

# SUFFOLK COUNTY WATER AUTHORITY



1994 ANNUAL REPORT

# AUTHORITY PROFILE

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

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

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



## STATISTICAL HIGHLIGHTS 1985-1994

	For Fiscal Year Ended May 31 1994	For Fiscal Year Ended May 31 1985	10-Year Growth	Percent Increase
Customers	311,997	256,531	55,466	22%
Population Served	1,125,590	860,000	265,590	31%
Miles of Main	4,623	3,716	907	24%
Fire Hydrants	28,515	23,805	4,710	20%
Water Pumped (billion gallons)	53.6	39.6	14	35%
Employees	593	447	146	33%

## FINANCIAL HIGHLIGHTS 1985-1994

Gross Revenues	\$ 83,538,000	\$ 42,071,000	\$ 41,467,000	99%
Operating and Maintenance Expense, Except Depreciation	51,910,000	25,926,000	25,984,000	100%
Water Plant at Cost	629,985,000	308,416,000	321,569,000	104%
Bonded Indebtedness	334,375,000	146,560,000	187,815,000	128%
Total Earnings in the Business at the Close of Period	\$135,714,000	\$82,899,000	\$52,815,000	64%

### COVER: A WALK IN THE RAIN

About 45 inches of precipitation falls on Long Island each year. Half is lost to evaporation; the other half is recharged to the ground where it slowly seeps into the underground aquifer system at a rate of about 1,000,000 gallons per square inch per day. Some of the water in the deepest part of the aquifer system is thousands of years old.

This report is printed on recycled paper.



## AUTHORITY MEMBERS

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Michael A. LoGrande  
*Chairman / Chief Executive Officer*

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

Matthew B. Kondenar  
*Secretary*

Eric J. Russo, Esq.

James T.B. Tripp, Esq.

## MANAGEMENT

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### Staff

Michael A. LoGrande  
*Chairman / Chief Executive Officer*

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

Michael Stevenson  
*Deputy Chief Executive Officer  
for Administration*

William C. Arabio  
*Director of Information Services*

Frank Faber  
*Director of Finance*

Patrick J. Dugan  
*Director of Laboratory Services*

Robert G. Graven  
*Executive Director of Customer Service*

Ralph H. Gunther  
*Assistant Chief Engineer*

James A. Hartnett  
*Director of General Services*

Laura J. Mansi  
*Director of Public Relations*

Robert L. Murray  
*Director of Production Control*

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

Donald Slotnick  
*Director of Distribution*

### Consultants

Van Nostrand & Martin  
*Counsel*

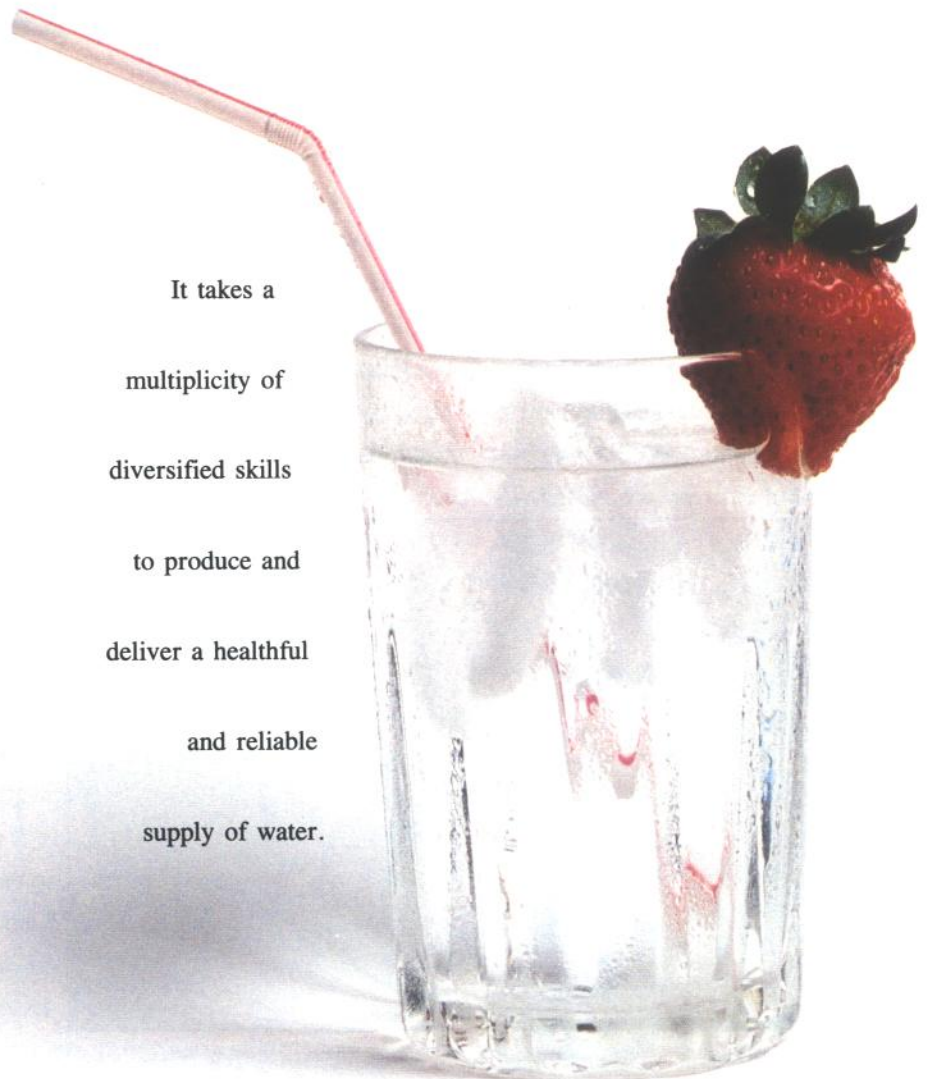
United States Trust Company  
of New York  
*Bond Trustee*

Price Waterhouse  
*Independent Accountants*

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

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

It takes a  
multiplicity of  
diversified skills  
to produce and  
deliver a healthful  
and reliable  
supply of water.



**T**he Members of the Suffolk County Water Authority are pleased to present our annual report for the 1993/1994 fiscal year, an extremely productive and challenging year. We have continued our modernization of facilities, introduced new technologies and systems, centralized and decentralized operations as appropriate, expanded our customer base, refinanced debt resulting in significant savings, and continued our reorganization to better meet the opportunities that lie ahead, while meeting the operational challenges created by the extremes in weather during the summer of 1993 and the winter of 1994.

We have made significant progress toward accomplishing the goals and projects outlined in our 1992/1993 annual report. In recognition of the progressive and fiscally conservative path taken by our Board, the Suffolk County Legislature reappointed three outstanding Board Members, James T.B. Tripp, Dr. Melvin M. Fritz and Matthew B. Kondenar. Mr. Kondenar is the longest tenured Member in the history of the Authority, serving more than twenty years. Two key executive changes also took place. Frank Faber, with more than thirty years of public and private financial experience, was hired as our Director of Finance to replace Nicolo DiBartolo who retired earlier this year. Michael Stevenson was promoted to Deputy Chief Executive Officer for Administration to head our new Administrative Group. Both individuals possess a unique blend of public and private sector experience in keeping with our philosophy of introducing new perspectives in the operation of our business.

Through conservative fiscal policies and strong operational controls, we have maintained our excellent ratings in the financial community. During a period of continued recession, coupled with continuing federal and state mandates and their associated costs, we continue to remain one of New York State's premiere municipal bond issuers. Our financial strength is demonstrated by the low cost of funds for our capital projects.

Our current average interest rate for all debt is approximately 5.4%, significantly lower when compared to other municipal borrowers. By maintaining our strong credit rating, we have been able to borrow at low long-term rates, creating long-term savings for our customers in the form of lower water rates, and still continue our programs of modernization and restructuring.

Our continuing growth through private well conversions, new construction, and acquisitions of private water companies require a constant source of funds. While some of these

# Chairman's



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



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funds are provided through regular operations, the balance must be borrowed. Through constant monitoring of our monetary requirements and fiscal conditions in the bond market, our debt service is kept at the lowest possible level. During the fiscal year ending May 31, 1994, we issued a total of \$102,135,000 of certain bonds for the purpose of new construction and the refunding of previously issued notes and bonds to take advantage of decreasing long-term interest rates and minimizing debt service costs.

We continue to pursue a program of acquisitions in keeping with our mission to ensure a safe, reliable and affordable public supply of water for all Suffolk County residents. In our 43 year history, we have acquired 40 private water companies and we are currently managing one municipally-owned system and two privately-owned systems. We have structured a number of more recent acquisitions in such a way that the newly acquired customers pay a higher rate for water than our system-wide customers, but significantly lower than the rate they

paid prior to the acquisition. This new policy is designed so as to not burden the rest of our customers with the costs associated with the acquisition. This year we entered into a management agreement with the owner of the Kismet water supply, a small system on Fire Island. The management agreement allows us to assess the feasibility of acquiring this remote system and will assist in formulating a policy of acquiring other suppliers on Fire Island.

# Message

This year, the New York State Appellate Division dismissed the technical objections raised by the owners of Swan Lake and Sunhill Water Companies to the condemnation proceedings we initiated in 1992. We are moving forward with the condemnation of these commonly owned and managed companies on behalf of their customers in East Patchogue and Selden, who continue to seek relief from high rates, poor service, and poor water quality. The condemnations were also initiated at the request of state, county and town elected officials on behalf of their constituents.

After undergoing a reorganization and a streamlining of department budgets and personnel, we commissioned a rate study by our consultants, Stone and Webster. As a result of that study, we concluded that a rate increase was essential to meet the production-end expenses of increasing water testing regulations and high energy costs. Sensitive to our customers and the continuing lingering effects of Long Island's economic recession, a modest rate increase went into effect on May 1, 1994. This increase amounts to less than a dollar a month for our typical customer. Even with this increase, our water rates will continue to be among the lowest in New York State and lower than the national average. In addition, the rate study indicated that the wholesale rate of water we supplied to several municipally-owned water districts was understated. The wholesale rate was adjusted by equating the increase paid by the wholesale customer to equal that amount paid by our regular customers.

Our ongoing financial strength has allowed us to continue with our aggressive plans of modernization of our facilities. Our new Coram Regional Customer Center will consolidate our Port Jefferson and Patchogue Customer Service Offices and will allow us to more easily take advantage of information and communication technologies available today. The United States Geological Survey, Research Division of Groundwater, a contractor of the Authority, as well as a customer service division of the Long Island Lighting Company, will be tenants in this facility, allowing us to defray a portion of the new center's operating costs.





The Rose Garden, Vanderbilt Museum, Centerport, L.I., N.Y.  
(Northport Harbor in background)



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**W**ith the completion and occupancy of the Coram center, our Customer Service Division will be complete and will consist of three main regional locations in Hauppauge, Coram, and Westhampton Beach, with one satellite office in East Hampton. Just a few years ago, we operated nine separate district offices.

Our state-of-the-art drinking water testing laboratory will be operational in the late fall of 1994 and will be the largest of its kind on the East Coast. The laboratory was constructed in response to customer growth and continually increasing regulations. New federal regulations, such as Phase II - Phase V parameters, the new Information Collection Rule and the Disinfection By-Product Rule will add substantially to the 150 different chemical constituents for which we currently test. The new laboratory will have the capacity to meet current and anticipated requirements for the next twenty-five years.

In an effort to cut costs and to reduce response time, the decentralization of our field operations continues. In April 1994, construction to expand the Spring Road Waterworks building in Huntington began to accommodate additional manpower and supplies. Working closely with the Town of Huntington and the Landmarks Commission, we developed a design which largely preserves the architectural style of this historic building which was originally erected in 1889. Upon completion of this facility, operational costs will be cut, emergency response time will be reduced, and the entire Town of Huntington will be better served.

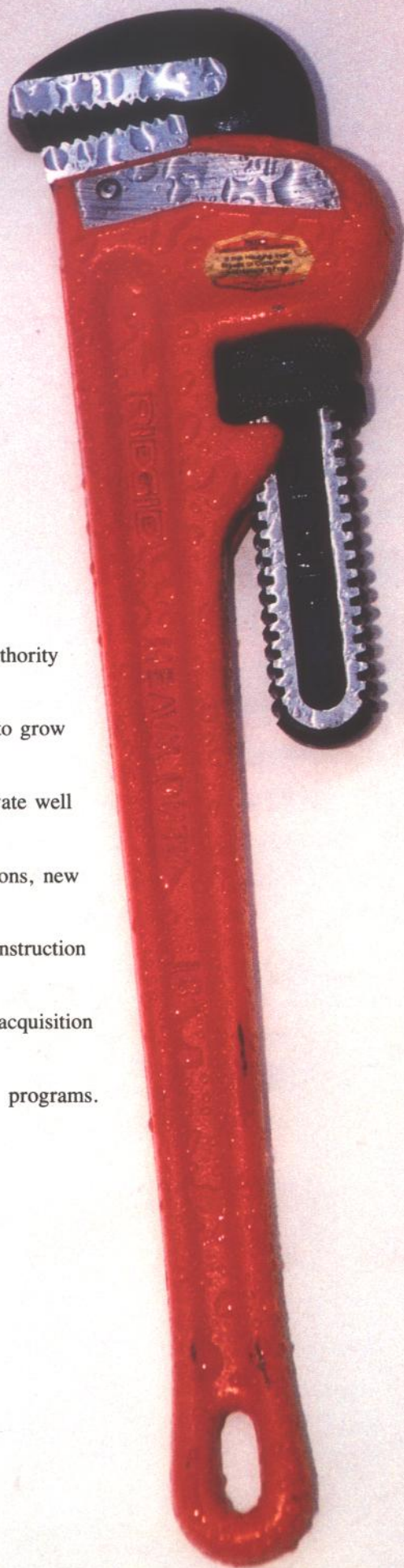
Lastly, a new materials distribution center was constructed and dedicated on May 24, 1994. Located in our Oakdale complex, this new 15,000 square foot facility, coupled with our computerized on-line inventory management and purchasing system, will allow us to move and track all materials throughout the county while reducing costs.

We have continued to investigate new technologies to efficiently process and exchange the vast amount of information generated in the operation of our business. To that end, we engaged Grumman InfoConversion to analyze our current mainframe and computer based information systems and, working closely with our staff, developed a long-range strategic information systems plan. We have begun to implement many of InfoConversion's recommendations. Our goal is to have a fully interactive, cost effective information system which will allow a free exchange of information between our various departments as well as with outside environmental and health agencies.





The Authority  
continues to grow  
through private well  
conversions, new  
home construction  
and acquisition  
programs.



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Using a newly purchased Interactive Voice Response System, developed by Periphonics of Long Island, over 170,000 of our customers will soon be able to use touchtone telephones to "call-in" their meter readings directly to our billing system. Once verified as accurate, each customer's meter reading will automatically generate a bill. To ensure the success of this program, we will give a one dollar credit to the customer for each quarterly read. We will be the first utility in the nation to offer an incentive for participation in a meter reading program. Savings will be realized in the areas of meter readings, direct computer entry of the reading by the customer, and a reduction of customer billing complaints. The program was designed as a positive incentive for our customers to directly participate in keeping our costs down and their rates reasonable.

The Interactive Voice Response System has other capabilities that we will use to better serve our customers. In the near future, we plan to activate the system to enable customers to check the status of their account. Eventually, using outbound technologies, the system will be used to contact customers directly by telephone to advise them of main breaks, construction, or any other activity which may interrupt their water service.

In addition to the new customer meter reading program, we are continuing to implement the Itron meter reading system, a hand-held computerized data capture system, which down-loads its data directly to the billing computer at the end of the workday. The continued implementation of



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the Itron system and the new customer meter reading program complement one another as we continue to evaluate emerging radio-read meter reading technologies. Near term, radio-read technologies will become standardized and competition among involved manufacturers should significantly reduce the currently high capital cost of these systems and of meter reading itself.

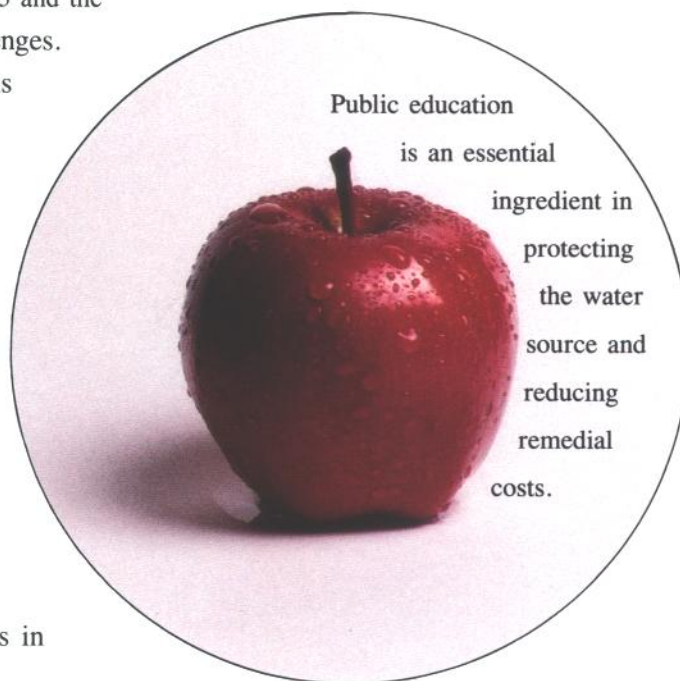
The extremes in weather during the summer of 1993 and the winter of 1994 presented significant operational challenges.

During July, we pumped a record 9.3 billion gallons of water, an increase of 57% over the same period the year before. Water usage remained higher than normal for the remainder of the summer, and despite the huge demand, we were able to successfully maintain water pressures and supply our customers with excellent quality water without interruption in service. This is largely attributable to a major effort over the last several years to increase capacity and remediate and bring on-line wells that had been out of service. The winter of 1994 presented other demands on the system due to a long and harsh winter. We responded to more than 2,000 weather related calls in January alone.

Maintaining and improving the water system is an on-going responsibility. This year, in addition to replacing 15,000 feet of transite main as part of a long-term replacement program and replacing old hydrants with modern, efficient models, we concentrated on improving pressure zones. Rezonings in the areas of Setauket, Holbrook and Brentwood improved pressures, both high and low, and increased fire protection capabilities. A number of similar rezonings are scheduled to take place over the next year.

Iron, which occurs naturally in groundwater in some areas of our system, presents an aesthetic inconvenience to some of our customers. To address this problem, we will construct our first iron removal system next year. We have instituted systematic flushing programs and have begun construction of new and larger water mains to transport iron-free water from other regions to affected areas. We are optimistic that these strategies will greatly increase the level of satisfaction of our affected customers.

In April of 1993, I was called upon by the environmental community and developers to mediate the issue of the preservation of fifty-two thousand acres of watershed lands referred to as the Long Island Central Pine Barrens. In discussing this request with the Authority Members, it was agreed that, if successful, the benefits to our present and future customers and to a future water supply were enormous. After eleven intensive sessions were held at SCWA facilities using our Policy Planning Staff to provide data and mapping, a pine barrens law was passed by the New York State Legislature and signed by Governor Cuomo on July 14, 1993. This landmark law will serve as the largest ground-water protection program in the United States.







The pine barren regions of Long Island serve as an excellent conduit for the recharge of precipitation, untainted by development, to the aquifer system.

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**I**n recognition of the extraordinary professional role played by the Suffolk County Water Authority, Raymond Corwin of our Policy and Planning Department was appointed by the state-created Joint Policy and Planning Commission to serve as Executive Director. In addition, I was asked to serve as Chairman of the Central Pine Barrens Advisory Council. These two key appointments will insure the SCWA objectives of groundwater protection and future supply.

We continue to interact with all sectors of the Long Island community. Recognizing that our young people are our future customers and more importantly, the stewards of our groundwater supply, we initiated the first steps toward developing a “water” curriculum for all grade levels this year. We continue to support and sponsor other education opportunities in partnership with the educational community as we believe that training programs which stress pollution prevention of our groundwater will not only preserve our water’s purity, but will help to avoid the costs associated with its cleanup. Whenever possible, we support the local business community by availing ourselves of their goods and services. We now actively work with local not-for-profit agencies, such as Skills Unlimited, to provide meaningful work opportunities for challenged adults. We believe that being a good corporate neighbor has a multitude of benefits for us and the community-at-large.



The value of our most precious natural resource and how it bears on our lives cannot be measured. As the largest groundwater supplier in the United States and a public benefit corporation, we will continue to strive to provide our customers with the highest level of service and the highest quality water in a fiscally prudent manner. In recounting our accomplishments of the past year, I can say that our high expectations were met and exceeded. I, and my fellow Board Members, would like to express our sincere gratitude to all the employees, with whom we are privileged to serve, who worked so diligently to make it possible.

The past four years have been remarkable in moving the Authority from a somewhat lethargic bureaucracy to a dynamic, sensitive and responsive water supplier. The enormous progress of this past year, symbolic of the new dynamism, is just the beginning. Before the end of this century, we intend to make the Suffolk County Water Authority the most responsive, the most efficient, and the best managed water supplier in the nation. This goal is now within reach.

Sincerely,

*Michael A. LoGrande*

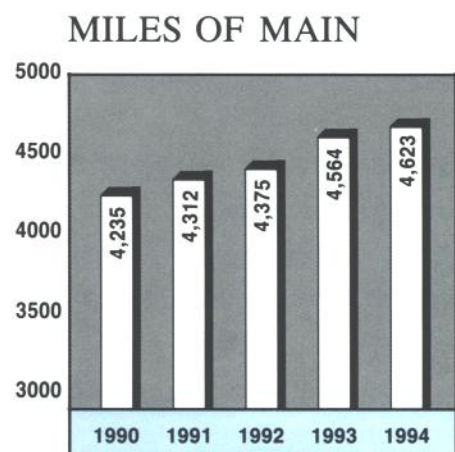
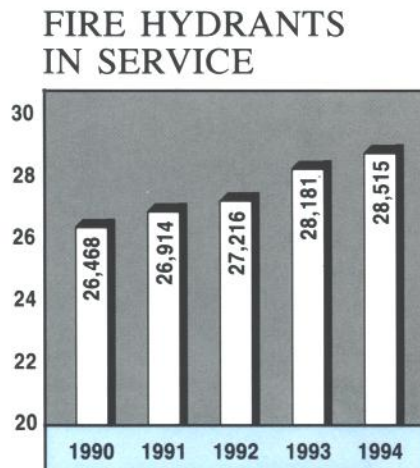
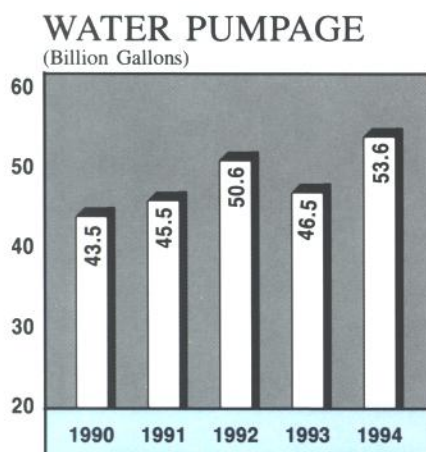
MICHAEL A. LoGRANDE  
*Chairman and CEO*





# HIGHLIGHTS 1993 - 1994

	May 31	
	1994	1993
Total Revenues .....	\$ 83,538,000	\$ 72,577,000
Operating and Maintenance Expense except depreciation .....	51,910,000	46,330,000
Interest on Bonds and Notes; including amortization of debt discount and expense .....	17,149,000	12,624,000
Depreciation .....	11,376,000	10,199,000
Revenues Invested in Facilities for the year .....	2,365,000	(17,255,000)
Revenues Invested in Facilities (since June 1, 1951) .....	135,714,000	133,349,000
Total Water Plant at Cost .....	629,985,000	593,436,000
Net Additions to Water Plant .....	25,801,000	43,717,000
Customers (Active Services) .....	311,997	308,352
Miles of Main in Service .....	4,623	4,564
Fire Hydrants in Service .....	28,515	28,181
Water Production (Billion Gallons) .....	53.6	46.5



## PLANT FACILITIES 1993 - 1994

Service Areas of Plants	WELLS				Pumping Plants				Storage Facilities				Active Services	
					Capacity - 1,000 Gallons Daily*				No. 1,000 Gallons					
	Active	Inactive	No.					No.						
BABYLON	46	45	0	2	19	19	80,928	81,072	7	7	7,220	7,220	56,080	56,235
BAY SHORE	48	49	9	9	21	22	91,872	91,872	7	7	6,012	6,012	50,433	50,884
PATCHOGUE	71	70	5	5	29	30	115,776	117,648	11	10	12,230	12,000	62,402	62,951
HUNTINGTON	54	53	2	3	22	22	67,104	67,104	11	11	11,842	11,842	30,716	30,984
PT. JEFFERSON	72	74	4	5	33	36	116,064	119,736	9	9	8,854	8,854	47,173	47,865
SMITHTOWN	45	46	3	2	20	20	83,520	83,520	6	6	6,100	6,100	25,611	25,838
WESTHAMPTON	35	34	0	2	14	14	29,808	31,680	4	4	4,050	4,050	22,220	23,220
EAST HAMPTON	33	38	3	3	19	21	26,388	27,108	5	5	5,720	5,720	13,717	14,020
TOTALS	404	409	26	31	177	184	611,460	619,740	60	59	62,028	61,798	308,352	311,997

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

AS OF MAY 31, 1993 ☐

AS OF MAY 31, 1994 ☐



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FINANCIAL  
STATEMENT  
FISCAL YEAR  
1993 -1994





REPORT OF  
INDEPENDENT  
ACCOUNTANTS

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Price Waterhouse LLP

To the Members of  
Suffolk County Water Authority

In our opinion, the accompanying balance sheet and the related statements of revenue and revenue invested in facilities and of cash flows present fairly, in all material respects, the financial position of Suffolk County Water Authority (the "Authority") at May 31, 1994 and 1993 and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Authority's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

*Price Waterhouse LLP*

Jericho, New York  
August 5, 1994



# BALANCE SHEET

(Amounts in Thousands)

	May 31,	
	1994	1993
<b>ASSETS</b>		
Water plant, at cost less accumulated depreciation (Note 2) .....	\$ 509,319	\$ 482,810
Construction fund .....	46,165	21,445
<b>Current Assets:</b>		
Cash and cash equivalents .....	23,142	31,421
Short-term investments .....	2,323	
Bond fund held by fiscal agent .....	14,737	16,467
Accounts receivable, less allowance for doubtful accounts of \$500 in 1994 and \$392 in 1993 .....	6,189	4,051
Interest and other receivables .....	556	1,314
Accrued water service and fire protection revenues .....	10,082	10,546
Materials and supplies, at average cost .....	5,005	5,253
Prepayments and other current assets .....	856	599
<b>Total Current Assets</b> .....	<b>62,890</b>	<b>69,651</b>
Long term investments .....	12,427	5,298
Unamortized issue costs .....	3,458	2,591
Other (Notes 1,7) .....	10,758	9,796
	<b>26,643</b>	<b>17,685</b>
	<b>\$ 645,017</b>	<b>\$ 591,591</b>
<b>CAPITALIZATION AND LIABILITIES</b>		
<b>Capitalization:</b>		
Water System Revenue Bonds, less current portion (Note 3), less unamortized discount of \$8,543 in 1994 and \$8,748 in 1993 .....	\$ 319,892	\$ 260,317
Contributions in aid of construction .....	140,777	134,438
Revenue invested in facilities .....	137,628	133,349
Notes payable (Note 5) .....		3,964
<b>Total Capitalization</b> .....	<b>598,297</b>	<b>532,068</b>
<b>Current Liabilities:</b>		
Current maturities of Water System Revenue Bonds (Note 3) .....	5,940	5,260
Notes payable (Note 5) .....	2,300	18,097
Accounts payable .....	4,080	4,695
Accrued interest .....	8,623	6,409
Accrued retirement contributions (Note 6) .....	1,392	1,139
Other accrued liabilities (Note 7) .....	7,653	7,388
Customer deposits .....	6,615	6,696
<b>Total Current Liabilities</b> .....	<b>36,603</b>	<b>49,684</b>
Advances for construction .....	10,117	9,839
Commitments and Contingencies (Note 9) .....		
	<b>\$ 645,017</b>	<b>\$ 591,591</b>

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



# STATEMENT OF REVENUE AND REVENUE INVESTED IN FACILITIES

(Amounts in Thousands)

	For the year ended May 31,	
	1994	1993
<b>Revenues:</b>		
Operating .....	\$ 80,213	\$ 69,729
Interest and other .....	3,217	2,848
Total revenues .....	83,430	72,577
<b>Operating Expenses:</b>		
Operations .....	41,182	36,220
Maintenance .....	10,728	10,110
Total operating expenses .....	51,910	46,330
Revenue before depreciation, amortization, interest, and extraordinary gain (loss) .....	31,520	26,247
<b>Deduct:</b>		
Interest expense, net .....	15,381	12,225
Amortization of debt discount and issue costs .....	715	399
Depreciation .....	11,376	10,199
	27,472	22,823
Revenue before extraordinary gain (loss) .....	4,048	3,424
Extraordinary gain (loss) (Note 3) .....	231	( 20,679)
Revenue invested in facilities .....	4,279	( 17,255)
At beginning of year .....	133,349	150,604
At end of year .....	\$ 137,628	\$ 133,349

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



# STATEMENT OF CASH FLOWS

(Amounts in Thousands)

	For the year ended May 31,	
	1994	1993
<b>Cash Flows from Operating Activities:</b>		
Revenue invested in facilities .....	\$ 4,279	\$ (17,255)
Adjustments to reconcile revenue invested in facilities to net cash provided by operations:		
Extraordinary (gain) loss .....	(231)	20,679
Depreciation and amortization .....	12,091	10,598
Capitalized interest .....	(1,196)	12
(Increase) decrease in operating assets		
Bond fund held by fiscal agent .....	1,730	(5,588)
Short term investments .....	(2,323)	
Accounts receivable .....	(2,138)	486
Interest and other receivables .....	758	(273)
Accrued water service and fire protection revenues .....	464	(909)
Materials and supplies and prepayments .....	(9)	(1,041)
Increase (decrease) in operating liabilities		
Accounts payable .....	(615)	508
Accrued interest .....	2,214	(591)
Accrued retirement contributions .....	253	244
Other accrued liabilities .....	265	997
Customer deposits .....	(81)	537
Net cash provided by operating activities .....	15,461	8,404
<b>Cash Flows from Investing Activities:</b>		
Additions to water plant, net of retirements .....	(36,689)	(34,664)
Cost of business, net of cash acquired .....		(11,681)
Long term investment .....	(7,129)	(2,299)
Other .....	(962)	(1,076)
Net cash used in investing activities .....	(44,780)	(49,720)
<b>Cash Flows from Financing Activities:</b>		
Net proceeds from issuance of		
Water System Revenue Bonds .....	98,420	236,856
Cost of U.S. Government Securities deposited in escrow trust fund for payment of Refunded Bonds .....	(34,256)	(186,412)
(Repayments of) Proceeds from issuance of notes payable .....	(19,761)	17,300
Repayment of current maturities of		
Water System Revenue Bonds .....	(5,260)	(3,880)
Advances for construction, net of refunds .....	6,617	5,114
Increase in construction fund .....	(24,720)	(17,645)
Net cash provided by financing activities .....	21,040	51,333
Net (decrease) increase in cash and cash equivalents .....	(8,279)	10,017
Cash and cash equivalents at beginning of year .....	31,421	21,404
Cash and cash equivalents at end of year .....	\$ 23,142	\$ 31,421

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



# NOTES TO FINANCIAL STATEMENTS

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MAY 31, 1994 and 1993

(Amounts in Thousands)

## Note 1 -

### Summary of Significant Accounting Policies:

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

#### Acquisition

On May 4, 1993, the Authority acquired all of the outstanding stock of Shorewood Water Corp. ("Shorewood") for \$10,265 cash and a \$2,300 note payable to the former stockholders. The acquisition has been accounted for as a purchase. Accordingly, the purchase price was allocated to assets acquired and liabilities assumed based on their estimated fair values as of the date of acquisition. The cost in excess of net assets acquired of \$6,034 was recorded as goodwill and is being amortized on a straight line basis over forty years. Goodwill net of accumulated amortization is included in other assets in the Authority's balance sheet at May 31, 1994 and 1993. Shorewood's results of operations have been included in the Authority's financial statements beginning May 5, 1993.

Fair values of assets acquired and liabilities assumed as of the purchase date, recorded by the Authority during fiscal 1993 are summarized as follows:

Cash .....	\$ 884
Receivables .....	686
Water plant .....	10,563
<b>Total Assets .....</b>	<b>12,133</b>
Accounts payable .....	841
Bonds payable .....	4,761
<b>Total Liabilities .....</b>	<b>5,602</b>
Net assets acquired .....	6,531
Cost in excess of net assets acquired .....	6,034
<b>Purchase Price .....</b>	<b>\$ 12,565</b>

#### Reclassification

Certain fiscal 1993 balances have been reclassified, for comparative purposes.

#### Cash and Cash Equivalents

Short-term investments which have an original maturity of ninety days or less are considered cash equivalents. Interest paid, net of amounts capitalized, was \$13,167 and \$12,816 during fiscal 1994 and 1993, respectively.

#### Water Plant

Water plant is carried at original cost, including the cost of purchased and contributed property. The capitalized cost of additions to water plant includes charges for indirect construction costs such as construction period interest, engineering, supervision, payroll taxes and pension benefits. The original cost of property replaced, retired or otherwise disposed of is deducted from plant accounts and together with dismantling costs less any salvage is charged to accumulated depreciation. The costs of repairs, minor betterments and renewals are charged to maintenance expense as incurred. The Authority does not credit water plant for contributions in aid of construction.

#### Depreciation

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

#### Funds Held by Fiscal Agent

The 1988 General Bond Resolution, as amended, (the "Resolution") requires that a debt service reserve fund and a bond fund be maintained by the Fiscal Agent. The bond fund is used solely for the purpose of paying the principal and interest on the bonds, and for retiring the bonds prior to maturity. Amounts in the bond fund are invested in repurchase agreements and U.S. Treasury notes, as of May 31, 1994 and May 31, 1993.

#### Construction Fund

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



### Investments

At May 31, 1994, the Authority has invested \$8,248 of its construction, operating and other funds in certificates of deposit with interest rates ranging from 3.02% to 4.02% and which mature at various dates through July 20, 1994. Additionally, the Authority has invested \$52,089, \$12,703 and \$7,170 in U.S. Treasury Notes, repurchase agreements and U.S. Government bonds, respectively. It is the Authority's intent to hold such investments until maturity.

### Revenue

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

### Income Taxes

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

### Bond Premiums or Discounts and Issue Costs

Premiums or discounts and issue costs related to the issuance of long-term debt are amortized utilizing the effective interest method.

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

Under existing standard construction loan contracts with residential real estate developers and others, the developer advances to the Authority the estimated cost of new main installations. Upon completion of construction, the developer is either billed or refunded the difference between the advance and the actual cost. The resulting net completed cost is transferred to Contributions in Aid of Construction. Other construction loan contracts are written for a five year period and provide for refunding a percentage of revenue collected from these projects which is charged against the original advance. The resulting net balance at the expiration of the contract is transferred to Contributions in Aid of Construction (\$3,149 - 1994; \$5,812 - 1993;).

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

### Customer Deposits

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

## Note 2 - Water Plant

	May 31,	
	1994	1993
Land and land rights . . . .	\$ 11,814	\$ 9,374
Distribution systems . . . .	411,552	392,457
Wells, reservoirs and structures . . . . .	84,827	78,637
Pumping and purification equipment . . . . .	28,156	25,992
Other . . . . .	13,213	21,435
Water plant in service . . .	549,562	527,895
Less - Accumulated depreciation . . . . .	120,666	110,626
Net water plant in service . . . . .	428,896	417,269
Construction in progress . . . . .	80,423	65,541
Water plant . . . . .	\$ 509,319	\$ 482,810

## Note 3 - Water System Revenue Bonds

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

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

During 1993, the Authority issued \$208,635 of certain bonds for the purpose of refunding a portion of its Series 1988 Bonds, Series 1989 Bonds, Series 1990 Bonds, Series 1991 Bonds and Series 1992A Bonds.

The net proceeds from the bonds issued during fiscal 1993 and a portion of the Series 1994 Bonds were deposited with an escrow agent pursuant to an escrow agreement, and invested in U.S. Government Securities. The maturities of these securities and related earnings thereon are expected to provide sufficient cash flow to meet the debt service requirements of the Refunded Bonds. These refunding transactions effectively released the Authority from its obligation to repay the Refunded Bonds and constituted a defeasance in substance.



These transactions resulted in an extraordinary (gain) loss on early retirement of debt summarized as follows:

	May 31,	
	1994	1993
Cost of U.S. Government Securities deposited in escrow trust funds . . . .	\$ 34,256	\$ 186,412
Carrying amount of Refunded Bonds, including current maturities and net of unamortized discount . . . . .	34,487	165,733
Net extraordinary (gain) loss . . . . .	\$ (231)	\$ 20,679

Outstanding bonds are summarized as follows:

			May 31,	
Series	Interest Rate	Final Maturity Date	1994	1993
1988	6.50-7.375%	2010	\$ 38,230	\$ 41,585
1989	6.05-7.00 %	2001		2,340
1992 A&B	5.10-5.625%	2017	57,885	83,020
1992 C	4.50-6.00 %	2017	39,280	48,830
1993	4.80-5.10 %	2013	96,845	98,550
1994	5.00-6.00 %	2017	102,135	
Total bonds outstanding . . . . .			334,375	274,325
Less: Current maturities . . . . .			5,940	5,260
Unamortized discount . . . . .			8,543	8,748
			\$319,892	\$260,317

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

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

Fiscal Year	Amount
1994 . . . . .	\$ 5,940
1995 . . . . .	6,335
1996 . . . . .	7,220
1997 . . . . .	7,625
1998 . . . . .	8,090

## Note 4 - Debt Service Requirements

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

Average debt service requirements for the payment of interest and principal on outstanding bonds at May 31, 1994 approximate \$24,589 in each of the next five years. Revenue before interest and depreciation was equivalent to 1.48 times (1.50 in 1993) the debt service requirement for the year ended May 31, 1994.

## Note 5 - Notes Payable

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

## Note 6 - Pension Plan

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

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

- Tier I - members who last joined prior to July 1, 1973.
- Tier II - members who last joined on or after July 1, 1973 and prior to July 27, 1976.
- Tier III - members who last joined on or after July 27, 1976 and prior to September 1, 1983.
- Tier IV - members who joined on or after September 1, 1983.



Tier I members are eligible for retirement at age 55. If members retire with 20 or more years of total service, the service retirement benefit is 2% of the final average salary for each year of service. If members retire with less than 20 years of total service, the service retirement benefit is 1.66% of the final average salary for each year of service.

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

Tier III members with 10 or more years of credited service after July 1, 1973, are eligible to retire with full benefits at age 62 and with reduced benefits for retirement between ages 55 and 62. Benefits are integrated with Social Security beginning at age 62. If members retire at age 62 and have 25 or more years of credited service, the service retirement benefit will be 2% of final average salary for each year of service (not to exceed 30 years), plus 1.5% of the final average salary for each year of credited service beyond 30 years. If members retire at age 62 with fewer than 25 years of credited service, the service retirement benefit will be 1.66% of the final average salary for each year of service.

Tier IV members with 10 or more years of credited service are eligible to retire with full benefits at age 62 or between the ages of 55 and 62 with 30 years or more of credited service. Tier IV members with less than 30 years of credited service do not receive benefits if they retire prior to age 62. Benefits are equivalent to Tier III members.

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

Tier III and IV members are required by law to contribute 3% of salary to the Employees' Retirement System and eligible Tier I and II members may make contributions under certain conditions. The Authority is required by the same statute to contribute the remaining amounts necessary to pay benefits when due.

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

Pension expense recorded in the Authority's accounts was zero for the years ended May 31, 1994 and May 31, 1993. The zero balance in pension expense is the result of a change in the actuarial method utilized by New York State in determining the contributions to be made to the Retirement System.

## **Note 7 - Deferred Compensation**

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All Authority employees may participate in a deferred compensation program designated as an Internal Revenue Code Section 457 plan. This program enables employees to contribute a portion of their salary, on a tax deferred basis, to group variable annuity contracts. All assets in the plan remain the property of the Authority until paid or made available to participants and, accordingly, are subject to the claims of the Authority's general creditors. The assets and related liabilities of the plan are recorded at the assets' market values. The Authority has no liability for making contributions to the deferred compensation program. The Authority remits deferred compensation amounts withheld from employees' salaries to an outside fiduciary agent who administers the program and invests program assets as instructed by each of the participants. Assets in such program amounted to \$3,035 and \$2,330 at May 31, 1994 and May 31, 1993, respectively. Assets of the plan are included in other assets and the liability to employees is included in other accrued liabilities in the Authority's balance sheet.

## **Note 8 - Postretirement Benefits**

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The Authority provides certain health insurance benefits for retired employees. Substantially all the Authority's employees may become eligible for these benefits if they reach normal retirement age while working for the Authority. The cost of retiree health care benefits is recognized as an expense as costs are incurred.

## **Note 9 - Commitments and Contingencies**

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The Authority authorized a capital improvement construction budget for the fiscal year ending May 31, 1995 of approximately \$43,487.

The Authority is obligated under several operating leases for office equipment which, in the aggregate, approximate \$1,272 and expire at various dates through 1998.

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



# DISTRICT OFFICES AND COMMUNITIES SERVED



Western Regional Office:  
Services the largest amount  
of Suffolk County Water  
Authority customers.

## WESTERN REGIONAL OFFICE

### MANAGERS

Arlene Calabria  
Clifford Foy  
260 Motor Parkway  
Hauppauge, NY 11788  
Amity Harbor  
Amityville  
Asharoken  
Babylon  
Bay Shore  
Brentwood  
Brightwaters  
Centerport

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

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

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

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

## EAST HAMPTON OFFICE

MANAGER  
Ronald P. Blake  
32 Montauk Hwy.  
East Hampton, NY 11937  
Amagansett  
Bridgehampton  
East Hampton  
Montauk  
North Haven  
North Sea  
Sag Harbor  
Southampton  
Wainscott  
Watermill

## PATCHOGUE OFFICE

MANAGER  
Dona Roberts  
336 West Main St.  
Patchogue, NY 11772  
Bayport  
Bellport  
Blue Point  
Bohemia  
Brookhaven  
Coram  
East Holbrook  
East Patchogue  
Farmingville  
Gordon Heights  
Hagerman  
Holbrook  
Holtsville  
Lakeland  
Lake Ronkonkoma

Medford  
North Bellport  
North Patchogue  
Patchogue  
Ronkonkoma  
Sayville  
Selden  
South Centereach  
South Holbrook  
South Medford  
South Yaphank  
Village of Islandia\*\*  
Village of Lake Grove  
Village of Patchogue  
West Bellport  
West Ronkonkoma  
West Sayville  
West Yaphank  
Yaphank

## PORT JEFFERSON OFFICE

MANAGER  
Steven Romano  
120 West Broadway  
Port Jefferson, NY 11777  
Belle Terre  
Centereach  
Coram  
East Setauket  
Lake Grove  
Lake Panomoka  
Middle Island  
Miller Place  
Mount Sinai  
North Centereach  
North Selden  
Poquott  
Port Jefferson  
Port Jefferson Station  
Ridge  
Rocky Point  
Setauket  
Shoreham  
South Setauket  
Sound Beach  
South Stony Brook  
Stony Brook  
Terryville  
Wading River

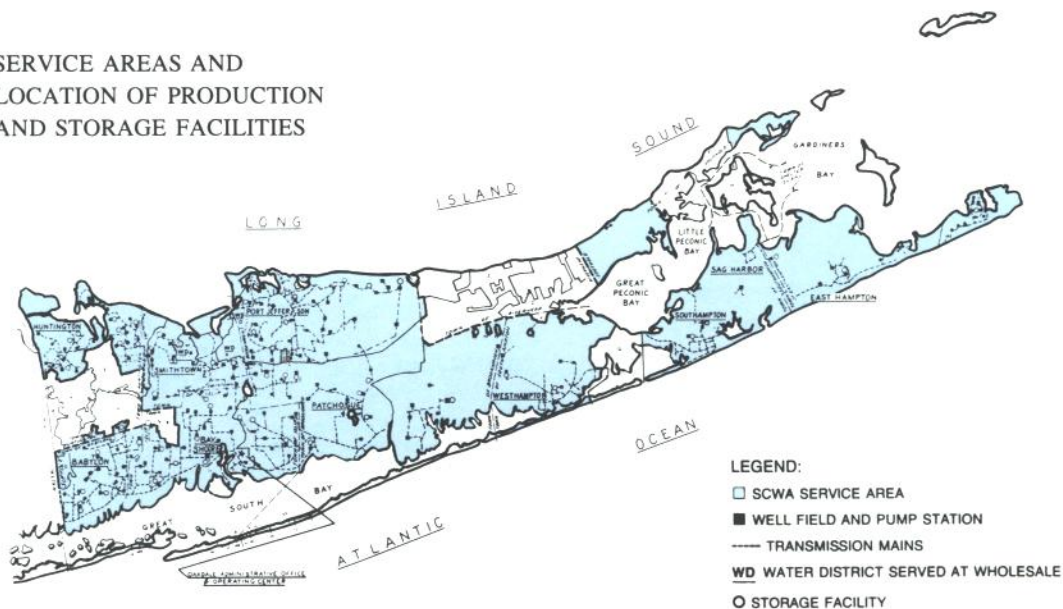
## WESTHAMPTON BEACH OFFICE

MANAGER  
William T. Stone  
1098 Old Riverhead Rd.  
Westhampton Beach, NY 11978  
Center Moriches  
East Moriches  
Eastport  
East Quogue  
East Yaphank  
Laurel  
Manorville  
Mastic  
Mastic Beach  
Mattituck  
Middle Island\*\*  
Moriches  
North Shirley  
Oakville  
Quogue  
Quogue  
Remsenburg  
Shirley  
Southold  
South Ridge  
Speonk  
Westhampton  
Westhampton Beach

\*Included in Wholesale  
Water District

\*\*Serves portion of area

SERVICE AREAS AND  
LOCATION OF PRODUCTION  
AND STORAGE FACILITIES



SUFFOLK COUNTY WATER AUTHORITY

Oakdale, Long Island, N.Y. 11769