLK—Economic Considerations," "—Transportation," "—School Facilities" and "—Sports & Entertainment," "REAL PROPERTY TAXES" and "STATISTICAL INFORMATION," is hereby incorporated by reference herein and made a part hereof. Such information may be reviewed at MSRB's website through its Electronic Municipal Market Access ("EMMA") system. Such information is not guaranteed as to its accuracy or completeness by the Authority and is not to be construed as a representation by the Authority.

TAX MATTERS

Federal Income Taxes

In the opinion of Harris Beach PLLC, Bond Counsel to the Authority, and subject to the limitations set forth below, under existing statutes, regulations, administrative rulings and court decisions as of the date of such opinion, interest on the 2012A Notes is excluded from gross income for federal income tax purposes, pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). Furthermore, Bond Counsel is of the opinion that interest in the 2012A Notes is not an "item of tax preference" for purposes of computing the federal alternative minimum tax imposed on individuals and corporations. Interest on the 2012A Notes held by certain corporations is, however, included in the computation of "adjusted current earnings" a portion of which is taken into account in determining the federal alternative minimum tax imposed on such corporations. Corporate purchasers of the 2012A Notes should consult with their tax advisors regarding the computation of any alternative minimum tax liability.

The Series 2012A Notes are being offered at prices in excess of their principal amounts. An initial purchaser with an initial adjusted basis in a Series 2012A Note in excess of its principal amount will have amortizable bond premium which is not deductible from gross income for federal income tax

purposes. The amount of amortizable bond premium for a taxable year is determined actuarially on a constant interest rate basis over the term of each Series 2012A Note based on the purchaser's yield to maturity. For purposes of determining gain or loss on the sale or other disposition of a Series 2012A Note, an initial purchaser who acquires such obligation with an amortizable bond premium is required to decrease such purchaser's adjusted basis in such Series 2012A Note annually by the amount of amortizable bond premium for the taxable year. As a result of the tax cost reduction requirements of the Code relating to amortization of bond premium, under certain circumstances, an initial owner of the Series 2012A Notes may realize a taxable gain upon disposition of the Series 2012A Notes even though they are sold or redeemed for an amount equal to such owner's original cost of acquiring such Series 2012A Notes. Owners of the Series 2012A Notes are advised that they should consult with their own advisors with respect to the tax consequences of owning such Notes.

The Code establishes certain requirements that must be met at and subsequent to the issuance and delivery of the 2012A Notes in order that interest on the 2012A Notes be and remain excluded from gross income for federal income tax purposes, pursuant to Section 103 of the Code. These continuing requirements include certain restrictions and prohibitions on the use of the proceeds of the 2012A Notes and the facilities financed by the 2012A Notes, restrictions on the investment of proceeds and other amounts and the rebate to the United States of certain earnings in respect of such investments. Failure to comply with such continuing requirements may cause the interest on the 2012A Notes to be included in gross income for federal income tax purposes retroactive to the date of issue of the 2012A Notes, irrespective of the date on which such noncompliance occurs. In the Resolution, the Supplemental Resolution and the Tax Certificate as to Arbitrage and the Provisions of Sections 103 and 141-150 of the Internal Revenue Code of 1986 (the "Tax Certificate"), the Authority has covenanted to comply with certain procedures, and has made certain representations and certifications, designed to assure compliance with the requirements of the Code. The opinion of Bond Counsel described in the preceding paragraph is made in reliance upon, and assumes continuing compliance with, such covenants and procedures and the continuing accuracy, in all material respects, of such representations and certifications.

Bond Counsel expresses no opinion regarding any other federal income tax consequences related to the ownership or disposition of, or the receipt or accrual of interest on, the 2012A Notes. The proposed form of opinion of Bond Counsel is attached to hereto as Appendix C.

In addition to the matters referred to in the preceding paragraphs, prospective purchasers of the 2012A Notes should be aware that the accrual or receipt of interest on the 2012A Notes may otherwise affect the federal income tax liability of the recipient. The extent of these other tax consequences may depend upon the recipient's particular tax status or other items of income or deduction. Bond Counsel expresses no opinion regarding any such consequences. Examples of such other federal income tax consequences of acquiring or holding the 2012A Notes include, without limitation, that (i) with respect to certain insurance companies, the Code reduces the deduction for loss reserves by a portion of the sum of certain items, including interest on the 2012A Notes, (ii) interest on the 2012A Notes earned by certain foreign corporations doing business in the United States may be subject to a branch profits tax imposed by the Code, (iii) passive investment income, including interest on the 2012A Notes, may be subject to federal income taxation under the Code for certain S corporations that have certain earnings and profits, and (iv) the Code requires recipients of certain Social Security and certain other federal retirement benefits to take into account, in determining gross income, receipts or accruals of interest on the 2012A Notes. The foregoing is not intended as an exhaustive list of potential tax consequences. Prospective purchasers should consult their tax advisors regarding any possible collateral consequences with respect to the 2012A Notes.

Certain requirements and procedures contained or referred to in the Resolution, the Supplemental Resolution and the Tax Certificate may be changed, and certain actions may be taken or omitted subsequent to the date of issue, under the circumstances and subject to the terms and conditions set forth in such documents or certificates, upon the advice or with the approving opinion of a nationally

recognized bond counsel. Bond Counsel expresses no opinion as to any tax consequences with respect to the 2012A Notes, or the interest thereon, if such change occurs or action is taken or omitted upon the advice or approval of a bond counsel other than Harris Beach PLLC.

State Income Taxes

In the opinion of Bond Counsel, under existing statutes, interest on the 2012A Notes is exempt from personal income taxes imposed by the State of New York and any political subdivision thereof, including The State of New York.

Bond Counsel expresses no opinion regarding any other state or local tax consequences related to the ownership or disposition of, or the receipt or accrual of interest on, the 2012A Notes.

Interest on the 2012A Notes may or may not be subject to state or local income taxes in jurisdictions other than the State of New York under applicable state or local tax laws. Bond Counsel expresses no opinion as to the tax treatment of the 2012A Notes under the laws of such other state or local jurisdictions. Each purchaser of the 2012A Notes should consult his or her own tax advisor regarding the taxable status of the 2012A Notes in a particular jurisdiction other than the State of New York.

Other Considerations

Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or omitted) or any events occurring (or not occurring) after the date of issuance of the 2012A Notes may adversely affect the value of, or the tax status of interest on, the 2012A Notes.

No assurance can be given that any future legislation, including amendments to the Code or the State income tax laws, regulations, administrative rulings, or court decisions, will not, directly or indirectly, cause interest on the 2012A Notes to be subject to federal or State income taxation, or otherwise prevent Bondholders from realizing the full current benefit of the tax status of such interest. Further, no assurance can be given that the introduction or enactment of any such future legislation, or any judicial decision or action of the Internal Revenue Service or any State taxing authority, including, but not limited to, the promulgation of a regulation or ruling, or the selection of the 2012A Notes for audit examination, or the course or result of any Internal Revenue Service examination of the 2012A Notes or of obligations which present similar tax issues, will not affect the market price or marketability of the 2012A Notes. Prospective purchasers of the 2012A Notes should consult their own tax advisors regarding the foregoing matters.

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

ALL PROSPECTIVE PURCHASERS OF THE 2012A NOTES SHOULD CONSULT WITH THEIR TAX ADVISORS IN ORDER TO UNDERSTAND THE IMPLICATIONS OF THE CODE AS TO THESE AND OTHER FEDERAL AND STATE TAX CONSEQUENCES, AS WELL AS ANY LOCAL TAX CONSEQUENCES, OF PURCHASING OR HOLDING THE 2012A NOTES.

COVENANT BY THE STATE OF NEW YORK

Under the Act, the State covenants with the purchasers and with all subsequent holders and transferees of bonds and notes issued by the Authority that such bonds and notes and the income therefrom and all moneys, funds and revenues pledged to pay or secure the payment of such bonds and notes, shall at all times be free from taxation, except for transfer and estate taxes. Under the Act, the State also pledges to and agrees with the holders of bonds or notes issued by the Authority (including the 2012A Notes) that the State will not limit or alter the rights thereby vested in the Authority to acquire,

construct, maintain, operate, reconstruct and improve the properties, to establish and collect the revenues, rates, rentals, fees and other charges referred to in the Act and to fulfill the terms of any agreements made with the holders of such bonds or notes, or in any way impair the rights and remedies of the holders thereof, until the bonds, together with interest thereon, interest on any unpaid installments of interest and all costs and expenses in connection with any action or proceeding by or on behalf of the holders thereof, are fully met and discharged.

LEGALITY FOR INVESTMENT

The Act provides that bonds and notes issued by the Authority (including the 2012A Notes) are securities in which all public officers and bodies of the State and all municipalities and municipal subdivisions, all insurance companies and associations and other persons carrying on an insurance business, all banks, bankers, trust companies, savings banks and savings associations, including savings and loan associations, building and loan associations, investment companies and other persons carrying on a banking business and all other persons whomsoever, except as hereinafter provided, who are now or may hereafter be authorized to invest funds including capital in their control or belonging to them. Such bonds or notes, however, shall not be eligible for the investment of funds including capital, of trusts, estates or guardianships under the control of individual administrators, guardians, executors, trustees and other individual fiduciaries.

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

LEGAL MATTERS

Harris Beach PLLC, New York, New York, Bond Counsel to the Authority, will render its approving opinion as to the validity and legality of the 2012A Notes, copies of which will be available at the time of delivery of the 2012A Notes and the form of which is annexed hereto in Appendix C. Said Bond Counsel has not assumed responsibility for the preparation of this Official Statement and is not rendering any opinions as to the accuracy or completeness of the Official Statement.

In the opinion of Timothy J. Hopkins, Esq., General Counsel to the Authority, the Authority is vested with the title or right and interest in all the properties constituting the Water System, including plants, works, instrumentalities or parts thereof and appurtenances thereto, lands, easements, rights in land and water rights, rights-of-way, contract rights, approaches, connections, storage tanks, water mains and pipe lines, pumping stations and equipment and any other property incidental to and included in the Water System or part thereof and any improvements, extensions and betterments thereof, all of which are located in Suffolk County. Such counsel is of the opinion that substantially all parcels of land included in the Water System are owned in fee or by long-term easement agreements, and the transmission and distribution mains are located on land with respect to which the Authority has rights-of-way or easements, or along public streets and roadways, and with respect to such rights-of-way or easements, the Authority is not obligated to pay any rental charges for the use thereof. The small numbers of parcels not owned in fee are operated by the Authority under long-term contractual arrangements or easement agreements. Such counsel is of the opinion that, so far as legal matters are concerned, such properties, interests and rights vested in the Authority are sufficient to authorize the use and operation of the Water System as now being used and operated; and is also of the opinion that the aforesaid properties, interests and rights held by the Authority in the Water System are held free and clear of any mortgages, liens, or other encumbrances which might affect the same to the extent of interfering with the operations of the Water System; nor has the Authority assumed the obligation of any such mortgages, liens, or encumbrances or the payment of any interest charges thereunder.

LITIGATION

There is not now pending or, to the best of the Authority's knowledge, threatened any litigation restraining or enjoining the issuance or delivery of the 2012A Notes or questioning or affecting the validity of the 2012A Notes or the proceedings and authority under which they are to be issued, nor is the creation, organization, or existence of the Authority being contested.

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

EVENT DISCLOSURE UNDER SEC RULE 15C2-12

In order to assist the Purchasers in complying with Rule 15c2-12, as it may be amended (the "Rule") promulgated by the Securities and Exchange Commission ("SEC") under the Securities Exchange Act of 1934, as amended, the Authority, to the extent the Rule requires, will agree for the benefit of the beneficial owners from time to time of the 2012A Notes (the "Authority Undertaking") to provide to the Municipal Securities Rulemaking Board (the "MSRB") through its Electronic Municipal Market Access ("EMMA") system, in electronic format and accompanied by such identifying information as is prescribed by the MSRB, with the following notices of events:

(1) in a timely manner, not in excess of 10 business days, notice of the occurrence of any of the following events with respect to the 2012A Notes:

- (a) principal and interest payment delinquencies;
- (b) non-payment related defaults, if material;
- (c) unscheduled draws on debt service reserves reflecting financial difficulties;
- (d) unscheduled draws on credit enhancements reflecting financial difficulties;
- (e) substitution of credit or liquidity providers, or their failure to perform;
- (f) adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the 2012A Notes, or other material events affecting the tax-exempt status of the 2012A Notes;
- (g) modifications to rights of the holders (including Beneficial Owners) of the 2012A Notes, if material;
- (h) bond calls, if material, and tender offers;
- (i) defeasances;
- (j) release, substitution, or sale of property securing repayment of the 2012A Notes, if material;
- (k) rating changes;
- (l) bankruptcy, insolvency, receivership or similar events;
- (m) the consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry

- into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions other than pursuant to its terms, if material; and
- (n) appointment of a successor or additional trustee or the change of name of a trustee, if material.
- (2) notice of any failure by the Authority to comply with clause (1) above.

The provisions of the Authority Undertaking inure solely to the benefit of the beneficial owners from time to time of the 2012A Notes who will be third-party beneficiaries of the Authority Undertaking.

With respect to event (d) and (e), the Authority does not undertake to provide any notice with respect to credit enhancement added after the primary offering of the 2012A Notes, unless the Authority applies for or participates in obtaining the enhancement.

With respect to event (f) and the tax status of the 2012A Notes, see TAX MATTERS.

With respect to event (h), the Authority does not undertake to provide notice of a mandatory scheduled redemption, if any, not otherwise contingent upon the occurrence of an event if (i) the terms, dates and amounts of redemption are set forth in detail in this Official Statement, (ii) the only open issue is which 2012A Notes will be redeemed in the case of a partial redemption, (iii) notice of redemption is given to the Beneficial Owners as required under the terms of the 2012A Notes, (iv) public notice of the redemption is given pursuant to the Release Number 34-23856 of the SEC under the 1934 Act, even if the originally scheduled amounts are reduced by prior optional redemptions or bond purchases.

The Authority may from time to time choose to provide notice of the occurrence of certain other events in addition to those listed above if, in the judgment of the Authority, such other event is material with respect to the 2012A Notes, but the Authority does not undertake to provide any such notice of the occurrence of any material event except those events listed above.

The obligations of the Authority to comply with the provisions of the Authority Undertaking shall be enforceable, in the case of enforcement of obligations to provide notices, by any owner of outstanding 2012A Notes; provided however, that the Bond Fund Trustee shall not be required to take any enforcement action except at the direction of the owners of not less than a majority in aggregate principal amount of the 2012A Notes at the time outstanding who shall have provided the Bond Fund Trustee with adequate security and indemnity. Neither the Authority nor its directors, officers or employees shall have any liability under the Authority Undertaking for any act or failure to act under the Authority Undertaking. The owners and Bond Fund Trustee's sole remedy with respect to enforcement of the provisions of the Authority Undertaking shall be a right, by action in mandamus or for specific performance, to compel performance of the Authority's obligations under the Authority Undertaking. In consideration of the third-party beneficiary status of beneficial owners of 2012A Notes pursuant to the Authority Undertaking, beneficial owners shall be deemed to be owners of 2012A Notes for purposes of enforcement of the Authority Undertaking. All proceedings may be instituted only as specified herein, in the Federal or State courts located in the County of Suffolk, State of New York, and for the equal benefit of all holders of the outstanding 2012A Notes.

The Authority Undertaking provides that the Authority's and the Bond Fund Trustee's obligations thereunder will terminate upon a legal defeasance pursuant to the Resolution, prior redemption or payment in full of all of the 2012A Notes. Upon any legal defeasance, the Authority Undertaking provides that the Authority shall give notice of such defeasance to the MSRB. The Authority Undertaking further provides that if all or any part of the Rule ceases to be in effect for any

reason, then the information required to be provided under the Authority Undertaking, insofar as the provision of the Rule no longer in effect required the providing of such information, shall no longer be required to be provided.

Copies of the Authority Undertaking when executed by the parties thereto on the date of the initial delivery of the 2012A Notes will be on file at the office of the Bond Fund Trustee.

In connection with the issuance of prior series of Bonds and notes, the Authority entered into agreements to provide continuing disclosure for the benefit of the beneficial owners of such Bonds and notes. The Authority is currently in compliance with such agreements to provide continuing disclosure.

FINANCIAL CONSULTANT

Pursuant to a written agreement between the Authority and Goldman, Sachs & Co. (the “Financial Consultant Agreement”), Goldman, Sachs & Co., serves as financial consultant to the Authority and provides recommendations and other financial guidance to the Authority with respect to the sale and issuance of its obligations, including the 2012A Notes, timing of sale, tax-exempt bond market conditions and other factors related to the sale and issuance of such obligations. The Financial Consultant Agreement provides that Goldman, Sachs & Co. will not serve as underwriter unless the procedures contained in Municipal Securities Rulemaking Board Rule G-23 have been complied with, if applicable. The Financial Consultant has not audited, authenticated or otherwise verified the information set forth in this Official Statement, or any other information that may be available to the Authority, with respect to appropriateness, accuracy and completeness of disclosure of such information or other information, and no guaranty, warranty or other representation is made by the Financial Consultant respecting such accuracy and completeness of information or any other matter related to such information and the Official Statement.

RATINGS

Standard & Poor’s Rating Services (“S&P”) and Fitch, Inc. (“Fitch”) have assigned their short-term ratings for the 2012A Notes of “SP1+” and “F1+,” respectively. Such ratings reflect only the views of such organizations, and an explanation of the significance of such ratings may be obtained from: Standard & Poor’s Rating Services, 25 Broadway, New York, New York 10004 and Fitch, Inc., One State Street Plaza, New York, New York 10004. Generally, each rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that any such rating will continue for any given period of time or that it will not be revised, suspended or withdrawn entirely by such rating agency if in its judgment circumstances so warrant. A revision, suspension or withdrawal of any such ratings may have an effect on the market price of the 2012A Notes.

INDEPENDENT AUDITORS

The financial statements of the Authority for the fiscal years ended May 31, 2011 and 2010, which are included as Appendix B to this Official Statement, have been audited by KPMG LLP, independent auditors, as stated in their report which appears therein.

KPMG LLP, our independent auditor, has not been engaged to perform and has not performed any procedures on the financial statements of the County of Suffolk, New York or on the Official Statement of the County of Suffolk, dated December 7, 2011, relating to the County of Suffolk New York \$71,540,000 Refunding Serial Bonds – 2012 Series A and \$16,580,000 Refunding Serial

Bonds – 2012 Series B, as supplemented on December 15, 2011, (Suffolk County Official Statement) that has been incorporated by reference into this Official Statement.

CERTIFICATION AS TO OFFICIAL STATEMENT

The Authority will confirm to the successful underwriting bidders of the 2012A Notes, by a certificate signed on its behalf by its Chairman and dated and delivered on the date of delivery of and payment of the 2012A Notes, that on the date of this Official Statement and on the date of such certificate (i) the descriptions and statements of or pertaining to the Authority contained in this Official Statement were and are true and correct in all material respects; and (ii) insofar as the Authority and its affairs, including its financial affairs, are concerned, this Official Statement did not and does not contain an untrue statement of a material fact or omit any statement of a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, except that no representation is made as to statements in this Official Statement ascribed to sources other than the Authority, although the Authority has no reason to believe and does not believe that such information is materially inaccurate or misleading.

The references herein to the Act, the General Resolution, the Supplemental Resolution and the 2012A Notes are made subject to all of the respective provisions thereof, to which reference is hereby made for further information. The references thereto in this Official Statement do not purport to be complete statements thereof. The agreement of the Authority with the holders of the 2012A Notes is fully set forth in the Resolution, and neither any advertisement of such 2012A Notes nor this Official Statement is to be construed as a contract with the purchasers of such 2012A Notes. All appendices to this Official Statement are hereby incorporated as integral parts of this Official Statement. So far as any statements are made in the Official Statement involving matters of opinion or estimate, whether or not expressly so stated, they are intended merely as such and not as presentations of fact. Copies of the documents mentioned in this paragraph are on file at the offices of the Authority and of the Paying Agent.

This Official Statement is being issued by the Authority in two editions: (1) a preliminary edition dated March 13, 2012 and issued for purposes of public sale of all of the 2012A Notes on March 30, 2012 pursuant to the Authority's Official Notice of Sale requesting electronic bids and (2) a final edition dated March 20, 2012 and issued, in connection with the public sale, to contain the actual interest rate to be borne by the 2012A Notes upon issuance thereof and the resulting annual debt service.

SUFFOLK COUNTY WATER AUTHORITY

By: 
James F. Gaughran
Chairman

Bonds – 2012 Series B, as supplemented on December 15, 2011, (Suffolk County Official Statement) that has been incorporated by reference into this Official Statement.

CERTIFICATION AS TO OFFICIAL STATEMENT

The Authority will confirm to the successful underwriting bidders of the 2012A Notes, by a certificate signed on its behalf by its Chairman and dated and delivered on the date of delivery of and payment of the 2012A Notes, that on the date of this Official Statement and on the date of such certificate (i) the descriptions and statements of or pertaining to the Authority contained in this Official Statement were and are true and correct in all material respects; and (ii) insofar as the Authority and its affairs, including its financial affairs, are concerned, this Official Statement did not and does not contain an untrue statement of a material fact or omit any statement of a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, except that no representation is made as to statements in this Official Statement ascribed to sources other than the Authority, although the Authority has no reason to believe and does not believe that such information is materially inaccurate or misleading.

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SUFFOLK COUNTY WATER AUTHORITY

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

APPENDIX A

SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

The following is a summary of certain provisions contained in the Resolution which does not purport to be complete. This summary is qualified by reference to the Resolution copies of which may be examined at the offices of the Authority and the Bond Fund Trustee. In particular, investors and other interested parties, should refer to the complete Resolution for a description of the nature and extent of (i) the security for the 2012A Notes, and of any Bonds heretofore and hereafter issued under the General Resolution (all of such Bonds being herein collectively called the “Bonds”), (ii) the revenues pledged to the payment of the 2012A Notes, (iii) the nature and extent and manner of enforcement of the pledge, the rights and remedies of the holders of the 2012A Notes with respect thereto, (iv) the terms and conditions upon which the 2012A Notes are issued, and (v) a statement of rights, duties, immunities and obligations of the Authority.

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

Definitions of Certain Terms

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

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

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

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

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

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

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

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

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

“Certificate of Determination” means the certificate of the Chairman of the Authority, dated March 30, 2012, determining certain terms of the 2012A Notes.

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

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

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

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

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

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

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

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

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

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

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

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

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

“Favorable Opinion of Bond Counsel” means an opinion of Harris Beach PLLC, or other Bond Counsel, addressed to the Authority, the Paying Agent, to the effect that the action proposed to be taken is authorized or permitted by the laws of the State of New York and the United States and the Supplemental Resolution and will not adversely affect any exclusion from gross income for federal income tax purposes of interest on the 2012A Notes.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

"Original Bonds Trust Fund" means a Refunding Trust Fund created and administered pursuant to a Refunding Trust Agreement dated as of November 15, 1988 by and between the Authority and The Bank of New York Mellon (formerly known as United States Trust Company of New York), as Trustee for the benefit of the holders of the Water Works Revenue Bonds.

"Original Bonds Trustee" means The Bank of New York Mellon (formerly known as United States Trust Company of New York) as Trustee under a Refunding Trust Agreement, dated as of November 15, 1988, by and between the Authority and said Bank.

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

"Original Resolution" means the resolution adopted by the Authority on May 21, 1951 and dated June 1, 1951, entitled, "RESOLUTION PROVIDING FOR THE ESTABLISHMENT AND OPERATION BY SUFFOLK COUNTY WATER AUTHORITY OF A WATER SUPPLY AND DISTRIBUTION SYSTEM WITHIN THE COUNTY OF SUFFOLK AND PROVIDING FOR THE ISSUANCE OF BONDS AND NOTES FOR CORPORATION PURPOSES," as amended, and the resolutions supplemental thereto.

“Original Water Works Revenue Bonds“ means the outstanding Water Works Revenue Bonds, heretofore issued pursuant to the Original Resolution consisting of Water Works Revenue Bonds, Series F, dated June 1, 1959, Water Works Revenue Bonds, Series G, dated June 1, 1961, Water Works Revenue Bonds, Series H, dated June 1, 1962, Water Works Revenue Bonds, Series I, dated June 1, 1964, Water Works Revenue Bonds, Series J, dated June 1, 1965, Water Works Revenue Bonds, Series K, dated June 1, 1967, Water Works Revenue Bonds, Series L, dated June 1, 1969, Water Works Revenue Bonds, Series M, dated June 1, 1970, Water Works Revenue Bonds, Series N, dated June 1, 1972, Water Works Revenue Bonds, Series O, dated June 1, 1973, Water Works Revenue Bonds, Series Q, dated June 1, 1976, Water Works Revenue Bonds, Series R, dated March 1, 1978 and Water Works Revenue Bonds, Series S, dated June 1, 1980.

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

“Paying Agent” means, (i) as to the 2012A Notes, The Bank of New York Mellon, or any successor thereto, as paying agent and registrar for the 2012A Notes under the Supplemental Resolution relating to the 2012A Notes and (ii) as to Bonds of any particular Series, the bank or trust company designated for the payment of the principal of, premium, if any, and interest on the Bonds of such Series in the Supplemental Resolution providing for the issuance of such Series of Bonds.

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

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

“Record Date” means the last Business Day prior to each Interest Payment Date on the 2012A Notes.

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

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

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

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

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

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

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

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

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

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

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

“Supplemental Resolution” means any resolution adopted by the Authority pursuant to and in compliance with the provisions of Article III of the Resolution providing for the issuance of Bonds, and shall also mean any other resolution adopted by the Authority pursuant to and in compliance with the provisions of Article X of the Resolution which amends or supplements the provisions of the

Resolution. When used with reference to this Official Statement, Supplemental Resolution shall mean that certain Supplemental Resolution of the Authority adopted December 1, 2011, authorizing and providing for certain terms and provisions of the 2012A Notes.

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

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

“Water Works Revenue Bonds“ means the Original Water Works Revenue Bonds and the outstanding Water Works Revenue Bonds, heretofore issued pursuant to the Original Resolution, consisting of Water Works Revenue Bonds, Series T, dated April 1, 1983, Water Works Revenue Bonds, Series U, dated February 1, 1985, Water Works Revenue Bonds, Series V, dated August 15, 1986 and Water Works Revenue Bonds, Series W, dated November 1, 1986.

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

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

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

(b) The Resolution pledges as security for the payment of the principal of, premium, if any, and interest on the Subordinate Lien Bonds in accordance with their terms and the provisions of the Resolution, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution (i) the proceeds of sale of the Subordinate Lien Bonds pending application thereof in accordance with the provisions of the Resolution

or of a Supplemental Resolution, (ii) the Secondary Revenues, and (iii) all funds and accounts established by the Resolution other than the Bond Fund and the Rebate Fund, including the investments, if any, thereof; and the Subordinate Lien Bondholders shall have a lien on, and a security interest in, such proceeds, Secondary Revenues and funds and accounts for such purpose and subject to such provisions of the Resolution. Such pledge and the Subordinate Lien Bonds shall be subordinate to and inferior to the cost of operation and maintenance of the Water System and, so long as the Original Water Works Revenue Bonds and the Senior Lien Bonds are Outstanding, be subordinate to and inferior to the pledges and liens and charges upon the Revenues of the Water System created by the Original Resolution in favor of the Original Water Works Revenue Bonds and the Resolution in favor of the Senior Lien Bonds.

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

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

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

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

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

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

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

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

(1) the average of the Net Revenues (less payments, if any, required to be made with respect to the Original Water Works Revenue Bonds as set forth in Section 6.1.A.2 of the Resolution) for any consecutive twenty-four months' period out of thirty-six months immediately preceding the month in which such Bonds are issued were equal to not less than one hundred ten per cent (110%) of the average annual Debt Service on the Bonds (including the Series of Bonds then being issued) for the then current and all future Fiscal Years; or

(2) there shall be filed with the Authority and the Bond Fund Trustee at the time of issuance of such Series of Bonds a certificate of the Consulting Engineer showing that the estimated Net Revenues (less payments, if any, required to be made with respect to the Original Water Works Revenue Bonds as set forth in Section 6.1.A.2 of the Resolution) of the Water System together with other moneys lawfully available therefor as estimated by the Consulting Engineer (as provided in the Resolution) for each of the five Fiscal Years, commencing with the first Fiscal Year in which the Series of Bonds then being issued is delivered, shall be at least equal to one and twenty-five hundredths (1.25) times the Debt Service for such Fiscal Year on all outstanding Bonds, including the Bonds then being issued.

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

D. The foregoing provisions do not apply to the initial Series of Bonds issued pursuant to the Resolution or to a Series of Bonds issued to refund Original Bonds, unless or except as is otherwise set forth in the Supplemental Resolution providing for the issuance thereof. (Res. Section 3.4).

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

Bond Anticipation Notes. Bond anticipation notes may be issued by the Authority at such time as the Authority shall have by resolution authorized the issuance of bonds under the Act. Such note or notes may bear interest at a fixed, variable, adjustable, convertible or other similar rate or rates as may be determined by the Authority. If the Authority determines to issue bond anticipation notes with variable, adjustable, convertible or other similar rate or rates of interest, the Authority shall specify: (1) the manner of determining the interest rate or rates and the frequency of change thereof, (2) the maximum rate or rates, if any, at which the Notes may bear interest, (3) the interest payment dates or the manner of determining interest payment dates and (4) provisions, if any, with respect to the conversion of such Notes to Notes bearing a fixed rate of interest and the reconversion of such Notes to bear interest at a variable rate. The method or methods for determining the interest rates on Notes bearing interest at variable, adjustable, convertible or other similar rates of interest may include the selection of such rates by a rate determination agent as may be provided in an agreement between the Authority and such agent, the utilization of an index or indices as may be determined by the Authority, or such other standard or combination of standards as may be determined by the Authority. The Authority may provide the holders of the Notes with rights to tender the Notes for purchase, and may require the holders of the Notes to tender the same for purchase, the purchase price in each case to be provided from the proceeds of the remarketing of the Notes so tendered; the Authority may enter into one or more agreements with banks, investment banks, insurance companies or other financially responsible parties to provide letters of credit, insurance policies, standby note purchase agreements or other similar commitments or liquidity facilities the proceeds of which will be available to purchase Notes tendered for purchase or required to be

tendered for purchase in the event that proceeds of remarketing such Notes are not available in amounts sufficient or timely to pay the purchase price of such Notes. The maximum maturity of such bond anticipation notes, including the renewals thereof, shall not exceed five years from the date of the original bond anticipation note. Such note or notes may be secured in the manner provided by the Act; provided that such bond anticipation note or notes shall be secured by a lien and pledge on the Revenues junior and inferior and subject to the lien and pledge on the Revenues created in the Resolution for the payment and security of the Bonds, and any resolution authorizing the issuance of such bond anticipation notes shall provide for the payment thereof after the required payments to the Operating Fund, to the holders of the Original Water Works Revenue Bonds pursuant to Section 6.1.A.2 of the Resolution, to the Bond Fund and the Secondary Bond Fund. Such bond anticipation note or notes shall be discharged and paid through the issuance of bonds in anticipation of which they were issued, or, subject to rights of the holders of any Bonds Outstanding, from the proceeds of Bonds of the Authority. The principal amount of any bond anticipation notes may not exceed the principal amount of the series of bonds in anticipation of which said notes are to be issued. (Res. Section 3.7)

Subordinate Lien Obligations. Nothing contained in the Resolution shall prohibit or prevent, or be deemed or construed to prohibit or prevent, the Authority from authorizing and issuing bonds, notes, certificates, warrants or other evidences of indebtedness for any corporate use or purpose relating to the Water System payable as to principal and interest from the Revenues subject and subordinate to the deposits and credits required to be made to the Operating Fund, any payments required to be made to the holders of the Original Water Works Revenue Bonds pursuant to Section 6.1.A.2 of the Resolution and to the Bond Fund, or from securing such bonds, notes, certificates, warrants or other evidences of indebtedness and the payment thereof by a lien and pledge on the Revenues junior and inferior to the lien and pledge on the Revenues created in the Resolution for the payment and security of the Bonds. (Res. Section 3.8)

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

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

Requirement and the provisions relating to redemption, acceleration and actions by Bondholders (Res. Section 3.10)

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

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

Variable Rate Bonds. A Supplemental Resolution providing for the issuance of a Series of Bonds may provide for the Bonds to bear interest at a variable, adjustable, convertible or other similar rate or rates of interest. Any such Supplemental Resolution shall specify: (1) the manner of determining the interest rate or rates and the frequency of change thereof, (2) the maximum rate or rates, if any, at

which the Bonds may bear interest and (3) provisions, if any, with respect to the conversion of such Bonds to Bonds bearing a fixed rate of interest and the reconversion of such Bonds to bear interest at a variable rate. The method or methods for determining the interest rate on Bonds bearing interest at a variable or similar rate of interest may include the selection of such rate by a rate determination agent as provided in an agreement between the Authority and such agent, the utilization of an index or indices as described in the applicable Supplemental Resolution, or such other standard or combination of standards set forth in the Supplemental Resolution.

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

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

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

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

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

1. The amounts required to pay Operation and Maintenance Expenses shall be transferred to the Operating Fund as required by Section 6.2 of the Resolution;

2. In the event that amounts on deposit in the Original Bonds Trust Fund shall be insufficient to pay the principal or redemption price of and interest on the Original Water Works Revenue Bonds as the same become due, an amount sufficient to pay such principal, redemption price and interest on the Original Water Works Revenue Bonds shall be transferred to the Original Bonds Trustee for payment to the holders of the Original Water Works Revenue Bonds;

3. The amounts required to be deposited to the Bond Fund shall be transferred as set forth in Section 6.3 of the Resolution;

4. The amounts required to be deposited to the Secondary Bond Fund shall be transferred as set forth in Section 6.11 of the Resolution;

5. The balance remaining in the Water Revenue Fund at the end of each month, after making the transfers and allocations set forth above, shall be deposited into the General Fund, established pursuant to Section 6.4 of the Resolution. (Res. Section 6.1)

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

Bond Fund. The Resolution establishes a special fund of the Authority to be maintained in trust and held by the Bond Fund Trustee as long as any Senior Lien Bonds issued under the Resolution are outstanding and unpaid, and to be known as the "Bond Fund." The Bond Fund and the moneys deposited in such Fund shall, except as otherwise provided in paragraph D below, be used solely for the purpose of paying the principal of, premium, if any, and interest on the Senior Lien Bonds, and of retiring the Senior Lien Bonds prior to maturity in the manner provided in the Resolution. Each month, after making the transfers to the Operating Fund and for any payments required pursuant to Section 6.1.A.2 of the Resolution for the Original Water Works Revenue Bonds, the Authority shall transfer, to the extent not otherwise provided, from the Water Revenue Fund to the Bond Fund Trustee for deposit into the Bond Fund amounts as follows and in the following order of priority:

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

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

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

The Bond Fund Trustee shall without further authorization or direction apply the moneys on credit to the Bond Retirement Account on each date, if any, upon which a Sinking Fund Installment is due to the retirement of the Term Bonds of such Series of Senior Lien Bonds in accordance with the Supplemental Resolution providing for the issuance of such Series of Senior Lien Bonds, or, if so directed in writing by the Authority, semi-annually on both such due date and the day six months prior to such due date, in the respective principal amounts on credit to the Bond Retirement Account on such dates for such Term Bonds, so that the aggregate amounts so applied will equal the respective principal amounts required to be credited to the Bond Retirement Account on such sinking fund installment dates by the Supplemental Resolution providing for their issuance; provided, however, that if the last Sinking Fund Installment for such Term Bonds falls due on the stated maturity date thereof, the amount of such installment shall not be applied to the redemptions of such Term Bonds but shall be applied to the payment thereof at such maturity date in the same manner as amounts are applied from the Principal Account for the payment of Serial Bonds at maturity. The Bond Fund Trustee shall give notice of all such redemptions, in the name and on behalf of the Authority, in accordance with the Resolution. The Bond Fund Trustee may also, without further authorization or direction, apply the moneys credited to the Bond Retirement Account for the retirement of the Term Bonds of a particular Series of Senior Lien Bonds to the purchase of such Senior Lien Bonds, at a purchase price (including accrued interest and any brokerage or other charge) not to exceed the redemption price then applicable upon the redemption of such Senior Lien Bonds from Sinking Fund Installments, plus accrued interest, in which event the

principal amount of such Senior Lien Bonds required to be redeemed on the next respective ensuing Sinking Fund Installment date shall be reduced by the principal amount of the Senior Lien Bonds so purchased; provided, however, that no Senior Lien Bonds of such Series shall be purchased during the interval between the date on which notice of redemption of said Senior Lien Bonds from Sinking Fund Installments is given and the date of redemption set forth in such notice, unless the Senior Lien Bonds so purchased are Senior Lien Bonds called for redemption in such notice or are purchased from moneys other than those credited to the Bond Retirement Account with respect to Sinking Fund Installments.

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

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

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

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

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

D. Reserve Account. The Bond Fund Trustee shall create a separate Account for each series of Senior Lien Bonds. The Reserve Account Requirement for each Series of Senior Lien Bonds shall be that amount, if any, provided in the Supplemental Resolution providing for the issuance of such Series of Senior Lien Bonds. In the event a Reserve Account Requirement is prescribed, the Supplemental Resolutions providing for the issuance of a Series of Senior Lien Bonds shall provide either (i) for deposits from the moneys in the Water Revenue Fund into the Bond Fund for credit to the appropriate Reserve Account, (ii) for payments into the Bond Fund for credit to the appropriate Reserve

Account from the proceeds of Senior Lien Bonds or from any moneys lawfully available therefor, or (iii) for deposit with the Bond Fund Trustee of a surety bond, an insurance policy or letter of credit unconditionally payable on demand to or for the benefit of the Bond Fund Trustee for the benefit of the holders of the Series of Senior Lien Bonds for which the Reserve Account was created, all as shall be determined and provided in the Supplemental Resolution. The moneys in the Bond Fund on credit to a Reserve Account shall be used and applied solely for the purpose of paying the principal of, premium, if any, and interest on the respective Series of Senior Lien Bonds for which the account was created when due, whether at their maturity or upon the redemption or purchase thereof from moneys credited to the Bond Retirement Account, and shall be so used and applied whenever there are insufficient moneys on credit to the Interest Account, Principal Account and Bond Retirement Account for such purposes. No Senior Lien Bonds other than the Series of Senior Lien Bonds for which such account has been created shall have any right to be paid from such account.

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

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

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

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

notice of redemption can practicably be given, and shall apply such moneys to such retirement or redemption. (Res. Section 6.3)

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

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

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

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

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

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

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

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

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

Rebate Fund. If and to the extent necessary to comply with any covenant established in a Supplemental Resolution with respect to a Series of Bonds regarding maintaining the exemption of interest on such Bonds from federal income taxation, the Authority shall establish in the Supplemental Resolution providing for the issuance thereof of a Rebate Fund and an account in the Rebate Fund with respect to such Series of Bonds. The Authority shall establish in said Supplemental Resolution such terms and provisions regarding deposits or credits to and withdrawals from said account, the calculation of amounts to be deposited or credited thereto, investment of amounts on deposit therein, if any, and such other terms and provisions the Authority deems necessary to ensure compliance with the provisions of any such covenant. The Authority shall establish separate accounts in the Rebate Fund for each subsequent Series of Bonds, if required for such Series of Bonds. Moneys in the Rebate Fund and the accounts therein are not available for the benefit of the holders of the Bonds and are not pledged to payment of the Bonds or the interest thereon. (Res. Section 6.8)

New Construction Fund. The Resolution establishes a special fund of the Authority to be maintained by the Authority and to be known as the “New Construction Fund.” Moneys in the New Construction Fund may be used to finance the Cost of Acquisition and Construction of improvements to the Water System or the payment of notes in respect of which renewal notes are issued. Any non-exempt project for which moneys in such Construction Fund, may be applied shall be reviewed under the New York State Environmental Quality Review Act (Article Eight of the Environmental Conservation Law) (“SEQRA”), prior to adoption of any decision, order or resolution committing the Authority or applicable agency to undertake such project. The Authority’s authorizations contained herein are predicated on compliance with SEQRA and are limited to conducting contemporaneous environmental, engineering, economic, feasibility and other studies and preliminary planning and budgetary processes necessary to formulate a proposal for action. Notwithstanding any authorization included above, the activities so authorized do not commit the Authority to commence, engage in or approve the Projects. No final action may be taken before the Authority has complied with the requirements of SEQRA. (Res. Section 6.9; Suppl. Res Section 5)

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

Moneys in the Water Revenue Fund not required for immediate disbursement for the purpose for which said Fund is created shall, to the fullest extent practicable and reasonable, be invested

and reinvested by the Authority, to the extent allowed by law, in Investment Securities which shall mature or be subject to redemption at the option of the holder thereof, not later than such times as shall be necessary to provide moneys when needed to provide payment from such Fund.

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

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

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

Secondary Bond Fund. The Resolution establishes a special fund of the Authority to be maintained in trust and held by the Bond Fund Trustee, as long as any Subordinate Lien Bonds issued under the Resolution are Outstanding and unpaid, and to be known as the "Secondary Bond Fund." The Secondary Bond Fund and the moneys deposited in such Fund shall, except as otherwise provided in paragraph D below, be used solely for the purpose of paying the principal of, premium, if any, and interest on the Subordinate Lien Bonds, and of retiring the Subordinate Lien Bonds prior to maturity in the manner provided in the Resolution. Each month, after making the transfers to the Operating Fund, for any payments required pursuant to Section 6.1.A.2 of the Resolution for the Original Water Works Revenue Bonds, and to the Bond Fund, the Authority shall transfer, to the extent not otherwise provided, from the Water Revenue Fund to the Bond Fund Trustee for deposit into the Secondary Bond Fund amounts as follows and in the following order of priority, to wit:

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

Supplemental Resolution pursuant to which such Series of Subordinate Lien Bonds is issued. Interest capitalized from the proceeds of the Subordinate Lien Bonds of a Series and any other transfers and credits otherwise made or required to be made to said Account shall be taken into consideration and allowed for.

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

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

The Bond Fund Trustee shall without further authorization or direction apply the moneys on credit to the Secondary Bond Retirement Account on each date, if any, upon which a Sinking Fund Installment is due to the retirement of the Term Bonds of such Series of Subordinate Lien Bonds in accordance with the Supplemental Resolution providing for the issuance of such Series of Subordinate Lien Bonds, or, if so directed in writing by the Authority, semi-annually on both such due date and the day six months prior to such due date, in the respective principal amounts on credit to the Secondary Bond Retirement Account on such dates for such Term Bonds, so that the aggregate amounts so applied will equal the respective principal amounts required to be credited to the Secondary Bond Retirement Account on such Sinking Fund Installment dates by the Supplemental Resolution, providing for their issuance; provided, however, that if the last Sinking Fund Installment for such Term Bonds falls due on the stated maturity date thereof, the amount of such installment shall not be applied to the redemptions of such Term Bonds but shall be applied to the payment thereof at such maturity date in the same manner as amounts are applied from the Secondary Principal Account for the payment of Serial Bonds at maturity. The Bond Fund Trustee shall give notice of all such redemptions, in the name and on behalf of the

Authority, in accordance with the Resolution. The Bond Fund Trustee may also, without further authorization or direction, apply the moneys credited to the Secondary Bond Retirement Account for the retirement of the Term Bonds of a particular Series of Subordinate Lien Bonds to the purchase of such Subordinate Lien Bonds, at a purchase price (including accrued interest and any brokerage or other charge) not to exceed the redemption price then applicable upon the redemption of such Subordinate Lien Bonds from Sinking Fund Installments, plus accrued interest, in which event the principal amount of such Subordinate Lien Bonds required to be redeemed on the next respective ensuing Sinking Fund Installment date shall be reduced by the principal amount of the Subordinate Lien Bonds so purchased; provided, however, that no Subordinate Lien Bonds of such Series shall be purchased during the interval between the date on which notice of redemption of said Subordinate Lien Bonds from Sinking Fund Installments is given and the date of redemption set forth in such notice, unless the Subordinate Lien Bonds so purchased are Subordinate Lien Bonds called for redemption in such notice or are purchased from moneys other than those credited to the Secondary Bond Retirement Account with respect to Sinking Fund Installments.

In the event that moneys in the Secondary Bond Retirement Account, other than moneys credited thereto as Sinking Fund Installments pursuant to a Supplemental Resolution, are to be applied to the retirement of a Series of Subordinate Lien Bonds, the Authority may direct the Bond Fund Trustee within thirty days of the deposit of such moneys to apply such moneys to the purchase of Subordinate Lien Bonds of such Series. The price payable on any such purchase (including any brokerage or other charge) shall not exceed the highest redemption price applicable at the time or any time thereafter with respect to such Series of Subordinate Lien Bonds, plus accrued interest. Any such moneys not applied to the purchase of Subordinate Lien Bonds shall be applied to the redemption of Subordinate Lien Bonds of each Series then subject to redemption from such moneys in the proportion, as nearly as practicable, which the principal amount of Subordinate Lien Bonds of such Series then outstanding and unpaid and so subject to redemption bears to the total principal amount of Subordinate Lien Bonds then outstanding and unpaid and so subject to redemption.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Insurance. (A) Except as provided in paragraph (B) below, the Authority will keep, or cause to be kept, the works, plants and facilities comprising the properties of the Water System and the operations thereof insured to the extent available at reasonable cost with responsible insurers, with policies payable to the Authority, against risks of direct physical loss, damage to or destruction of the Water System, or any part thereof, at least to the extent that similar insurance is usually carried by utilities operating like properties against accidents, casualties or negligence, including liability insurance and

employer's liability; provided, however, that any time while any contractor engaged in constructing any part of the Water System shall be fully responsible therefor, the Authority shall not be required to keep such part of the Water System insured. All policies of insurance shall be for the benefit of the holders of the Bonds and the Authority as their respective interests may appear.

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

(B) If the Authority elects to self-insure or fails to carry insurance against any of the risks normally insured against by operators of facilities similar to the Water System, it must secure the concurrence of the Consulting Engineer. In making its decision whether to concur in such self-insurance, the Consulting Engineer shall (i) make an estimate of the added financial risks, if any, assumed by the Authority as a result of the self-insurance, (ii) consider the availability of commercial insurance, the terms upon which such insurance is available and the costs of such available insurance, and the effect of such terms and costs upon the Authority's costs and charges for its services, (iii) determine whether the added financial risk, if any, being assumed by the Authority is prudent in light of the savings to be realized from such self-insurance or in light of the general availability of insurance. (Res. Section 8.4)

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

Books of Account; Annual Audit. The Authority will maintain and keep proper books of account relating to the Water System and in accordance with generally accepted accounting principles. Within one hundred twenty (120) days after the end of each Fiscal Year, the Authority will cause such

books of account to be audited by an independent certified public accountant. A copy of each audit report and financial statements prepared in conformity with generally accepted accounting principles will be filed promptly with the Bond Fund Trustee and sent to any Bondholder filing with the Bond Fund Trustee a written request for a copy thereof. (Res. Section 8.6)

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

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

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

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

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

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

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

(e) if an order, judgment, or decree shall be entered by any court of competent jurisdiction, with the consent or acquiescence of the Authority, or if such order, judgment or decree, having been entered without the consent or acquiescence of the Authority, shall not be vacated or set aside or discharged or stayed (or in case custody or control is assumed by said order, such custody or control shall not otherwise be terminated) within ninety (90) days after the entry thereof, and if appealed, shall not

thereafter be vacated or discharged; (i) appointing a receiver, trustee or liquidator for the Authority or for the Water System or any part of the Water System; or (ii) assuming custody or control of the Water System or any part thereof under the provisions of any law for the relief or aid of debtors; or (iii) approving a petition filed against the Authority under provisions of Chapter IX of an Act to Establish a Uniform Law on the Subject of Bankruptcies II USC 901-946; or (iv) granting relief to the Authority under any amendment to said Bankruptcy Act, or under any other applicable Bankruptcy Act, which shall give relief substantially similar to that afforded by said Chapter IX; and

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

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

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

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

During the continuance of an Event of Default as defined in items (a) through (c) above or of any other Event of Default resulting in an Event of Default as defined in said items (a) through (c), the Revenues received by the Bond Fund Trustee or by a Bondholders’ Committee pursuant to the provisions of the Resolution as the result of the taking of possession of the business and properties of the

Water System, shall be applied by the Bond Fund Trustee or by the Bondholders' Committee, as the case may be, firstly to the payment of all necessary and proper Operation and Maintenance Expenses of the Water System and all other proper disbursements or liabilities made or incurred by the Bond Fund Trustee or by the Bondholders' Committee, as the case may be; secondly, to the then due and overdue payments (1) to the holders of the Original Water Works Revenue Bonds pursuant to Section 6.1.A.2 of the Resolution and (2) into the Bond Fund, including the making up of deficiencies therein; and lastly, for any lawful purpose in connection with the Water System. (Res. Section 9.4)

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

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

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

Second, to the payment of the holders of the Original Water Works Revenue Bonds as may be required by Section 6.1.A.2. of the Resolution;

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

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

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

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

amounts due respectively for principal and redemption premium, without any discrimination or preference;

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

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

Second, to the payment of the holders of the Original Water Works Revenue Bonds as may be required by Section 6.1.A.2. of the Resolution;

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

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

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

Possession of System by Bond Fund Trustee or Bondholders' Committee; Appointment of a Receiver. Upon the occurrence of an Event of Default and while such Event of Default shall be continuing, the Bond Fund Trustee or a Bondholders' Committee representing the holders of not less than a majority of the Bonds at the time outstanding, as a matter of right against the Authority, without notice or demand, and without regard to the adequacy of the security for the Bonds, shall, but only if and to the extent then permitted by law and the Original Resolution be entitled to take possession and control of the business and properties of the Water System. Upon taking such possession, the Bond Fund Trustee or such Bondholders' Committee shall operate and maintain the Water System, make any necessary repairs,

renewals and replacements in respect thereof, prescribe rates and charges for water distributed through the facilities of the Water System and collect the Revenues of the Water System. (Res. Section 9.6)

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

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

Bondholders' Committee. Upon the occurrence of an Event of Default and at any time such Event of Default shall be continuing, the holders of not less than twenty percent (20%) in principal amount of the Bonds then Outstanding may call a meeting of the holders of Bonds for the purpose of electing a Bondholders' Committee. At such meeting the holders of not less than a majority of the principal amount of the Bonds then Outstanding must be present in person or by proxy in order to constitute a quorum for the transaction of business. A quorum being present at such meeting, the Bondholders present in person or by proxy may, by the votes cast by the holders of a majority in principal amount of the Bonds so present in person or by proxy, elect one or more persons who may or may not be Bondholders to the Bondholders' Committee which shall act as trustee for all Bondholders. The Bondholders' Committee may, with the consent of the holders of not less than fifty percent (50%) of the principal amount of Bonds outstanding, remove the Bond Fund Trustee. After the removal of the Bond Fund Trustee and prior to the appointment of a successor Bond Fund Trustee the members of the Bondholders' Committee will be deemed to be trustees for the holders of all the Bonds then Outstanding, and may exercise in the name of the Bondholders' Committee, as trustee, all the rights and powers conferred on the Bond Fund Trustee or any Bondholder. (Res. Section 9.8)

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

No holder of any of the Bonds shall have any right to institute any suit, action or proceeding at law or in equity for the enforcement of any provision of the Resolution or the execution of any trust under the Resolution or for any remedy under the Resolution, unless such holder shall have previously given to the Bond Fund Trustee written notice of the happening of an Event of Default and the holders of at least twenty percent (20%) in principal amount of the Bonds then Outstanding shall have

filed a written request with the Bond Fund Trustee and shall have offered it reasonable opportunity either to exercise the power granted under the Resolution or to institute such action, suit or proceeding in its own name and unless such Bondholder shall have offered to the Bond Fund Trustee adequate security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Bond Fund Trustee for a period of sixty (60) days after the receipt by it of such notice, request and an offer of indemnity against costs shall have refused to comply with such request. (Res. Sections 9.9, 9.10)

Amending and Supplementing of Resolution

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

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

Defeasance

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

APPENDIX B

Financial Statements of Authority with accompanying Auditors' Report



SUFFOLK COUNTY WATER AUTHORITY

Financial Statements and
Required Supplementary Information

May 31, 2011 and 2010

(With Independent Auditors' Reports Thereon)

SUFFOLK COUNTY WATER AUTHORITY

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KPMG LLP
Suite 200
1305 Walt Whitman Road
Melville, NY 11747-4302

Independent Auditors' Report

The Members
Suffolk County Water Authority:

We have audited the accompanying balance sheets of the Suffolk County Water Authority (the Authority) as of May 31, 2011 and 2010, and the related statements of revenues, expenses, and changes in fund net assets, and cash flows for the years then ended. 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 in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Suffolk County Water Authority as of May 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 30, 2011 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



The management's discussion and analysis and the schedule of funding progress for the retiree healthcare plan, on pages 3 to 14 and page 40, respectively, are not a required part of the financial statements but are supplementary information required by the U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of this required supplemental information. However, we did not audit the information and express no opinion on it.

KPMG LLP

August 30, 2011

SUFFOLK COUNTY WATER AUTHORITY

Management's Discussion and Analysis

May 31, 2011 and 2010

(Unaudited)

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

The Financial Statements

The balance sheets provide information about the nature and amounts of investments in resources (assets) and the obligations to the Authority's creditors (liabilities), with the difference between the two reported as net assets.

The statements of revenues, expenses, and changes in fund net assets report how the Authority's net assets changed during each year. The statements account for all of the years' revenues and expenses, measure the financial results of the Authority's operations for the years, and can be used to determine how the Authority has funded its costs.

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

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

Management provides the following discussion and analysis (MD&A) of the Authority's financial activities and financial statements. This overview is provided for the fiscal years ended May 31, 2011, 2010, and 2009. The reader should use the information contained in this analysis in conjunction with the information contained in the audited financial statements, of which the 2011 and 2010 financial statements follow this narrative on the subsequent pages. Management provides the following MD&A of the Authority's financial activities and financial statements.

Summary of Revenues, Expenses and Changes in Net Assets

	Year ended May 31		
	2011	2010	2009
		(In thousands)	
Operating revenues:			
Water service	\$ 131,860	114,579	119,241
Other	16,800	14,663	14,306
Total operating revenues	148,660	129,242	133,547

SUFFOLK COUNTY WATER AUTHORITY

Management's Discussion and Analysis

May 31, 2011 and 2010

(Unaudited)

Summary of Revenues, Expenses and Changes in Net Assets, continued
Year ended May 31

	<u>2011</u>	<u>2010</u>	<u>2009</u>
		(In thousands)	
Operating expenses:			
Operations and maintenance	\$ 102,974	97,071	103,476
Depreciation and amortization	38,413	37,768	36,200
Total operating expenses	<u>141,387</u>	<u>134,839</u>	<u>139,676</u>
Operating income (loss)	<u>7,273</u>	<u>(5,597)</u>	<u>(6,129)</u>
Nonoperating revenues and expenses:			
Interest expense, net	(26,981)	(24,853)	(23,589)
Extraordinary loss on bond refunding	(5,773)	(631)	(595)
Income from investments	2,906	3,946	6,832
Costs to be recovered from future revenues	12,984	12,409	12,322
Capital reimbursement fees	6,169	8,381	8,629
Legal settlement	—	—	78,533
Total nonoperating revenues and expenses	<u>(10,695)</u>	<u>(748)</u>	<u>82,132</u>
Change in net assets	<u>(3,422)</u>	<u>(6,345)</u>	<u>76,003</u>
Net assets, beginning of year	<u>640,384</u>	<u>646,729</u>	<u>570,726</u>
Net assets, end of year	\$ <u>636,962</u>	<u>640,384</u>	<u>646,729</u>

Operating Revenues

Water service revenues increased \$17.3 million or 15.1% from \$114.6 million in 2010 to \$131.9 million in 2011. The increase was a result of increased water demand (74.0 billion and 62.0 billion gallons for fiscal years ended May 31, 2011 and 2010, respectively). Also, a factor in the increased revenues is a general increase in water rates, effective March 1, 2011. Annualized, this rate increase will be reflected in an average increase of 4%.

Water service revenues decreased \$4.6 million or 3.9% from \$119.2 million in 2009 to \$114.6 million in 2010. The decrease was a result of reduced water demand as compared to the prior year, offset by other small variances.

Other operating revenues increased \$2.1 million or 14.6% from \$14.7 million in 2010 to \$16.8 million in 2011. The increase is primarily attributable to increases from the cost of living adjustments in antenna leases, antenna site enhancement fees, and additional antenna lease sites.

Other operating revenues increased \$0.4 million or 2.5% from \$14.3 million in 2009 to \$14.7 million in 2010. The increase is primarily attributable to increases from the cost of living adjustments in antenna leases, antenna site enhancement fees, and additional antenna lease sites.

SUFFOLK COUNTY WATER AUTHORITY

Management's Discussion and Analysis

May 31, 2011 and 2010

(Unaudited)

Operating Expenses

Operations and maintenance expense increased \$6.0 million or 6% from \$97.0 million in 2010 to \$103 million in 2011. The \$6.0 million increase was mainly attributable to increases in operations and maintenance of power costs of \$3.9 million, treatment costs of approximately \$1.0 million, and \$1.1 million for the cost of the retirement incentive program.

Operations and maintenance expense decreased \$6.4 million or 6.2% from \$103.5 million in 2009 to \$97.1 million in 2010. The \$6.4 million decrease was attributable principally to the reduced power cost \$(3.8 million), and reduced system-maintenance-related costs of \$(1.1 million). The reduction in power costs is attributable to the reduced consumption and related pumpage of water as well as improved management operation of the pump stations and related infrastructure, which is estimated at approximately \$1 million in savings.

Depreciation and amortization expenses were \$38.4 million in 2011 as compared to \$37.8 million in 2010, an increase of \$0.6 million or 1.6%. The increase is attributable to additional capital costs placed in service during fiscal 2011 along with goodwill-related amortization.

Depreciation and amortization expenses were \$37.8 million in 2010 as compared to \$36.2 million in 2009, an increase of \$1.6 million or 4.4%. The increase is attributable to additional capital assets placed in service, during fiscal year 2010 along with goodwill-related amortization.

Nonoperating Revenues and Expenses

Capital reimbursement fees were \$6.1 million in 2011 as compared to \$8.3 million in 2010, a decrease of \$2.2 million or 26.4% during the current year. The decrease is a result of reduced main installations completed and placed in service.

Capital reimbursement fees were \$8.4 million in 2010 as compared to \$8.6 million in 2009, a decrease of \$0.2 million or 2.3% during the current year. The decrease is a result of reduced developer main installations completed and placed in service.

Interest expense was \$27.0 million in 2011 as compared to \$24.9 million in 2010, an increase of \$2.1 million. The increase is a result of the issuance of \$100 million of Bond Anticipation Notes 2011 and \$24.9 million of long-term refunding bonds reduced by annual payments of principal of certain long-term bonds of \$3.0 million and the advance refunding of certain long-term bonds in the amount of \$92.4 million (See Long-Term Debt section).

Interest expense was \$25.5 million in 2010 as compared to \$24.2 million in 2009, an increase of \$0.7 million. This is attributable to the annual payments of principal portions of certain outstanding long-term bonds and interest rate changes on Suffolk County Water Authority Variable Rate Bond Anticipation Notes 2004 and 2008 (see Long-Term Debt section).

In 2011, the Authority advance refunded and or defeased certain bonds with a face value of approximately \$109.2 million. The difference between the face amount of the bonds outstanding, net of accumulated premiums and discounts, and the amounts required to be deposited with the Trustee for the refunding of these bonds of

SUFFOLK COUNTY WATER AUTHORITY

Management's Discussion and Analysis

May 31, 2011 and 2010

(Unaudited)

approximately \$5.8 million has been recognized as an loss on bond refunding in the accompanying statement of revenues, expenses, and changes in net assets.

Income from investment was \$2.9 million in 2011 as compared to \$3.9 million in 2010, a decrease of \$1 million. The change in investment earnings was a result of a decrease in principal invested and a continued low interest rate environment.

Income from investment was \$3.0 million in 2010 as compared to \$6.8 million in 2009, a decrease of \$3.8 million. An increased availability of funds negated by an unprecedented lower interest rate environment is the main reason for this decrease.

Costs to be recovered from future revenues of \$13.0 million represent the difference between the Authority's annual required contributions for postemployment benefits other than pensions as required by Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB No. 45), and the amount paid out for such benefits by the Authority during fiscal 2011. In accordance with FASB ASC 980, *Regulated Operations* (previously FASB Statement No. 71, *Accounting for the Effects of Certain Types of Regulation*), the Authority has deferred the excess of the annual other postemployment benefits (OPEB) costs over the amount paid during the fiscal year. The deferred costs will be recovered through future revenues.

In August 2002, the Authority and the County of Suffolk commenced legal action against most major petroleum companies for contaminating Suffolk County water supplies with the gasoline additive methyl tertiary-butyl ether. During fiscal year ended May 31, 2009, the Authority reached a settlement with all of the defendants, except one minor defendant, and received \$78.5 million in net settlement proceeds reflected as nonoperating revenues.

Balance Sheet Summary

	May 31		
	2011	2010	2009
		(In thousands)	
Assets:			
Capital assets (water plant), net of accumulated depreciation	\$ 1,053,271	1,031,273	997,654
Current assets	193,146	208,676	267,043
Other noncurrent assets	232,042	216,559	87,590
Total assets	\$ 1,478,459	1,456,508	1,352,287
Liabilities:			
Current liabilities	\$ 93,506	50,474	110,018
Other long-term liabilities	53,576	39,655	28,172
Long-term debt, net of current portion	694,415	725,995	567,368
Total liabilities	841,497	816,124	705,558

SUFFOLK COUNTY WATER AUTHORITY

Management's Discussion and Analysis

May 31, 2011 and 2010

(Unaudited)

Balance Sheet Summary, continued

	May 31		
	2011	2010	2009
	(In thousands)		
Net assets:			
Invested in capital, net of related debt	\$ 384,929	367,305	361,791
Restricted for debt service	90,497	98,177	36,152
Unrestricted	161,536	174,902	248,786
Total net assets	<u>636,962</u>	<u>640,384</u>	<u>646,729</u>
Total liabilities and net assets	<u>\$ 1,478,459</u>	<u>1,456,508</u>	<u>1,352,287</u>

Capital Assets, Net of Accumulated Depreciation (Water Plant)

	May 31, 2010	Additions/ reclassifications	Deletions/ reclassifications	May 31, 2011
	(In thousands)			
Water plant in service	\$ 1,329,590	39,524	(7,965)	1,361,149
Less accumulated depreciation	<u>(437,658)</u>	<u>(38,678)</u>	<u>7,965</u>	<u>(468,371)</u>
Net water plant in service	891,932	846	—	892,778
Construction in progress	<u>139,341</u>	<u>60,702</u>	<u>(39,550)</u>	<u>160,493</u>
Water plant	<u>\$ 1,031,273</u>	<u>61,548</u>	<u>(39,550)</u>	<u>1,053,271</u>

	May 31, 2009	Additions/ reclassifications	Deletions/ reclassifications	May 31, 2010
	(In thousands)			
Water plant in service	\$ 1,284,793	53,069	(8,272)	1,329,590
Less accumulated depreciation	<u>(407,978)</u>	<u>(36,768)</u>	<u>7,088</u>	<u>(437,658)</u>
Net water plant in service	876,815	16,301	(1,184)	891,932
Construction in progress	<u>120,839</u>	<u>71,621</u>	<u>(53,119)</u>	<u>139,341</u>
Water plant	<u>\$ 997,654</u>	<u>87,922</u>	<u>(54,303)</u>	<u>1,031,273</u>

There was a net increase in water plant in fiscal 2011 of \$22.0 million comprising an increase of \$52.7 million in gross water plant (including construction in progress) reduced by an increase on accumulated depreciation of \$30.7 million.

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In October 2010, the Town of Babylon, on behalf of the East Farmingdale Water District entered into a forty (40) year lease agreement with Suffolk County Water Authority, whereby the Authority agrees to operate, construct, maintain, and repair, at its own expense, the entire operating plant. The Town, on behalf of the District agreed to lease all of the rights, title, and interest in the entire operations, plant, hydrants, water storage, and distribution system, real property, and office facilities of the District, and all extensions thereto. In consideration, the Authority paid the sum of \$3 million.

There was a net increase in water plant in fiscal 2010 of \$33.6 million comprising an increase of \$63.3 million in gross water plant (including construction in progress) reduced by an increase in accumulated depreciation of \$29.7 million.

Current Assets

	May 31	
	2011	2010
	(In thousands)	
Increases (decreases):		
Cash and cash equivalents	\$ (2,261)	26,656
Investments	(8,308)	(89,601)
Accounts receivable, net	(722)	3,576
Accrued water services and fire protection revenues	(1,171)	1,798
Materials and supplies	(63)	462
Prepayments and other current assets	1,322	(866)
Interest and other receivables	(4,327)	(391)
	<u> </u>	<u> </u>
Net decrease in current assets	\$ <u>(15,530)</u>	<u>(58,366)</u>

Current Assets

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

The Authority's investments, including cash and cash equivalents, decreased \$10.6 million or 6.3% from \$167.9 million as of May 31, 2010 to \$157.3 million as of May 31, 2011. The decrease is attributable to the utilization of funds to pay for the advance refunding of certain outstanding bonds, accrued operating and maintenance costs, and water system capital improvements.

The Authority's investments, including cash and cash equivalents, decreased \$62.9 million or 27.3% from \$230.8 million as of May 31, 2009 to \$167.9 million as of May 31, 2010. The decrease in investments of unrestricted assets overall is attributable principally to the funding of debt service reserve accounts for certain previously issued outstanding bonds which resulted in the increase in restricted investments. The total decreased attributable for funding debt service and transferred to restricted investments was approximately \$117.8 million. These decreases were offset by \$41.2 million of cash provided by operating activities.

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Accrued water services and fire protection revenues reflect revenue corresponding to water consumption, which has not been billed as of May 31, 2011. Water pumped in April and May 2011 was approximately 13% lower than 2010, which results in a decrease of approximately \$1.2 million.

Accrued water services and fire protection revenues reflect accrued revenue corresponding to pumpage, which has not been billed as of May 31. Water pumped in April and May 2010 was approximately 13.8% higher than 2009 as a result of Suffolk County experiencing drought-like conditions particular to the months of April and May providing for the increase of \$1.8 million.

Materials and supplies at May 31, 2011 are valued at \$8.6 million, a decrease of \$0.1 million from May 31, 2010. Management's continued effort to minimize increases in its annual budgets from year to year as well improvement in establishing reorder points results in the corresponding level inventory value from year to year.

Materials and supplies at May 31, 2010 are valued at \$8.7 million, an increase of \$0.4 million compared to May 31, 2009. Management's continued review and restructuring of the inventory system resulted in reclassifying certain items from nonstock to stock.

The increase in prepayments and other current assets from May 31, 2010 to 2011 in the amount of \$1.3 million is primarily due to a \$1 million NYS health insurance premium payment for June 2011 paid prior to May 31, which is recorded as a prepayment at May 31, 2011.

The decrease in prepayments and other current assets from May 31, 2009 to 2010 in the amount of \$0.9 million is a result of the NYS health insurance premium payment for June 2010 being paid in June, rather than in May as compared to prior year.

Interest and other receivables decreased \$4.3 million or 92.3% as a result of a reversal of recording 3.8 million in funds for the American Recovery and Reinvestment Act of 2009 (ARRA). In February 2010, the Authority issued \$3.8 million Suffolk County Water Authority Variable Rate Bond Anticipation Notes, 2010 (EFC Series). These funds were awarded for the purpose of construction 17,763 feet of water main to existing residential customers that currently rely on point of use treatment systems for water service. In January 2011, the Authority advised the Environmental Facilities Corporation that the intended project was canceled and requested termination of the Project Financing Loan Agreement and related Bond Anticipation Notes. The EFC accepted this request and the Bond Anticipation Note were canceled.

Other Noncurrent Assets

Other noncurrent assets increased by \$15.4 million from a balance of \$216.6 million as of May 31, 2010 to \$232.0 million as of May 31, 2011. This was the result of an increase in restricted investments of \$3.5 million and costs to be recovered from future revenues of \$13.0 million reduced by the amortization of goodwill and other assets of \$1.1 million. The change in restricted investments consists of financing proceeds in the amount of \$15.7 million and a reduction in debt service and debt service reserve requirements of \$12.2 million.

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Liabilities

Current Liabilities

	May 31	
	2011	2010
	(In thousands)	
Increase (decrease):		
Current maturities of bond anticipation notes payable	\$ 50,000	(60,000)
Current maturities of bonds payable	(3,035)	(3,230)
Accounts payable	(190)	(1,452)
Accrued interest	(2,231)	4,363
Accrued employee welfare costs	(2,248)	1,361
Accrued NYS Retirement	1,877	280
Other accrued liabilities	(1,141)	(866)
	<u>43,032</u>	<u>(59,544)</u>
Net change in current liabilities	\$ 43,032	(59,544)

Current Liabilities

In fiscal year 2011, \$100 million of additional Bond Anticipation Notes were issued, of which \$50 million of 2011A fixed rate Bond Anticipation Notes are due in the next fiscal year.

In fiscal year 2010, the final principal payment of \$60.0 million Bond Anticipation Notes was recorded.

The \$0.2 million decrease experienced in accounts payable from 2010 to 2011 is attributable principally to a reduction in outstanding invoices related to capital and operating and maintenance expenses.

The \$1.5 million decrease experienced in accounts payable from 2009 to 2010 is attributable principally to a reduction in outstanding invoices related to capital and operating and maintenance expenses.

The decrease in accrued interest of \$2.2 million from 2010 to 2011 is attributable to the defeasance of certain long-term debt negated by the issuance of Bond Anticipation Notes and Water System Revenue Refunding Bonds. (see Long-Term Debt Section).

The increase in accrued interest of \$4.4 million from 2009 to 2010 is attributable to the issuance of additional long-term debt issued during the current fiscal year, and the timing of interest payments on related debt.

Accrued employee welfare represents the expected value of all vacation, sick leave, and other payroll-related benefits earned by employees to date. The decrease in accrued employee welfare at May 31, 2011 from 2010 is \$2.3 million and is principally attributable to the payout of earned vacation and sick leave to the 38 employees who opted to retire in conjunction with the NYS Retirement Incentive Program as well as the payment of retroactive payroll associated with the settlement of the union contract.

The increase in accrued employee welfare at May 31, 2010 from 2009 is \$1.4 million and is principally the result of additional sick and vacation leave earned as well as accrued payroll associated with the anticipated settlement of union negotiations.

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(Unaudited)

Accrued NYS retirement contributions increase by \$1.9 million to an amount of \$2.7 million as of May 31, 2011 as compared to \$0.8 million as of May 31, 2010. During the current year, the Authority participated in the 2010 New York State Retirement Incentive Program. Thirty-eight (38) employees took part in this program retiring by December 31, 2010. The estimated cost to SCWA is \$1.8 million. The Authority anticipates payroll savings in excess of \$3.5 million over a two (2) year period ending December 31, 2012. The Authority, based on the rates set by the New York State Retirement System, has been advised the regular pension costs for the period April 1, 2011 through March 31, 2012 are estimated to be an average of 16% of payroll.

Accrued NYS retirement contributions increase by \$0.2 million to an amount of \$0.8 million as of May 31, 2010 as compared to \$0.6 million as of May 31, 2009. This is attributable to increased contribution rates as of April 1, 2010 as advised by the NYS Retirement System. The Authority, based on the rates set by the New York State Retirement System, has been advised the regular pension costs for the period April 1, 2010 through March 31, 2011 are estimated to be an average of 11% of payroll.

Other current liabilities decreased by \$1.8 million between May 31, 2010 and 2011. This is principally the result of decreases in reserves for insurance claims, self-insurance, and workers' compensation of \$1.1 million, accrued payroll of \$0.6 million and customer deposits of \$0.1 million.

Other current liabilities decrease by \$0.9 million between May 31, 2010 and 2009. This is principally the result of increases in accrued payroll of \$0.2 million and reduction of customer deposits in the amount of \$1.1 million.

Other Postemployment Benefits Other than Pensions (OPEBs)

Other long-term liabilities increased by \$13.9 million from \$39.7 million at May 31, 2010 to a balance of \$53.6 million at May 31, 2011. This is a direct result of the increase in OPEB costs approximating \$13.0 million in additional costs deferred to the balance sheet in the current year. GASB No. 45 establishes guidance for the financial reporting of OPEB cost over a period that approximates employees' years of service. Under GASB No. 45, based on an actuarial valuation, an annual required contribution (ARC) is determined by the Authority. The ARC is the sum of (a) the normal cost for the year (the present value of future benefits being earned by current employees) plus (b) amortization of the unfunded accrued liability (benefits already earned by current and former employees but not yet provided for), using an amortization period of not more than 30 years. To the extent that the Authority contributes an amount less than the ARC, a net incremental OPEB obligation will result, which is required to be recorded as a liability on its financial statements.

GASB No. 45 does not require that the unfunded liability actually be funded, only that the Authority account for the unfunded accrued liability. The financial statements at May 31, 2011 include a liability in the amount of \$49.7 million that represents the Authority's unfunded liability. The unfunded liability at May 31, 2010 was \$36.7 million.

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(Unaudited)

Long-Term Debt

The Authority's long-term debt (including current maturities, excluding unamortized discounts and deferred amounts) decreased from fiscal 2010 to 2011 by \$80.1 million resulting from the scheduled maturities during the fiscal year.

**Water System Revenue and Environmental Facilities
Corporation Revenue Bonds**

	May 31		
	2011	2010	2009
		(In thousands)	
Balance, beginning	\$ 661,440	510,455	521,423
New issues:			
SCWA 2011 Refunding	24,930	100,000	—
EFC 2010C Refunding	2,903	66,395	—
EFC 2011A Refunding	7,384	13,415	—
	<u>35,217</u>	<u>179,810</u>	<u>—</u>
Maturities, retirements, and defeasances:			
SCWA	(95,250)	(25,145)	(7,385)
EFC	(20,089)	(3,680)	(3,583)
	<u>(115,339)</u>	<u>(28,825)</u>	<u>(10,968)</u>
Net changes in long-term debt	<u>(80,122)</u>	<u>150,985</u>	<u>(10,968)</u>
Balance, ending	\$ <u>581,318</u>	<u>661,440</u>	<u>510,455</u>

Investment ratings on debt issued by the Authority by Standard and Poor's Ratings Services (S&P) and Fitch Ratings (Fitch) were as follows at May 31, 2011:

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

As a result of legislation initiated by New York State and enacted by the U.S. Congress, a Drinking Water State Revolving Fund (DWSRF) was created to provide financial incentive for public and private water systems to finance drinking water infrastructure improvements in the form of subsidized low interest rate loans and grants for qualified projects. The Environment Facilities Corporation (EFC) administers the financial aspects of the DWSRF. The Authority has participated in this program since 1998. The Authority has determined it advisable and financially advantageous to continue to participate in this program. During fiscal years ended May 31, 2011, Suffolk County Water Authority participated in the New York State Environmental Facilities Corporation (EFC) refinancing of outstanding bonds by refunding existing DWSRF bonds with new DWSRF bonds issued at lower

SUFFOLK COUNTY WATER AUTHORITY

Management's Discussion and Analysis

May 31, 2011 and 2010

(Unaudited)

current-market interest rates, thus passing the interest savings onto the Authority. Of the NYS EFC Series 2010C Revenue Bonds, the Authority refinanced \$3.2 million of 1999A Suffolk County Water Authority (EFC Series) Senior Lien Revenue Bonds. Of the NYS EFC Series 2011A Revenue Bonds, the Authority refinanced \$2.8 million of 1998B Suffolk County Water (EFC Series) Revenue Bonds, \$0.5 million of 2000A Suffolk county Water (EFC Series) Revenue Bonds, \$3.4 million of 2000B Suffolk County Water (EFC Series) Revenue Bonds, and \$6.8 million of 2001A Suffolk County Water (EFC Series) Revenue Bonds.

During the fiscal year ended May 31, 2011, the Authority issued \$24.9 million "Suffolk County Water System Revenue Refunding Bonds," for the purpose of retiring \$4.4 million 2001A Suffolk County Water Senior Lien Revenue Bonds, \$7.5 million 2003C Suffolk County Water Senior Lien Revenue Bonds, \$8.7 million 2009A Suffolk County Water Senior Lien Revenue bonds and \$2.8 million 2009 Suffolk County Water Authority Refunding Bonds.

The Authority also provided \$75 million in funds from the proceeds of the 2009 legal settlement for the purpose of retiring \$9.6 million of 1993 Suffolk County Water Subordinate Lien Revenue Bonds, \$4.2 million 1994 Suffolk County Water Subordinate Lien Revenue Bonds, \$6.8 million Suffolk County Water Senior Lien Revenue Bonds, and \$48.4 million 2003 Suffolk County Water Senior Lien Revenue Refunding Bonds.

During the fiscal year ended May 31, 2010, the Authority issued \$66.4 million Suffolk County Water Authority Senior Lien Water System Revenue Bonds for the purpose of retiring \$60.0 million principal amount of the Authority's Variable Rate Bond Anticipation Notes, 2004. The Authority also issued, \$13.4 million Suffolk County Water Authority Senior Lien Water System Revenue Bonds for the purpose of retiring of \$2.8 million 1997 Suffolk County Water Authority Senior Lien Water System Revenue Bonds and \$11.2 million 1997A Senior Lien Water System Revenue Bonds. The Authority also issued \$100.0 million Suffolk County Water Authority Senior Lien Water System Revenue Bonds under the Build America Bonds program. These funds will be used to finance the cost of acquisition and construction of improvements and additions to the Water System.

Short-Term Debt

The Authority has, from time to time, issued Bond Anticipation Notes to finance improvements and additions to the water system. In April 2011, the Authority issued a total of \$100 million Suffolk County Water Authority Bond Anticipation Notes, consisting of \$50 million Bond Anticipation Note 2011A (Fixed Rate) and \$50 million Bond Anticipation Note 2011B (Variable SIFMA Rate).

In February 2010, the Authority issued \$3.8 million Suffolk County Water Authority Variable Rate Bond Anticipation Notes, 2010 (EFC Series). In January 2011, the Authority advised the Environmental Facilities Corporation that the intended project was canceled and requested termination of the Project Financing Loan Agreement and related Bond Anticipation Notes. The EFC accepted this request and the Bond Anticipation Note were canceled.

Net Assets Invested in Capital, Net of Related Debt and Net Assets Restricted for Debt Service

Invested in capital, net of related debt represents the Authority's total investment in capital assets plus related long-term debt. The increase of \$17.6 million over the May 31, 2010 balance is the result of an increase in water plant expenditures and funds available for construction offset by the net increase in debt balances.

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(Unaudited)

Invested in capital, net of related debt represents the Authority's total investment in capital assets less related long-term debt. The decrease \$5.2 million over the May 31, 2009 balance is the result of increase water plant expenditures, offset by the net increase in debt balances.

Restricted for debt service increased \$62.0 million over the May 31, 2009 balance as with the bankruptcy of AMBAC, the guarantor of principal and debt payments, the Authority was required to collateralize the principal debt service payments in accordance with existing debt covenants.

Net Assets – Unrestricted

In 2011, net assets – unrestricted, decreased over the May 31, 2010 balance in the amount of \$13.3 million. During fiscal year 2011, net assets – unrestricted were increased by the investment in capital assets, which includes the net increase in plant, net increase in funds available for construction, and net increase in debt of \$17.6 million and a decrease in revenues invested in facilities of \$3.4 million, and reduced by \$7.7 million representing the reduction of debt service and debt service reserves in accordance with bond covenants.

In 2010, net assets – unrestricted, decreased \$63.2 million over the May 31, 2009 balance principally as a result of the Authority's collateralizing of principal as stated above thereby staying in compliance with existing debt covenants.

Contacting the Authority's Financial Management

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

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Balance Sheets

May 31, 2011 and 2010

Assets	2011	2010
	(In thousands)	
Current assets:		
Cash and cash equivalents	\$ 52,461	54,722
Investments	104,867	113,175
Accounts receivable, less allowance for doubtful accounts of \$1,395 and \$1,233 in 2011 and 2010, respectively	10,084	10,806
Accrued water services and fire protection revenues	14,538	15,709
Interest and other receivables	361	4,688
Materials and supplies, at average cost	8,701	8,764
Prepayments and other current assets	2,134	812
Total current assets	193,146	208,676
Restricted investments	169,474	165,892
Goodwill	3,481	3,632
Costs to be recovered from future revenues	49,686	36,702
Deferred charges and other assets	9,401	10,333
Capital assets, net	1,053,271	1,031,273
Total noncurrent assets	1,285,313	1,247,832
Total assets	\$ 1,478,459	1,456,508
Capitalization and Liabilities		
Current liabilities:		
Current maturities of bonds payable	\$ 3,490	6,525
Current maturities of bond anticipation notes payable	50,000	—
Accounts payable	7,734	7,924
Accrued interest	12,862	15,093
Accrued employee welfare costs	5,917	8,165
Accrued NYS Retirement contributions	2,725	848
Other accrued liabilities	10,778	11,919
Total current liabilities	93,506	50,474
Bond anticipation notes payable	120,000	73,844
Bonds payable, less current portion and unamortized discounts	574,415	652,151
Postemployment benefits other than pension	49,686	36,702
Advances for construction	3,890	2,953
Total liabilities	841,497	816,124
Commitments and contingencies		
Net assets		
Invested in capital, net of related debt	384,929	367,305
Restricted for debt service	90,497	98,177
Unrestricted	161,536	174,902
Total net assets	636,962	640,384
Total capitalization and liabilities	\$ 1,478,459	1,456,508

See accompanying notes to financial statements.

SUFFOLK COUNTY WATER AUTHORITY

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended May 31, 2011 and 2010

	2011	2010
	(In thousands)	
Operating revenues:		
Water service	\$ 131,860	114,579
Other	16,800	14,663
Total operating revenues	148,660	129,242
Operating expenses:		
Operations	83,228	76,654
Maintenance	19,746	20,417
Depreciation and amortization	38,413	37,768
Total operating expenses	141,387	134,839
Operating income (loss)	7,273	(5,597)
Nonoperating revenues and expenses:		
Interest expense, net	(26,981)	(24,853)
Loss on bond refunding	(5,773)	(631)
Income from investments	2,906	3,946
Costs to be recovered from future revenues	12,984	12,409
Capital reimbursement fees	6,169	8,381
Total nonoperating revenues and expenses	(10,695)	(748)
Change in net assets	(3,422)	(6,345)
Net assets:		
Beginning of year	640,384	646,729
End of year	\$ 636,962	640,384

See accompanying notes to financial statements.

SUFFOLK COUNTY WATER AUTHORITY

Statements of Cash Flows

Years ended May 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
	(In thousands)	
Cash flows from operating activities:		
Cash receipts from customers	\$ 134,685	114,193
Other operating cash receipts	15,659	13,612
Cash payments to suppliers of goods and services	(36,514)	(28,583)
Cash payments to employees for services and benefits	<u>(55,145)</u>	<u>(54,963)</u>
Net cash provided by operating activities	<u>58,685</u>	<u>44,259</u>
Cash flows from investing activities:		
Purchase of investments	(88,960)	(365,629)
Proceeds from sales and maturities of investments	93,500	337,894
Interest received	<u>3,575</u>	<u>3,821</u>
Net cash provided by (used in) investing activities	<u>8,115</u>	<u>(23,914)</u>
Cash flows from capital and related financing activities:		
Additions to water plant, net of retirements	(60,411)	(71,572)
Proceeds from issuance of notes payable	100,000	3,844
Proceeds from issuance of long-term debt	35,217	179,810
Repayment of notes payable	(3,844)	(60,000)
Repayment of current maturities of bonds payable	(115,339)	(28,825)
Interest paid	(29,861)	(20,553)
Loss on bond refunding	(5,773)	—
Capital grant included in other receivables	3,844	(3,844)
Proceeds from advances for construction, net of refunds	<u>7,106</u>	<u>7,451</u>
Net cash (used in) provided by capital and related financing activities	<u>(69,061)</u>	<u>6,311</u>
Net (decrease) increase in cash and cash equivalents	(2,261)	26,656
Cash and cash equivalents at beginning of year	<u>54,722</u>	<u>28,066</u>
Cash and cash equivalents at end of year	\$ <u>52,461</u>	\$ <u>54,722</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ 7,273	(5,597)
Depreciation and amortization expense	38,564	37,768
Loss on disposal	—	336
(Increase) decrease in operating assets:		
Accounts receivable	722	309
Accrued water services and fire protection revenues	1,171	(1,797)
Materials and supplies and prepayments	(1,259)	405
Deferred charges and other assets	932	1,102
Postemployment benefits other than pension	12,984	12,409
Increase (decrease) in operating liabilities:		
Accounts payable	(190)	(1,451)
Accrued employee welfare costs	(2,248)	1,361
Accrued NYS Retirement contributions	1,877	465
Other accrued liabilities	<u>(1,141)</u>	<u>(1,051)</u>
Net cash provided by operating activities	\$ <u>58,685</u>	\$ <u>44,259</u>
Noncash investing activities:		
Change in the fair value of investments	\$ (186)	474

See accompanying independent auditors' report.

SUFFOLK COUNTY WATER AUTHORITY

Notes to Financial Statements

May 31, 2011 and 2010

(1) Summary of Significant Accounting Policies

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

(a) *Basis of Presentation*

In its accounting and financial reporting, the Authority follows the pronouncements of the Governmental Accounting Standards Board (GASB). In addition, the Authority follows the pronouncements of only applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements.

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

(b) *Water Plant (Capital Assets)*

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

Property and equipment represent land, leasehold improvement, office equipment, furniture, and fixtures of the Authority.

(c) *Depreciation*

The provisions for depreciation for water plant result from the application of straight-line rates by groups of depreciable properties in service. The rates are determined by age-life studies performed on depreciable properties. The most recent rate study, done in November 2003, established the composite depreciation rate of 2.84%. The Authority reviews the composition of its fixed assets annually in order to determine the appropriateness of this depreciation rate. The Authority determined that the depreciation rate of 2.84% remained appropriate at May 31, 2011 and 2010.

SUFFOLK COUNTY WATER AUTHORITY

Notes to Financial Statements

May 31, 2011 and 2010

(d) Capitalized Interest

The Authority capitalizes interest on constructed assets during the period of construction. Interest cost capitalized during the years ended May 31, 2011 and 2010 was approximately \$1.3 million and \$1.6 million, respectively.

(e) Cash and Cash Equivalents and Investments

Funds held by the Authority are administered in accordance with the Authority's investment guidelines pursuant to Section 2925 of the New York State Public Authorities Law. These guidelines comply with the New York State Comptroller's investment guidelines for public authorities. Certain investments and cash and cash equivalents have been designated by the Authority's Board of Trustees to be used for specific purposes, including rate stabilization, debt service, and capital expenditures. Investments' carrying values are reported at fair market value. See note 3 for a further discussion.

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

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

(f) Investments Held for Debt Service

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

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

(g) Investments Held for Construction

In accordance with the Resolution, investments held for construction in the construction fund are internally designated for the costs of acquiring, constructing, and replacing the water system and are reported as restricted investments in the accompanying balance sheets.

(h) Goodwill

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

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(i) *Advances for Construction and Capital Reimbursement Fees*

Under current standard construction contracts with residential real estate developers and others, the developer advances to the Authority the cost of new main installations based on a flat cost per foot. Upon completion of construction, the moneys are recognized as capital reimbursement fees in the statements of revenues, expenses, and changes in fund net assets. Provisions exist, and are infrequently exercised, whereby the developer may receive reimbursement if the actual footage of the main installed was less than 95% of the original estimate. These refunds are made from the construction advance account.

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

Capital reimbursement fees also include the original cost of systems paid to the Authority by municipalities and others as well as service, tapping, and other fees.

(j) *Water District Contracts*

The Authority has entered into a number of contracts with various municipalities throughout Suffolk County for the purpose of installing water mains within the related municipality's created water district. Under the terms of these contracts, the municipality agrees to pay for the installation of the water main, plus interest over a 38-year period. The Authority agrees to provide a credit against the gross payments due under the contract equal to 40% of the water revenues collected from customers within the designated water supply district. The amount of the credit cannot exceed the gross payments due.

As of May 31, 2011, the Authority had 17 active contracts where the credit did not equal the gross amount due. Annual gross payments for these contracts range from \$1,800 to \$377,000 with final maturity dates between 2012 and 2030. The cumulative gross payments due for all of these water district contracts through their respective maturity dates at May 31, 2011 and 2010 amount to approximately \$13.7 million and \$14.9 million, respectively. The Authority has determined that as the asset and liability created from these contracts have the right of offset, these amounts are not reflected on the balance sheets as May 31, 2011 and 2010.

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

(k) *Debt Issuance Costs, Bond Discount and Premiums, and Other Bond-Related Costs*

Debt issuance costs and bond discount and premium are amortized over the life of the related bond issues. Premiums paid in connection with interest rate cap agreements are amortized and reported as interest expense over the life of the respective agreements. Deferred bond refunding costs are amortized to expense over the shorter of the life of the refunding bonds or the refunded bonds. Debt issuance costs, bond discount and premiums, and other related bond issuance costs are reported as

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deferred charges of \$6.8 million and \$7.6 million at May 31, 2011 and May 31, 2010 in the accompanying balance sheets.

(l) Customer Deposits

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

(m) Accrued Employee Welfare Costs

The Authority permits employees to accumulate a limited amount of earned but unused leave benefits, which will be paid to employees upon separation from service. Unpaid compensated absences are recorded as a liability in accordance with GASB Statement No. 16, *Accounting for Compensated Absences*. As of May 31, 2011 and 2010, the amounts of accrued employee welfare costs are \$5.9 million and \$8.2 million, respectively.

(n) Revenues

The Authority distinguishes operating revenues and expenses from nonoperating items in the preparation of its financial statements. Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations. Water service revenues are recognized based on actual customer water usage, including estimates for unbilled periods. Other operating revenues are recognized when service has been rendered and collection is reasonably assured. The Authority's operating expenses include operations and maintenance expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

(o) Costs to Be Recovered from Future Revenues

The Authority's cost recovery rate model used to establish rates, fees, and charges includes an amount for postemployment benefits other than pensions that are expected to be paid out during the fiscal year, but not for the amount of the annual required contribution as calculated under GASB Statement No. 45 (GASB No. 45), *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. In accordance with FASB ASC 980, *Regulated Operations* (previously FASB Statement No. 71, *Accounting for the Effects of Certain Types of Regulation*), the Authority has deferred the excess of current annual required contribution over the amount paid during the 2010 fiscal year. The deferred costs will be recovered through future revenues in accordance with the Authority's rate model. The deferred amount for the years ended May 31, 2011 and 2010 was \$49.7 million and \$36.7 million, respectively.

(p) Use of Resources

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

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(q) Income Taxes

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

(r) Use of Estimates

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

(s) Recent Accounting Pronouncements

In March 2009, GASB issued Statement No. 55 (GASB No. 55), *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. GASB No. 55 incorporates the hierarchy of GAAP for state and local governments into GASB's authoritative literature. Prior to this standard, the GAAP hierarchy was included in an American Institute of Certified Public Accountants (AICPA) Statements on Auditing Standards, rather than in the GASB's literature. This statement was effective for the Authority upon issuance and does not have a material impact on the Authority's financial statements.

In March 2009, GASB issued Statement No. 56 (GASB No. 56), *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*. GASB No. 56 incorporates certain accounting and financial reporting guidance presented in the AICPA's Statements on Auditing Standards into the GASB's authoritative literature. This statement was effective for the Authority upon issuance and does not have a material impact on its financial statements.

In December 2009, GASB issued Statement No. 57 (GASB No. 57), *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. GASB No. 57 addresses issues related to the use of alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer OPEB plans. The statement amends previous GASB statements on OPEB plans, and will improve the consistency of reporting for OPEB plans. This statement is effective for the Authority beginning in fiscal 2013. The Authority does not believe this statement will have a material impact on its financial statements.

In June 2010, GASB issued Statement No. 59 (GASB No. 59), *Financial Instruments Omnibus*. GASB No. 59 addresses topics relating to the reporting and disclosure of certain financial instruments and external investment pools, and includes some clarifications to GASB No. 53. This

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statement becomes effective in fiscal 2012. The Authority does not believe this statement will have a material impact on its financial statements.

In December 2010, GASB issued Statement No. 62 (GASB No. 62), *Codification of Accounting and Financial Reporting Guidance Contained in the Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB No. 62 incorporates into GASB's authoritative literature certain accounting and financial reporting guidance issued on or before November 30, 1989 included in: FASB Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the AICPA Committee on Accounting Procedure that do not conflict with or contradict GASB pronouncements. The statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Fund and Other Governmental Entities That Use Proprietary Fund Accounting*, which eliminates the election for business-type activities to apply post November 30, 1989 FASB Statements and Interpretations that do not conflict with GASB pronouncements. This statement becomes effective fiscal 2013. The Authority does not believe this statement will have a material impact on its financial statements.

(2) Water Plant, Property, and Equipment

	<u>May 31,</u> <u>2010</u>	<u>Additions/</u> <u>reclassifications</u>	<u>Deletions/</u> <u>reclassifications</u>	<u>May 31,</u> <u>2011</u>
		(In thousands)		
Land and land rights	\$ 23,032	—	—	23,032
Distribution systems	815,617	20,572	(1,941)	834,248
Wells, reservoirs, and structures	227,490	6,068	(7)	233,551
Pumping and purification equipment	109,242	1,646	(87)	110,801
Other	<u>154,209</u>	<u>11,238</u>	<u>(5,930)</u>	<u>159,517</u>
Water plant in service	1,329,590	39,524	(7,965)	1,361,149
Less accumulated depreciation	<u>(437,658)</u>	<u>(38,678)</u>	<u>7,965</u>	<u>(468,371)</u>
Net water plant in service	891,932	846	—	892,778
Construction in progress	<u>139,341</u>	<u>60,702</u>	<u>(39,550)</u>	<u>160,493</u>
Water plant	\$ <u><u>1,031,273</u></u>	<u><u>61,548</u></u>	<u><u>(39,550)</u></u>	<u><u>1,053,271</u></u>

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	<u>May 31,</u> <u>2009</u>	<u>Additions/ reclassifications</u>	<u>Deletions/ reclassifications</u>	<u>May 31,</u> <u>2010</u>
		(In thousands)		
Land and land rights	\$ 21,608	1,424	—	23,032
Distribution systems	789,732	27,234	(1,349)	815,617
Wells, reservoirs, and structures	221,483	6,012	(5)	227,490
Pumping and purification equipment	103,019	6,266	(43)	109,242
Other	<u>148,951</u>	<u>12,133</u>	<u>(6,875)</u>	<u>154,209</u>
Water plant in service	1,284,793	53,069	(8,272)	1,329,590
Less accumulated depreciation	<u>(407,978)</u>	<u>(36,768)</u>	<u>7,088</u>	<u>(437,658)</u>
Net water plant in service	876,815	16,301	(1,184)	891,932
Construction in progress	<u>120,839</u>	<u>71,621</u>	<u>(53,119)</u>	<u>139,341</u>
Water plant	\$ <u><u>997,654</u></u>	<u><u>87,922</u></u>	<u><u>(54,303)</u></u>	<u><u>1,031,273</u></u>

Depreciation expense amounted to approximately \$38.4 million and \$37.8 million for the years ended May 31, 2011 and 2010, respectively, based on a composite annual rate of 2.84%.

(3) Cash and Cash Equivalents and Investments

(a) Cash and Cash Equivalents

Cash consists of insured (FDIC) or collateralized deposits that have carrying values of approximately \$52.5 million and \$54.8 million and bank balances of approximately \$54.4 million and \$57.8 million at May 31, 2011 and 2010, respectively. Collateral for deposits is held by a third-party bank in the name of the Authority.

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(b) Investments

Investments, including restricted investments, at May 31, 2011 and 2010 consist of the following:

	Fair value		Investment maturities at May 31, 2011 (in years)		
	2011	2010	Less than 1 (In thousands)	1 to 5	Greater than 5
U.S. Treasury notes (1)	\$ 1,004	501	503	501	—
U.S. Treasury bonds (1)	6,982	8,794	—	—	6,982
FNMA's (1)	30,104	69,060	11,989	18,115	—
FHLB notes (1)	103,086	55,578	79,021	11,032	13,033
FHLMC notes	1,502	67,362	—	1,502	—
FDIC insured notes	5,153	5,210	—	5,153	—
FFCB notes	13,526	7,599	511	4,993	8,022
Money market (1)	72,661	41,873	72,661	—	—
Guaranteed investment contracts (1)	325	62	325	—	—
Repurchase agreements	39,998	23,028	39,998	—	—
Total investments	\$ 274,341	279,067	205,008	41,296	28,037

(1) Includes approximately \$96.8 million and \$165.9 million of investments held by Fiscal Agent in the Authority's name at May 31, 2011 and 2010, respectively.

	2011	2010
	(In thousands)	
Investment breakdown:		
Restricted for:		
Debt service	\$ 90,497	98,177
Construction	78,977	67,715
Unrestricted	104,867	113,175
Total investments	\$ 274,341	279,067

Accrued interest on investments other than investment agreements is included in interest and other receivables on the balance sheets. Investments bear interest rates that range from 0.60% to 5.00%.

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

Investments include U.S. Treasury obligations, its agencies, certificates of deposit, guaranteed investment contracts, and repurchase agreements backed by such obligations. Investments are reported at fair value, except for investment agreements and certificates of deposit. Investment

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agreements, which can take the form of open time deposits or fixed repurchase agreements, are reported at an amount equal to principal and accrued interest. Certificates of deposit are valued at cost.

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. The value of this investment is reported as repurchase agreements in the table above. The New York Class program was closed and liquidated in June 2011.

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

Custodial Credit Risk: It is part of the Authority's Investment policy to safeguard the principal of its investments while obtaining the highest interest rate possible that is consistent with this and other components of its' policy. Towards that end, permitted investments include but are not limited to Federally backed securities or obligations of any state of the United States of America or any political subdivision rated by at least two nationally recognized bond rating agencies. As of May 31, 2011 the Authority's investments in Federal National Mortgage Association, Federal Home Loan Bank, FDIC Guaranteed Bonds, FFCB Notes, and the Federal Home Loan Mortgage Corporation were rated Aaa by Moody's Investors Service and AAA by Standard & Poor's Ratings Services and Fitch Ratings. There were no investments in obligations of any state of the United States of America or any political subdivision.

Concentration of Credit Risk: The Authority places no limit on the amount the Authority may invest in anyone issuer. More than 5% of the Authority's investments are in Federal National Mortgage Association, Federal Home Loan Bank, and Federal Farm Credit Bank. These investments are 11%: \$(30.1 million), 38%: \$(103.0 million), and 0.5%: \$(13.5 million), respectively, of the Authority's total investments.

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(4) Bonds Payable

Outstanding bonds are summarized as follows:

Series	Interest rate	Final maturity date	May 31, 2010	Issued	Matured/refunded	May 31, 2011	Due within one year
Water System Revenue Bonds:							
1993 Subordinate Lien	4.80 – 5.10%	2013	\$ 11,800	—	(11,800)	—	—
1994 Subordinate Lien	4.13 – 6.00	2015	4,910	—	(4,215)	695	—
2001A Senior Lien	5.00 – 5.25	2026	21,925	—	(11,275)	10,650	—
2003 Senior Lien	2.00 – 4.50	2017	56,025	—	(49,025)	7,000	—
2003C Senior Lien	4.00 – 4.50	2026	80,000	—	(7,500)	72,500	—
2005C Senior Lien	4.50 – 5.00	2029	60,000	—	—	60,000	—
2005 Subordinate Lien	4.37 – 4.55	2027	71,905	—	—	71,905	—
2006A Senior Lien	3.59 – 4.95	2031	70,000	—	—	70,000	—
2007A Senior Lien	4.00 – 4.50	2032	45,000	—	—	45,000	—
2009 Senior Lien	2.00 – 5.00	2022	13,415	—	(2,780)	10,635	—
2009A Senior Lien	4.00 – 5.00	2035	66,395	—	(8,655)	57,740	—
2009B Senior Lien	5.50	2035	100,000	—	—	100,000	—
2011 Senior Lien	4.75 – 5.00	2040	—	24,930	—	24,930	—
Environmental Facilities Corporation Revenue Bonds:							
1998B	3.65 – 5.20	2017	3,110	—	(3,110)	—	—
1999A	2.77 – 4.91	2018	3,170	—	(3,170)	—	—
2000A	3.80 – 5.96	2019	545	—	(545)	—	—
2000B	4.31 – 5.74	2020	3,645	—	(3,645)	—	—
2001A	3.48 – 5.17	2021	6,800	—	(6,800)	—	—
2001B	2.62 – 5.15	2021	11,650	—	(750)	10,900	775
2002A	1.36 – 5.00	2022	7,370	—	(455)	6,915	465
2002B	1.33 – 5.12	2022	6,090	—	(355)	5,735	365
2003B	0.72 – 4.50	2023	6,555	—	(375)	6,180	380
2004A	1.20 – 4.96	2024	5,325	—	(255)	5,070	265
2005B	2.08 – 4.02	2026	5,805	—	(280)	5,525	285
2010C	0.85 – 3.16	2019	—	2,903	(255)	2,648	263
2011A	0.79 – 3.99	2021	—	7,384	(94)	7,290	692
Total bonds outstanding			661,440	\$ 35,217	(115,339)	581,318	3,490
Less:							
Unamortized discount (premium)			(837)			398	
Deferred amount			3,601			3,015	
Current maturities payable			6,525			3,490	
			\$ 652,151			574,415	

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Series	Interest rate	Final maturity date	May 31, 2010	Issued	Matured/refunded	May 31, 2011	Due within one year
Water System Revenue Bonds:							
1993 Senior Lien	4.80 – 5.10%	2013	\$ 8,410	—	(8,410)	—	—
1993 Subordinate Lien	4.80 – 5.10	2013	13,865	—	(2,065)	11,800	2,155
1994 Subordinate Lien	4.13 – 6.00	2017	4,910	—	—	4,910	—
1997 Senior Lien	4.10 – 5.25	2012	2,840	—	(2,840)	—	—
1997A Senior Lien	4.00 – 5.00	2022	11,230	—	(11,230)	—	—
2001A Senior Lien	4.13 – 5.25	2023	21,925	—	—	21,925	—
2003 Senior Lien	2.00 – 4.50	2017	56,625	—	(600)	56,025	615
2003C Senior Lien	4.00 – 4.50	2026	80,000	—	—	80,000	—
2005C Senior Lien	4.50 – 5.00	2029	60,000	—	—	60,000	—
2005 Subordinate Lien	4.37 – 4.55	2027	71,905	—	—	71,905	—
2006A Senior Lien	3.59 – 4.95	2031	70,000	—	—	70,000	—
2007A Senior Lien	4.00 – 4.50	2032	45,000	—	—	45,000	—
2009 Senior Lien	2.00 – 5.00	2022	—	13,415	—	13,415	—
2009A Senior Lien	4.00 – 5.00	2035	—	66,395	—	66,395	—
2009B Senior Lien	5.50	2035	—	100,000	—	100,000	—
Environmental Facilities Corporation Revenue Bonds:							
1998B	3.65 – 5.20	2017	3,405	—	(295)	3,110	300
1999A	2.77 – 4.91	2018	3,415	—	(245)	3,170	255
2000A	3.80 – 5.96	2019	580	—	(35)	545	40
2000B	4.31 – 5.74	2020	3,865	—	(220)	3,645	230
2001A	3.48 – 5.17	2021	7,255	—	(455)	6,800	460
2001B	2.62 – 5.15	2021	12,380	—	(730)	11,650	750
2002A	1.36 – 5.00	2022	7,825	—	(455)	7,370	455
2002B	1.33 – 5.12	2022	6,440	—	(350)	6,090	355
2003B	0.72 – 4.50	2023	6,925	—	(370)	6,555	375
2004A	1.20 – 4.96	2024	5,575	—	(250)	5,325	255
2005B	2.08 – 4.02	2026	6,080	—	(275)	5,805	280
Total bonds outstanding			510,455	\$ 179,810	(28,825)	661,440	6,525
Less:							
Unamortized discount (premium)			(899)			(837)	
Deferred amount			4,231			3,601	
Current maturities payable			9,755			6,525	
			\$ 497,368			652,151	

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

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

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For the fiscal year 2010, the Authority, at its own discretion, has elected to fund the reserve accounts in the amount of \$35.9 million from bond proceeds and \$41.5 million from unrestricted funds. For the fiscal year 2011, the Authority, at its own discretion, has elected to fund the reserve accounts in the amount of \$36.1 million from bond proceeds and \$34.6 million from unrestricted funds.

(a) *Water System Revenue Bonds*

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

During fiscal year ended May 31, 2011, the Authority entered into the following bond transactions:

In March 2011, the Authority provided \$75 million in unrestricted funds to cash defease bond principal amounts and interest coming due within the next five to ten years. The funds required for the defeasance are held in Escrow by the Trustee and principal and interest are paid when due. The Authority defeased \$6.84 million Suffolk County Water Authority Senior Lien Water System Revenue Bond Series 2001A, \$9.64 million Suffolk County Water Authority Subordinate Lien Water System Revenue Bond Series 1993, \$4.24 million Suffolk County Water Authority Subordinate Lien Water System Revenue Bond Series 1994 and \$48.4 million Suffolk County Water Authority Senior Lien Water System Revenue Bond, Series 2003. The difference between the face amount of the bonds outstanding and the amount required to be deposited with the Trustee has been recognized as an loss on bond refunding in the accompanying statement of revenues, expenses, and changes in net assets.

In April 2011, the Authority issued \$24.9 million Senior Lien Water System Revenue Bonds, Series 2011 (Refunding) to provide for the advance refunding of \$4.4 million Suffolk County Water System Revenue Bond Series 2001A, \$7.5 million Suffolk County Water Authority Senior Lien Water System Revenue Bond Series 2003C, \$8.7 million Suffolk County Water Authority Senior Lien Water System Revenue Bond Series 2009A, and \$2.8 million Suffolk County Water Authority Senior Lien Water System Revenue Bond Series 2009 Refunding. The Series 2011 Refunding Bonds bear interest at rates ranging from 4.75% to 5.0% and have a final maturity date of June 1, 2040. The funds were used to fund the escrow accounts for \$20.9 million, to pay bond issuance costs of \$0.2 million and to provide for future capital improvements in the amount of \$3.8 million.

During fiscal year ended May 31, 2010, the Authority entered into the following bond transactions:

\$66.4 million Senior Lien Water System Revenue Bonds, Series 2009A to refund all outstanding Variable Rate Bond Anticipation Notes, 2004 in the amount of \$60.0 million due December 1, 2009. The Series 2009A bonds bear interest at rates ranging from 4.0% to 5.0% and have a final maturity date of June 1, 2035. The proceeds of which were used to redeem \$60.0 million of the 2004 Variable Rate Bond Anticipation Notes. The remaining funds were used to fund the reserve account for \$5.7 million and to pay bond issuance costs of \$0.3 million. The refunding produced an approximate \$1.2 million net present value savings.

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\$13.4 million Senior Lien Water System Revenue Bonds, 2009 to retire \$2.8 million of Suffolk County Water Authority Senior Lien Water System Revenue Bonds, Series 1997 and retire \$11.2 million of Suffolk County Water Authority Senior Lien Water System Revenue Bonds, Series 1997A. The Series 2009 bonds bear interest at rates ranging from 2.0% to 5.0% and have a final maturity of June 1, 2022. The proceeds were used to redeem \$13.4 million of the 1997 and 1997A Senior Lien Outstanding Debt. The remaining funds were used to fund the reserve account for \$1.1 million and to pay bond issuance costs of \$0.1 million.

\$100.0 million Senior Lien Water System Revenue Bonds – Build America Bonds, Series 2009B to fund the cost of acquisition, construction of improvements, and additions to the Water System of \$86.9 million. The Series 2009B bonds bear an interest rate of 5.5%. Under the Build America Bond Program, the Authority is entitled a 35% rebate on all interest cost. The remaining proceeds were used to fund the reserve account of \$9.2 million and to pay the bond issuance costs of \$1.1 million.

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

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

During the fiscal year ended May 31, 2011, the Authority entered into the following EFC bond transactions:

In June 2010 and March 2011, the Authority participated in the EFC 2010C and 2011A Refunding program initiated by the Environmental Facilities Corporation on behalf of the municipalities that initially financed projects through the State Clean Water and Drinking Water Revolving Funds as more fully described below. The EFC refunded the Suffolk County Water Authority EFC Bond Series 1998B, 1999A, 2000A, 2000B, and 2001A with new bonds issued at lower current-market interest rates, thus passing the interest savings, net of EFC financing costs along to the Authority in the form of reduced debt service bills.

In June 2010, the Authority participated in the EFC 2010C Series refunding of \$3.2 million Suffolk County Water Authority Water System Revenue Bonds EFC Series 1999A. The Series 2010C EFC Bonds bear an interest rate of 0.845% to 3.155% and have a final maturity date of April 15, 2019. This refunding resulted in a net present value of savings from cash flow of approximately \$199,475.

In March 2011, the Authority participated in the EFC 2011A Series refunding of \$2.8 million of the Authorities EFC Series 1998B, \$0.5 million EFC Series 2000A, \$3.4 million EFC Series 2000B, and \$6.8 million EFC Series 2001A. The EFC Series 2011A bear an interest rate ranging from 0.789% to 3.989% with a final maturity date of May 15, 2021. This refunding resulted in a net present value savings from cash flow of an approximate total of \$1.3 million.

SUFFOLK COUNTY WATER AUTHORITY

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Subsequent to year-end, in June 2011 the Authority participated in the EFC 2011C Series refunding \$10.9 million of the Authorities EFC 2001B and \$5.7 million of the Authorities EFC 2002B. The EFC Series 2011C bear interest rates ranging from 0.540% to 3.566% with a final maturity date of October 15, 2022. The refunding resulted in a net present value savings of \$1.3 million.

In prior years, the Authority defeased certain debt obligations by placing the proceeds of new bonds and its own funds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Authority's financial statements. At May 31, 2011, the amount of defeased debt obligation outstanding was approximately \$154.4 million.

Interest expense on the bonds was \$26.9 million and \$25.3 million for the years ended May 31, 2011 and 2010, respectively.

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
		(In thousands)	
Fiscal year ending:			
2012	\$ 3,490	27,631	31,121
2013	3,614	27,520	31,134
2014	3,695	27,399	31,094
2015	6,022	27,166	33,188
2016	6,658	26,886	33,544
2017 and thereafter	<u>557,839</u>	<u>330,833</u>	<u>888,672</u>
	<u>\$ 581,318</u>	<u>467,435</u>	<u>1,048,753</u>

(5) Debt Service Requirements

As prescribed in the Authority's Resolution, the Authority is required to maintain a Reserve Account for each Series of Bonds to be held in the custody of the Bond Fund Trustee in an amount equal to the lesser of (1) 10% of the proceeds of the particular bond issue, (2) the maximum debt service due on the particular bond issue, or (3) 125% of the average of the annual installments of Debt Service with respect to all current and future years of the particular bond issue. The resolution permits the Authority to deposit a letter of credit, surety agreement, insurance agreement, or other type of agreement or arrangement with an entity whose obligations are rated in one of the two highest rating categories by Standard and Poor's Ratings Services or Moody's Investors Service in order to satisfy the Reserve Account requirements. The Authority elected to maintain a minimum debt service balance of 10% of the proceeds on all outstanding issues. At May 31, 2011, the debt service reserve funds were approximately \$70.7 million.

Revenue before interest expense and depreciation and amortization was equivalent to 2.04 times (1.64 in 2010) the debt service requirement on all outstanding debt. The minimum debt service requirement on all bonds is 1.10.

SUFFOLK COUNTY WATER AUTHORITY

Notes to Financial Statements

May 31, 2011 and 2010

(6) Notes Payable

Outstanding bond anticipation notes payable are summarized as follows:

<u>Series</u>	<u>Final maturity date</u>	<u>Balance at May 31, 2010</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Balance at May 31, 2011</u>	<u>Due within one year</u>
			(In thousands)			
2008	January 15, 2013	\$ 70,000	—	—	70,000	—
2010 (EFC)	February 1, 2013	3,844	—	(3,844)	—	—
2011 A	April 1, 2012	—	50,000	—	50,000	50,000
2011 B	April 1, 2014	—	50,000	—	50,000	—
	Total notes outstanding	<u>\$ 73,844</u>	<u>100,000</u>	<u>(3,844)</u>	<u>170,000</u>	<u>50,000</u>

<u>Series</u>	<u>Final maturity date</u>	<u>Balance at May 31, 2009</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Balance at May 31, 2010</u>	<u>Due within one year</u>
			(In thousands)			
2004	December 1, 2009	\$ 60,000	—	(60,000)	—	—
2008	January 15, 2013	70,000	—	—	70,000	—
2010 (EFC)	February 1, 2013	—	3,844	—	3,844	—
	Total notes outstanding	<u>\$ 130,000</u>	<u>3,844</u>	<u>(60,000)</u>	<u>73,844</u>	<u>—</u>

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

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 semiannually. Interest is payable periodically, based upon the effective interest rate period, through January 15, 2013, the date of principal maturity, for 2008 notes.

During the fiscal year ended May 31, 2011, the Authority entered into the following Bond Anticipation Note transactions:

In April 2011, the Authority issued an aggregate \$100 million Suffolk County Water Authority 2011 Bond Anticipation Notes consisting of \$50 million Suffolk County Water Authority Bond Anticipation Note 2011A (fixed rate) and \$50 million Suffolk County Water Authority Bond Anticipation Note 2011B (SIFMA). The 2011A Note bears interest at the fixed rate of 1.5% and matures April 1, 2012. The 2011B Note, maturing April 1, 2014 bears interest at a variable rate equal to the adjusted SIFMA (Securities Industry and Financial Market Association) rate plus the per annum spread of 0.40%.

SUFFOLK COUNTY WATER AUTHORITY

Notes to Financial Statements

May 31, 2011 and 2010

Environmental Facility Corporation Bond Anticipation Notes (EFC Series)

In February 2010, the Authority and EFC entered into a Project Finance Agreement as part of the American Recovery and Reinvestment Act (ARRA). This project specific financing is associated with the installation of approximately 17,763 feet of water main to existing residential customers that currently rely on point of use treatment systems for water service. The total estimated cost as well as the maximum amount of financing for this project was \$3.8 million. Progress reimbursements to SCWA were to be made upon presentation of applicable documentation as prescribed within the Project Financing Agreement. The short-term financing for this project was to be at an interest rate of 0%. Upon completion of the project, SCWA would have received a 50% subsidy from the federal government through the ARRA in an amount not to exceed \$1.9 million. In connection with this agreement, the Authority issued Bond Anticipation Notes, 2010 with the Environmental Facilities Corporation in the amount of \$3.8 million. These, unlike regular Bond Anticipation Notes, had an effective interest rate of 0%. In January 2011, the aforementioned project associated with the EFC 2010 Bond Anticipation Note was canceled and the Project Financing agreement was terminated at the request of the Authority.

For the years ended May 31, 2011 and 2010, the effective interest rate for the 2008 Bond Anticipation Notes was 0.21% and 0.19%, respectively.

For the year ended May 31, 2011, the effective interest rate for the 2011 Bond Anticipation Notes was 1.5% for the 2011A and 0.63% for the 2011B notes.

(7) Pension Plan

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

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

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

Tier 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.

SUFFOLK COUNTY WATER AUTHORITY

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May 31, 2011 and 2010

Tier III members with five or more years of credited service after July 1, 1973 are eligible to retire with full benefits at age 62 or at age 55 with 30 years of service and with reduced benefits for retirement between ages 55 and 62 with less than 30 years of service. 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 20 years of credited service, the service retirement benefit will be 1.66% of the final average salary for each year of service.

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

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

Tier V members must have 10 years of service credit to be vested and eligible for retirement benefits. Tier V members are eligible to retire with full benefits at age 62 with 10 years of service credit, and with reduced benefits for retirement between ages 55 and 62 (even if they have 30 years of service credit.). Retirement benefits of members retiring between age 55 and 62 will be reduced for early retirement, even if they have 30 years of service credit. Members must contribute 3% of their salary to the Employees' Retirement System for all their years of service (maximum 30 years). Overtime pay in excess of an annual cap is not included in the definition of wages. This overtime cap for 2011 is \$15,450.

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

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

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

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

Pension expense contractually required by New York State and recorded in the Authority's accounts was \$6.6 million, \$2.4 million, and \$2.1 million for the years ended May 31, 2011, 2010, and 2009, respectively, which is equal to 100% of its annual required contribution. Included in 2011 pension expense is \$1.8 million related to payments made in connection with the NYS early retirement incentive programs. The Authority has recorded an accrued retirement contribution liability for certain pensions costs of employees related to construction work in progress, which have been capitalized to water plant. The Authority capitalized \$2.0 million, \$0.9 million, and \$1.1 million for the years ended May 31, 2011, 2010, and 2009, respectively.

SUFFOLK COUNTY WATER AUTHORITY

Notes to Financial Statements

May 31, 2011 and 2010

(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 sheets. The Authority has no obligation to make contributions to the deferred compensation program. The Authority remits deferred compensation amounts withheld from employees' salaries to an outside fiduciary agent who administers the program and invests program assets as instructed by each of the participants. Assets in such program amounted to approximately \$34.0 million and \$29.8 million at May 31, 2011 and 2010, respectively.

(9) Postemployment Benefits Other Than Pensions

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

Benefit provisions for the plan are established and amended through the Authority's Board of Directors, and there is no statutory requirement for the Authority to continue this plan for future Authority employees. The health, dental, and optical plans are noncontributory for active employees, with all payments for plan benefits being funded by the Authority. Upon retirement, the cost of the dental and optical plans is partially funded by the Authority and the balance by the retiree. During fiscal year 2011, there were 922 participants (562 active and 360 inactive) that were eligible to receive benefits.

GASB No. 45 establishes guidance for the financial reporting of OPEB cost over a period that approximates employees' years of service and providing information about actuarially calculated liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan. The Authority adopted this new standard effective with the May 31, 2008 year-end.

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

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May 31, 2011 and 2010

The following table shows the components of the Authority's annual OPEB cost for the year, the amount contributed to the plan, and changes in the Authority's net OPEB obligation for the years ended May 31, 2011 and 2010 (in thousands):

	<u>2011</u>	<u>2010</u>
Annual required contribution (ARC)	\$ 17,744	16,478
Interest on net OPEB obligation	1,468	972
Net OPEB obligation amortization adjustments to the ARC	<u>(2,123)</u>	<u>(1,405)</u>
Annual OPEB cost (expense)	17,089	16,045
Contributions made	<u>(4,105)</u>	<u>(3,636)</u>
Increase in net OPEB obligation	12,984	12,409
Net OPEB obligation, beginning of year	<u>36,702</u>	<u>24,293</u>
Net OPEB obligation, end of year	<u>\$ 49,686</u>	<u>36,702</u>

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

<u>Fiscal year ended</u>	<u>Annual OPEB cost</u>	<u>Percentage of annual OPEB cost contributed</u>	<u>Net OPEB obligation</u>
May 31, 2011	\$ 17,089	24.0%	\$ 49,686
May 31, 2010	16,045	22.7	36,702

As of May 31, 2011 and 2010, the actuarial accrued liability for benefits was \$180.0 million and \$170.3 million, respectively, all of which was unfunded. As of May 31, 2011 and 2010, the covered payroll (annual payroll of active employees covered by the plan) was \$40.3 million and \$38.9 million, respectively, 447% and 438% for each respective year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 447%.

The actuarial valuation date, as updated May 31, 2011 involves estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the ARCs of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplemental information provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the Authority and the plan members to that point. Actuarial calculations reflect a long-term

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perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

For the May 31, 2011 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4% discount rate for the unfunded portion, and an annual healthcare cost trend rate of 9.5% grading down to 4.75% for medical, dental 5.0% grading down to 4%, and optical 3%. The unfunded actuarial accrued liability is being amortized over 30 years as a level percentage of projected payrolls on an open basis.

(10) Commitments and Contingencies

(a) Wireless Cell Rental Income

Assorted wireless cell carriers desire to use the Authority owned premises for the construction, installation, maintenance, and operation of radio transmitting and receiving equipment and other associated equipment as approved by the Authority in connection with its wireless communications business. The Authority receives in the form of monthly payments a fee for providing such use. Rental fees range from \$3,000 to \$5,800 per month and have terms ranging from five (5) to fifteen (15) years, multiple five-year renewals, and 3% to 3.5% annual rental increases. The Authority currently has 203 lease agreements with 7 different wireless carriers. Annual lease income from these agreements for the next five years are expected to be:

2012	10.3 million
2013	10.6 million
2014	10.9 million
2015	11.2 million
2016	11.6 million

Annual lease income that is included in other operating revenue for the fiscal years ended May 31, 2011 and 2010 were \$10.1 million and \$9.8 million, respectively.

(b) Legal

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

(c) Risk Management

The Authority is exposed to various risks of loss related to automobiles and general liability. The Authority is partially self-insured in the amount of approximately \$500,000 for each general liability claim and \$500,000 for each automobile claim subject to a stop loss aggregate of \$1.25 million. The Authority purchases commercial insurance for claims in excess of this self-insured retention limit to cover various other risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. The Authority maintains workers compensation insurance through Liberty Mutual's guaranteed cost policy. The Authority has recorded a liability related to workers'

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compensation for the period of time when the Authority purchased loss sensitive insurance policies. A loss sensitive policy requires the insured to pay that portion of the premium that is in excess of a minimum premium. It is also subject to a maximum premium.

The Authority has established a liability based on actuarial estimates of the amounts needed to pay prior year and current year claims and to establish a reserve for catastrophic losses. That liability, which is for workers' compensation, general, and automobile claims was approximately \$2.3 million and \$2.8 million at May 31, 2011 and 2010 and is based on the requirements of GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

Changes in the Authority's workers' compensation claims liability amount in fiscal 2011 and 2010 were:

	Year ended May 31	
	2011	2010
	(In thousands)	
Unpaid claims, beginning of fiscal year	\$ 568	464
Changes in the estimate for claims of all years	(157)	104
Claim payments	(71)	—
Unpaid claims, end of fiscal year	<u>\$ 340</u>	<u>568</u>

Changes in the Authority's general and automobile claims liability amount in fiscal 2011 and 2010 were:

	Year ended May 31	
	2011	2010
	(In thousands)	
Unpaid claims, beginning of fiscal year	\$ 2,198	2,286
Changes in the estimate for claims of all years	594	182
Claim payments	(864)	(270)
Unpaid claims, end of fiscal year	<u>\$ 1,928</u>	<u>2,198</u>

The Authority has included the above amounts under the caption "Other accrued liabilities" in the balance sheets.

(11) Net Assets

The Authority's net assets represent the excess of assets over liabilities and are categorized as follows:

- *Invested in Capital Assets* are the amounts expended by the Authority for the acquisition of capital assets, net of accumulated depreciation and related debt.

SUFFOLK COUNTY WATER AUTHORITY

Notes to Financial Statements

May 31, 2011 and 2010

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

Changes in Net Assets

The changes in net assets are as follows (in thousands):

	Invested in capital assets	Unrestricted	Restricted	Total
Net assets at May 31, 2009	\$ 372,461	238,116	36,152	646,729
Loss	—	(6,345)	—	(6,345)
Transfers	(5,156)	(56,869)	62,025	—
Net assets at May 31, 2010	367,305	174,902	98,177	640,384
Loss	—	(3,422)	—	(3,422)
Transfers	17,624	(9,944)	(7,680)	—
Net assets at May 31, 2011	\$ <u>384,929</u>	<u>161,536</u>	<u>90,497</u>	<u>636,962</u>

(12) Subsequent Events

The Authority has evaluated subsequent events through August 30, 2011, the date the financial statements were available to be issued and determined that there were no additional items requiring recognition or disclosure in these financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

(Unaudited)

SUFFOLK COUNTY WATER AUTHORITY

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

May 31, 2011 and 2010

(In thousands)

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) – Level dollar (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll (b-a)/c
May 31, 2011 \$	—	180,049	180,049	—	40,266	447%
May 31, 2010	—	170,324	170,324	—	38,891	438

See accompanying independent auditors' report.



KPMG LLP
Suite 200
1305 Walt Whitman Road
Melville, NY 11747-4302

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

The Members

Suffolk County Water Authority:

We have audited the financial statements of the Suffolk County Water Authority (the Authority) as of and for the year ended May 31, 2011, and have issued our report thereon dated August 30, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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



This report is intended solely for the information and use of management, Members of the Suffolk County Water Authority, and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

August 30, 2011

APPENDIX C

Proposed Form of Opinion of Bond Counsel

*Upon delivery of the 2012A Notes, Harris Beach PLLC, Bond Counsel,
proposes to render an opinion in substantially the following form:*

March ___, 2012

Suffolk County Water Authority
Oakdale, New York

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance of the \$50,000,000 principal amount of Bond Anticipation Renewal Notes, Series 2012, dated March 30, 2012 (the "2012A Notes"), of the Suffolk County Water Authority (the "Authority"), a body corporate and politic constituting a public benefit corporation of the State of New York (the "State"). The 2012A Notes are authorized under and pursuant to the Suffolk County Water Authority Act, as amended, being Title 4 of Article 5 of the Public Authorities Law of the State (the "Act") and the bond resolution of the Authority, adopted on September 27, 1988, as amended on October 27, 1988, March 30, 1993 and November 29, 1994 (the "Resolution"), and as further amended and supplemented by the supplemental resolution of the Authority adopted on December 1, 2011 (the "Supplemental Resolution").

The 2012A Notes are dated March 30, 2012, mature on January 15, 2013 and bear interest at a fixed rate, payable on July 15, 2012 and at maturity on January 15, 2013. The 2012A Notes are subject to such other terms as are set forth in the Supplemental Resolution and a Certificate of Determination executed by the Chairman, dated April 1, 2012 (the "Certificate of Determination").

The 2012A Notes are being issued to renew certain bond anticipation notes of the Authority heretofore issued on April 6, 2011 and maturing on April 1, 2012 (the "2011A Notes"), which 2011A Notes were issued in anticipation of the issuance of the Series of Bonds authorized to be issued in the amount of not to exceed \$120,000,000 pursuant to the Supplemental Resolution. The proceeds of the 2012A Notes are to be deposited in the New Construction Fund of the Authority to provide moneys to pay the principal of the 2012A Notes at maturity. The 2011A Notes were issued to finance the Cost of Acquisition and Construction of certain improvements and additions to the Water System of the Authority. All capitalized terms used herein and not otherwise defined shall have the respective meanings ascribed thereto in the Resolution.

We have examined the Constitution and statutes of the State, certified copies of proceedings of the Authority authorizing the issuance of the 2012A Notes and such other proceedings as we have considered necessary or advisable to render the following opinions. As to matters of fact, we have relied upon certain representations and certifications of the Authority. We have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals and the conformity to authentic original documents of all documents submitted to us as certified, conformed or photostatic copies.

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

1. The Authority is a body corporate and politic constituting a public benefit corporation, duly created and validly existing under the laws of the State, including particularly the Act.
2. The Authority has the corporate power and authority to adopt the Supplemental Resolution and to issue and sell the 2012A Notes.

3. Both the Resolution and the Supplemental Resolution have been duly and lawfully adopted by the Authority and are presently in full force and effect.

4. The 2012A Notes are valid and legally binding obligations of the Authority as provided in the Resolution and the Supplemental Resolution, enforceable against the Authority in accordance with their terms and the terms of the Resolution and the Supplemental Resolution and have been duly and validly authorized and issued in accordance with the Act, the Resolution and the Supplemental Resolution, and are secured by a lien and pledge on the Revenues of the Authority which is junior and inferior and subject to the lien and pledge created on the Revenues for any and all Bonds heretofore and hereafter issued under the Resolution.

5. Under statutes, regulations, administrative rulings and court decisions existing as of the date hereof, and assuming continuing compliance by the Authority with certain covenants contained in the Resolution, the Supplemental Resolution and the Tax Certificate as to Arbitrage and the Provisions of Sections 103 and 141-150 of the Internal Revenue Code of 1986 (the "Tax Certificate") of the Authority relating to certain requirements contained in the Internal Revenue Code of 1986, as amended, and regulations of the United States Treasury Department promulgated thereunder (collectively, the "Code"), interest on the Series 2012A Notes is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Code and is not an "item of tax preference" for purposes of computing the federal alternative minimum tax imposed on individuals and corporations. Interest on the Series 2012A Notes held by certain corporations is, however, included in the computation of "adjusted current earnings," a portion of which is taken into account in determining the federal alternative minimum tax imposed on such corporations.

6. Under statutes existing as of the date hereof, interest on the Series 2012A Notes are exempt from personal income taxes imposed by the State of New York and any political subdivision thereof (including The City of New York).

In rendering the opinion set forth in paragraph 5 above that interest on the Series 2012A Notes is excluded from gross income for federal income tax purposes, we have relied upon, among other things, certain representations and covenants of the Authority in the Resolution, the Supplemental Resolution and the Tax Certificate. We call your attention to the fact that there are certain requirements contained in the Code with which the Authority must comply after the date of issuance of the Series 2012A Notes in order for interest on the Series 2012A Notes to be and remain excluded from gross income for federal income tax purposes. A failure by the Authority to comply with such requirements may cause interest on the Series 2012A Notes to become included in gross income for federal income tax purposes, retroactive to the date of issuance of the 2012A Notes. We render no opinion as to any federal, state or local tax consequences with respect to the 2012A Notes, or the interest thereon, if any change occurs or action is taken or omitted under the Resolution, the Supplemental Resolution or the Tax Certificate by the Authority, or under any other relevant documents without the advice or approval of, or upon the advice or approval of any bond counsel other than, Harris Beach PLLC.

Except for the opinions as set forth in paragraphs 5 and 6 above, we express no opinion regarding any other federal, state or local income tax consequences arising with respect to the purchase or ownership of the Series 2012A Notes. Purchasers of the Series 2012A Notes, including, without limitation, purchasers that are corporations (including S corporations and foreign corporations operating branches in the United States), property or casualty insurance companies, banks, thrifts or other financial companies or certain recipients of Social Security benefits or other federal retirement benefits are advised to consult their tax advisors as to the tax consequences of purchasing or holding the Series 2012A Notes.

The foregoing opinions are qualified to the extent that the enforceability of the Resolution, the Supplemental Resolution, the Series 2012A Notes and any other document executed in connection therewith may be limited by any applicable bankruptcy, insolvency or other similar law or equitable principle now or hereafter enacted by the State of New York or the federal government or pronounced by a court having proper jurisdiction, affecting the enforcement of creditors' rights generally.

We have not been requested to examine and have not examined any documents or information relating to the Authority other than the record of proceedings hereinabove referred to, and no opinion is expressed as to any financial information, or the adequacy thereof, which has been or may be supplied to the Trustee, the initial purchaser of the Series 2012A Notes or any other person.

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

Very truly yours,

APPENDIX D

Book-Entry Only System

The Depository Trust Company, New York, New York (“DTC”), will act as securities depository for the 2012A Notes. The 2012A Notes will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 2012 Bond certificate will be issued for each maturity of the 2012A Notes, in denominations equal to the aggregate principal amount of the 2012A Notes, and will be deposited with DTC.

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

Purchases of 2012A Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2012A Notes on DTC’s records. The ownership interest of each actual purchaser of each Series 2012 Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2012A Notes are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in 2012A Notes, except in the event that use of the book-entry system for the 2012A Notes is discontinued.

To facilitate subsequent transfers, all 2012A Notes deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the 2012A Notes with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in

beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2012A Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2012A Notes are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

Redemption notices shall be sent to DTC. If less than all of the 2012A Notes within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2012A Notes unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the Record Date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2012A Notes are credited on the Record Date (identified in a listing attached to the Omnibus Proxy).

Principal, interest payments and redemption proceeds on the 2012A Notes will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Paying Agent on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its 2012A Notes purchased or tendered, through its Participant, to the Tender Agent, and shall effect delivery of such 2012A Notes by causing the Direct Participant to transfer the Participant's interest in the 2012A Notes, on DTC's records, to the Tender Agent. The requirement for physical delivery of 2012A Notes in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the 2012A Notes are transferred by Direct Participants on DTC's records and followed by a book-entry credit of the 2012A Notes to the Tender Agent's DTC account.

DTC may discontinue providing its services as depository with respect to the 2012A Notes at any time by giving reasonable notice to the Authority or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Series 2012 Bond certificates are required to be printed and delivered. In addition, the Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Series 2012 Bond certificates will be printed and delivered to DTC. See "Transfers and Exchanges of 2012A Notes Upon Discontinuance of Book-Entry System" herein.

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

NEITHER THE AUTHORITY NOR THE PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO THE DTC PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DTC PARTICIPANT; (2) THE PAYMENT BY DTC OR ANY DTC PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT OF OR INTEREST ON THE 2012A NOTES; (3) THE DELIVERY BY DTC OR ANY DTC PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE RESOLUTION TO BE GIVEN TO BONDHOLDERS; AND (4) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS BONDHOLDER.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE 2012A Notes, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE SERIES 2012 BOND OWNERS OR REGISTERED OWNERS OF THE 2012A NOTES SHALL (OTHER THAN UNDER THE SECTION "TAX MATTERS" HEREIN) MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE 2012A Notes.

For every transfer and exchange of the 2012A Notes, the Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

Transfers and Exchanges of 2012A Notes Upon Discontinuance of Book-Entry System

In the event that the book-entry only system is discontinued and the Beneficial Owners become registered owners of the 2012A Notes, the following provisions applicable to registered owners would apply: (i) 2012A Notes may be exchanged for an aggregate principal amount of 2012A Notes in authorized denominations of the same maturity and interest rate, upon surrender thereof at the principal corporate trust office of the Paying Agent; (ii) the transfer of any 2012A Notes may be registered on the books maintained by the Paying Agent for such purpose only upon the surrender thereof to the Paying Agent together with a duly executed assignment in form satisfactory to the Authority and the Paying Agent; (iii) for every exchange or registration of transfer of 2012A Notes, the Paying Agent may make a charge sufficient to reimburse it for any tax or other governmental charge required to be paid with respect to such exchange or registration of transfer of the 2012A Notes; and (iv) the Paying Agent will not be required (a) to issue, transfer or exchange any 2012A Notes during the fifteen (15) days preceding the day of mailing of a notice of redemption of 2012A Notes selected for redemption, or (b) to transfer or exchange any 2012A Notes so selected for redemption in whole or in part.

In the event that the book-entry-only system is discontinued, principal and Purchase Price and interest will be payable upon surrender of the 2012A Notes at the corporate trust office of the Paying Agent; interest will be payable by check or draft mailed to the Bondholders at their addresses as shown on the Series 2012 Bond registration books held by the Paying Agent on the Record Date; or at the request of a Bondholder of at least \$1,000,000 in principal amount of the 2012A Notes, by wire transfer.

During any and all times that the 2012A Notes are maintained in a book-entry only system the following transfer and exchange provisions shall not be applicable.

In the event the book-entry-only system is discontinued for any reason, each Series 2012 Bond shall be transferable or exchangeable only upon the Series 2012 Bond registration books by the registered holder thereof or by his attorney duly authorized in writing, upon presentation and surrender of such Series 2012 Bond to the Paying Agent, together with a written instrument of transfer satisfactory in form to the Paying Agent, duly executed by the registered holder or his duly authorized attorney. Upon the surrender of any Series 2012 Bond or 2012A Notes for transfer or exchange, the Paying Agent shall redeliver in the name of the transferee or exchange one or more new Series 2012 Bond or 2012A Notes of the same aggregate principal amount, maturity and interest rate as the surrendered Series 2012 Bond or 2012A Notes, in any denomination authorized by the Supplemental Resolution and in the manner and subject to the conditions set forth in the Supplemental Resolution. All transfers and exchanges shall be made without expense to the registered holder of such Series 2012 Bond, except that the Paying Agent may require the payment by the registered holder of the Series 2012 Bond requesting such transfer or exchange of any tax or other governmental charges required to be paid with respect to such transfer or exchange. All transfers or exchanges of 2012A Notes shall be subject to such provisions as may be prescribed from time to time by the Authority and the Paying Agent. The Authority and the Paying Agent may deem and treat the person in whose name a Series 2012 Bond is registered upon the Series 2012 Bond registration books as the absolute owner of such 2012A Notes for the purpose of receiving payment of the principal of and interest on the Series 2012 Bond and for all other purposes, and they shall not be affected by any notice to the contrary.