

Celebrating  
50  
YEARS



Suffolk County Water Authority  
Annual Report 2001



**Authority Members**

*(from left to right):*

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

### **Authority Profile**

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

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

The Suffolk County Water Authority is the largest groundwater supplier in the nation and has been operating for 50 years. Currently, the SCWA serves more than one million Suffolk County residents. The Authority is operated solely for the benefit of the customers it serves.

## Financial Highlights

	For Fiscal Year Ended May 31,		10-Year	Percent
	2001	1992	Growth	Increase
Customers	352,763	299,549	53,214	18%
Miles of Main	5,269	4,375	894	20%
Fire Hydrants	32,829	27,216	5,613	21%
Water Pumped (Billion Gallons)	63.8	50.6	13.2	26%
Employees	598	569	29	5%
Gross Revenues	\$122,950,000	\$ 74,507,000	\$ 48,443,000	65%
Operating and Maintenance Expense	62,211,000	46,577,000	15,634,000	34%
Water Plant at Cost	971,632,000	549,719,000	421,913,000	77%
Bonded Indebtedness	468,946,000	199,965,000	268,981,000	135%
Total Cumulative Earnings	251,241,000	150,604,000	100,637,000	67%

## 2000-2001 Highlights

	May 31, 2001	May 31, 2000
Total Revenues	\$122,950,000	\$118,942,000
Operating and Maintenance Expense Except Depreciation	62,211,000	58,515,000
Interest on Bonds and Notes; Including Amortization of Debt Discount and Expense	22,098,000	20,167,000
Depreciation	17,188,000	16,362,000
Revenues Invested in Facilities for the Year	21,453,000	23,898,000
Revenues Invested in Facilities (since June 1, 1951)	251,241,000	229,788,000
Total Water Plant at Cost	971,632,000	918,954,000
Net Additions to Water Plant	52,678,000	55,810,000
Customers (Active Services)	352,763	349,544
Miles of Main in Service	5,269	5,195
Fire Hydrants in Service	32,829	32,289
Water Production (Billion Gallons)	63.8	64.6

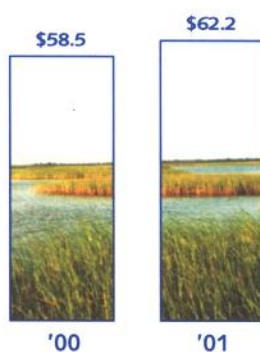
### Revenues

(dollars in millions)



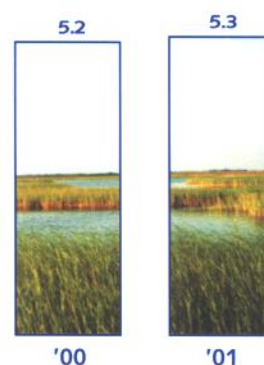
### Expenses

(dollars in millions)



### Miles of Main

(miles in thousands)





## Chairman's Message

Water fact:  
Since 1998, Suffolk County  
has been recognized as a  
Groundwater Guardian  
community by the  
Groundwater Foundation,  
a non-profit educational  
organization based in  
Lincoln, Nebraska.



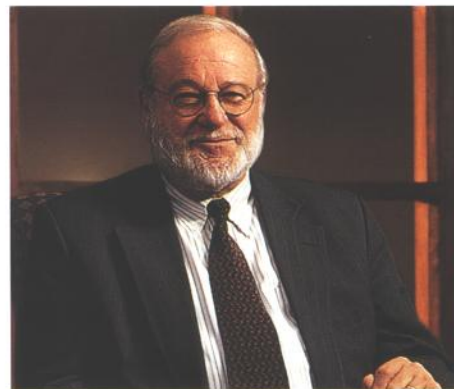
**Celebrating  
a half century  
of service**

This year we celebrated our 50th Anniversary. The giant cake that was decorated with the SCWA logo and the champagne glass filled with Lloyd aquifer water (rainwater that fell on Suffolk County about 2,000 years ago) made a fitting toast to our Authority that is proud of its accomplishments and progress over the past 50 years.

The idea of a Suffolk County Water Authority dates back to the late 1930's and was designed, redesigned, debated, rejected and resurrected over a period of 15 years after the New York State Legislature, convinced by Suffolk's W. Kingsland Macy agreed to use the Robert Moses creation of a quasi-public agency for a new and innovative purpose: public water. The Suffolk County Water Authority was the first of its kind in New York State and it has served as a model for the 16 water authorities that followed it. The SCWA even served as a model in many other states, which adopted the concept of keeping public water out of the public political fray while providing greater strength and flexibility than private endeavors.

In May of 1951, the newly formed SCWA purchased all the systems of the South Bay Consolidated Water Company, acquiring its 22,000 customers, and employed many of South Bay's original workers. The SCWA was underway with dedicated, experienced professionals at the helm who maintained

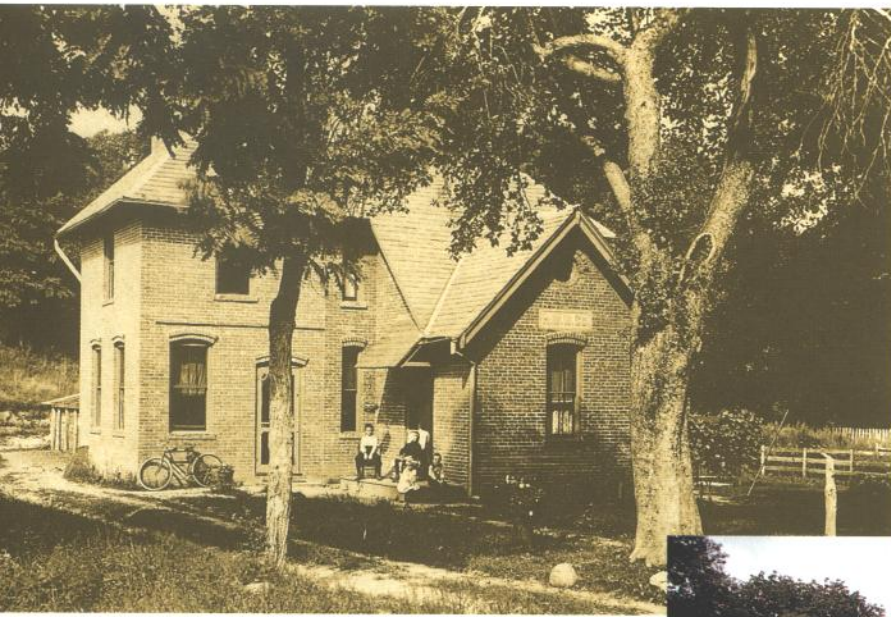
Michael A. LoGrande  
*Chairman*



high standards of ethics and integrity and excellent work habits. They had a clear understanding of their responsibility to handle the most important element of human survival besides air—drinking water.

The early founders of the Authority could never predict the major changes in Suffolk County that would dramatically influence the way they carried out their responsibilities. For example, the combined federal programs to build interstate highways and provide mortgages for homebuyers (FHA or GI mortgages) exploded into suburbia in the late 1950's, and throughout the decades of the 60's and 70's. Suffolk County had the dubious distinction of having the highest growth rate in the nation in the late 60's.

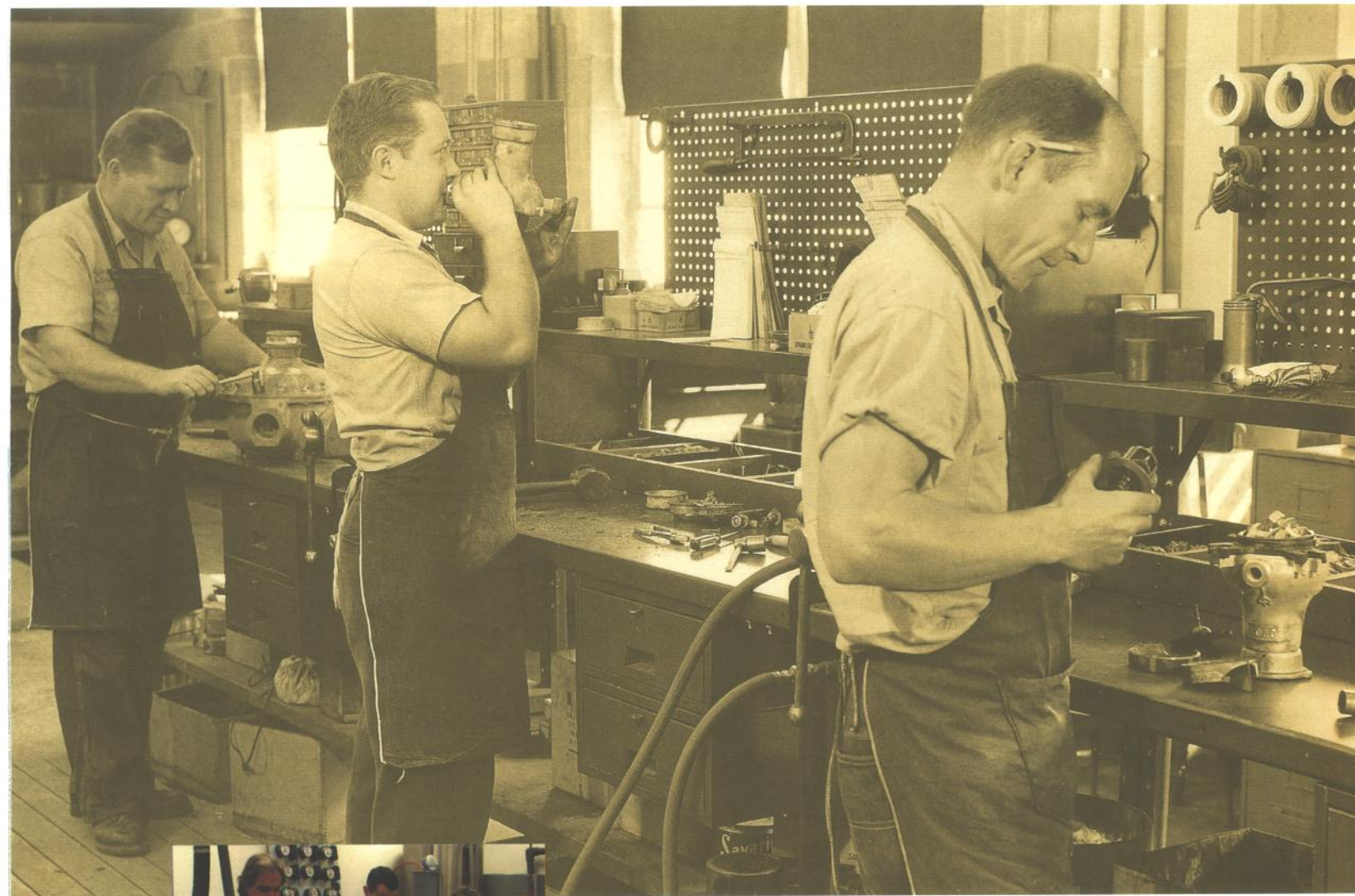
Our founders could never have predicted the advances in testing technology which could trace chemical elements by identifying even less than one in a billion parts. In fact, the SCWA



The Spring Road Waterworks building, over 100 years old, typifies the balance between tradition and modernity celebrated this year by the Authority during its 50th anniversary. Renovations and expansions allow the building to continue its proud service in Huntington and keep its rightful place in the historic village fabric. The Authority was recognized by the American Water Works Association for this historic renovation project.



Water Authority employees *(left to right)* Walter Crandall, Edward Reilly, and Donald Knoth examining and testing water meters in the Oakdale-based shop.



Water Authority employees *(left to right)* Frank Groth, Brad Majuk, and Jo Ann Fiumano utilizing the flow testing and calibration equipment in the Hauppauge meter shop. The Authority maintains 360,000 meters of varying sizes and configurations, most of which can now be read with a hand-held computer, remotely touched or equipped for wireless remote reading.



Crossing water bodies to lay water main was an unsafe, laborious chore as shown in this Moneybogue Bay crossing. Bay bottom, stream banks and wetlands were all disturbed as the pipe was guided into an underwater trench by a diver. Computer-controlled directional drilling 30 feet below water bodies, can now accomplish the same task in less time, with no environmental damage.



Laboratory, the largest groundwater testing lab in the nation, can trace and identify some chemical elements in parts per trillion! Of course, following the new testing technology that identified substances that heretofore were impossible to detect, the media, Hollywood and the general public interacted to create a toxic waste frenzy that stirred panic in every aspect of people's lives, and the water industry was not excluded. The founders could never have predicted the levels of human concern about water purity and the extent to which water suppliers would go to achieve such purity guarantees.

Who, in the early 50's, could envision the combined effects of computer technology and communication technology that would change the way we operate our public water system? Today, on a computer screen at our Bay Shore Control Center, we can observe a tank filling up in Smithtown, the position of a valve in Huntington, the output of a well in Port Jefferson and literally hundreds of observations

that used to require a site visit. The new SCADA system (supervisory control and data acquisition) will not only eliminate hundreds of vehicle trips throughout our county, it will allow us to look around the inside of 230 pump stations from one vantage point at the Control Center.

Today, we install pipes under bodies of water through a directional bore system without digging or opening up trenches. We can automatically call and send a voice message to thousands of customers to advise them of planned main flushing or an interruption of service due to repairs and any other messages to give our customers a long warning period. Today, we read meters by simply touching the remote covers with a handheld computer, and, as soon as the economics are favorable, we will read meters by simply driving through neighborhoods automatically collecting radio transmitted reads. Technological improvements over the last decade of our 50-year history have transformed the SCWA from sometimes being a follower to a trendsetter.

The one aspect of the Authority that the founders could have predicted is the fact that the single most important characteristic of the Authority's managers and staff is integrity in handling the public's water supply without which the entire system would fail.

Water fact:

On average, our area receives about 45 inches of rain per year with more than 900,000,000 gallons of water entering the aquifers on an average day. Even during the summer at peak usage, the SCWA rarely pumps out more than 400,000,000 gallons in a single day.



Celebrating  
a half century  
of service



Water fact:  
The Suffolk County Water  
Authority operates the largest  
water system in the nation  
based entirely upon  
groundwater.



Celebrating  
a half century  
of service

At a retreat for our top 30 managers held in 1992, I asked the question, "What are the principal goals of the Suffolk County Water Authority?" After a prolonged discussion and a group realization that our goals and mission had changed, that we had grown from constructor to guardian of the public's water supply, a new mission statement was born:

*"To produce and distribute the highest quality water for our customers at the lowest possible cost in an atmosphere of excellent customer service."*

In the 10 years since that meeting, while all the innovation, renovation and expansion of service areas was taking place with lightning speed, a renaissance of thought has evolved in our employees. Our focus has come back to our customers, protecting the watershed, insuring the quality of our product, and focusing long-term to insure the viability of our organization and its ability to fulfill our vitally important mission. The mission statement developed at that management meeting in 1992 was as appropriate in 1951 as it is today in 2001. In the last 10 years, that mission statement has been restated, strengthened and kept in the forefront of every action we take. Our top management today is made up of outstanding professionals with exceptional dedication and abilities. Our

Our clerks in 1955 (left to right) Marilyn McGarvey, Katherine Jaeger Hamilton, and Lillian Blomeke worked in a small office in Patchogue below a pool hall. Customer offices are now regionalized in Hauppauge, Coram and Westhampton, but personal customer service remains the cornerstone of Water Authority operations.



entire team is composed of highly skilled and dedicated men and women who realize the vital role that the Authority plays in the day-to-day lives of Suffolk's residents.

We are in excellent shape going into this new century with our goals always in mind and with an emphasis on innovation, vigilance and integrity.

*Michael A. LoGrande*

Michael A. LoGrande  
May 2001



Construction practices and equipment have improved dramatically over the years, along with worker safety. Greater efficiencies and quicker installations are achieved with proper machinery, prefabrication off-site, new technologically advanced materials and innovative techniques. Still the same after 50 years:  
Quality workmanship!





### Authority Members

**Michael A. LoGrande**  
*Chairman*

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

**John E. Gee, Jr.**

**Eric J. Russo, Esq.**

**James T. B. Tripp, Esq.**

### Management Staff

**Stephen M. Jones**  
*Chief Executive Officer*

**Nicolo DiBartolo**  
*Chief Financial Officer\**

**Michael R. Frank**  
*Deputy Chief Executive Officer  
for Customer Service*

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

**Michael Stevenson**  
*Deputy Chief Executive Officer  
for Administration*

**Timothy T. Hopkins, Esq.**  
*General Counsel*

**William C. Arabio**  
*Director of Information Services*

**Steven T. Burns, P. E.**  
*Director of Distribution*

**Robert L. Murray**  
*Director of Production Control*

**Joseph M. Pokorny, P. E.**  
*Chief Engineer*

**Karen A. Randazzo**  
*Director of Laboratory Services*

**Steven Romano**  
*Director of Customer Service*

*\*As of August 1, 2001*

### Consultants

**Van Nostrand & Martin**  
*Counsel*

**United States Trust Company  
of New York**  
*Bond Trustee*

**PricewaterhouseCoopers LLP**  
*Independent Accountants*

**Salomon Smith Barney**  
*Financial Consultant*

**Nixon Peabody**  
*Bond Counsel*

**Leggette, Brashears & Graham, Inc.**  
*Consulting Groundwater Geologists*

The Authority continued the fiscal policies established by the Board maintaining the AA bond rating achieved in 2000. Sound financial management has been the cornerstone on which the Authority has been able to build the extensive facilities and water distribution system, which now serves over one million Suffolk County residents. Adding to that resident base by bringing potable water to residents now served by wells that are tainted or marginal is a major goal. Since the Authority is not tax based and must earn its own way, we have used a number of creative but sound financial tools to facilitate that program. For example, the 75' rule provides 75' of free main for private well conversions with only 50% of residents participating. The residents who must pay for water main extensions in excess of 75' can do so over five (5) years at a favorable interest rate that is comparable to our tax free bonds. These and other flexible plans have helped thousands connect to our water system.

In order to meet our annual construction requirements for new main and pump stations totalling approximately \$50 million annually we have utilized the New York State Environmental Facilities Corporation (EFC) to borrow funds. Bonds issued through the EFC are subsidized by the New York State Water Revolving Fund.

In recent years the Authority has utilized Bond Anticipation Notes more extensively to provide low interest rate monies for the short term.

Working Funds generated during the year and construction funds are invested in a manner to maximize interest earnings, while fully collateralized for safety.

The advances and expansion of cellular communications have opened an opportunity for the Authority to lease antennae space on our numerous tank sites. This generates approximately \$3 million annually in rents.

Over the past several years the Authority has entered into operating agreements with the Towns of Brookhaven and Islip to manage and provide water to the residents of Stony Brook, Brentwood, and Fair Harbor Water Districts, generating an additional \$2 million per year. The Towns were faced with ever increasing costs attributable to testing, operating, and maintaining the systems and passing these costs onto the limited customers. The Authority, wanting to fill gaps in the distribution system, incorporated the operations into the large interconnected transmission system and absorbs the additional costs with minimal effect. The Towns were able to divest themselves of high operating costs. The customers are serviced by the largest ground water purveyor in the country at no additional cost. These innovative agreements are working to the benefit of the customers while reducing costs for both the Towns and the Authority.

The interest income, lease rents and other miscellaneous income represent approximately 15% of the Authority's gross revenue.

Our goal is to have a sound financial environment by controlling operating expenses at all levels, maximizing alternative income, and borrowing through low cost sources. Achieving this goal will provide water plant needs to support current growth and most importantly maintain water rates at the lowest possible point consistent with delivering safe potable water to our customers.

## Financial Section

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*May 31, 2001 and 2000*

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## Balance Sheets

Suffolk County Water Authority

May 31,

2001

2000

(Amounts in thousands)

### ASSETS

Water plant, at cost less accumulated depreciation .....	\$769,354	\$729,677
Current assets		
Cash and cash equivalents .....	3,963	2,757
Investments .....	66,210	59,792
Accounts receivable, less allowance for doubtful accounts of \$849 and \$657, respectively .....	9,174	9,848
Accrued water services and fire protection revenues .....	16,387	12,022
Interest and other receivables .....	959	1,186
Materials and supplies, at average cost .....	4,512	4,697
Prepayments and other current assets .....	1,571	523
<b>Total Current Assets</b> .....	<b>102,776</b>	<b>90,825</b>
Investments .....	39,632	19,141
Debt service reserve and bond funds .....	25,769	20,827
Construction fund .....	22,399	52,549
Intangible assets .....	4,990	5,141
Deferred charges and other assets .....	5,958	6,725
	<b>98,748</b>	<b>104,383</b>
<b>Total Assets</b> .....	<b>\$970,878</b>	<b>\$924,885</b>

### CAPITALIZATION AND LIABILITIES

Capitalization		
Bonds payable, less current portion and unamortized discount .....	\$362,741	\$318,353
Bond anticipation notes payable .....	90,500	126,400
Contributions in aid of construction .....	202,751	193,087
Revenue invested in facilities .....	251,241	229,788
<b>Total Capitalization</b> .....	<b>907,233</b>	<b>867,628</b>
Current liabilities		
Current maturities of bonds payable .....	10,078	9,162
Accounts payable .....	7,544	4,234
Accrued interest .....	9,187	8,989
Accrued employee welfare .....	5,408	4,856
Other accrued liabilities .....	2,984	947
Customer deposits .....	5,120	5,721
Deferred revenue .....	1,000	1,000
Accrued retirement contributions .....	403	1,107
<b>Total Current Liabilities</b> .....	<b>41,724</b>	<b>36,016</b>
Advances for construction .....	19,146	18,241
Deferred revenue .....	2,000	3,000
Obligation under capital lease .....	775	—
Commitments and contingencies .....	—	—
<b>Total Capitalization and Liabilities</b> .....	<b>\$970,878</b>	<b>\$924,885</b>

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

# Statements of Revenue and Revenue Invested in Facilities

Suffolk County Water Authority

For the Years Ended May 31,

2001

2000

(Amounts in thousands)

## Revenue

Operating .....	<b>\$104,194</b>	\$103,833
Interest income and other .....	<b>18,756</b>	15,109
<b>Total revenue .....</b>	<b>122,950</b>	118,942

## Operating expenses

Operations .....	<b>46,816</b>	45,234
Maintenance .....	<b>15,395</b>	13,281
<b>Total operating expenses .....</b>	<b>62,211</b>	58,515

Revenue invested in facilities before depreciation, amortization

and interest expense .....	<b>60,739</b>	60,427
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Deduct:

Interest expense .....	<b>20,641</b>	19,275
Depreciation and amortization .....	<b>18,645</b>	17,254
	<b>39,286</b>	36,529

Revenue invested in facilities .....	<b>21,453</b>	23,898
At beginning of year .....	<b>229,788</b>	205,890
At end of year .....	<b>\$251,241</b>	\$229,788

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



# Statements of Cash Flows

Suffolk County Water Authority

For the Years Ended May 31,

2001

2000

(Amounts in thousands)

<b>Cash flows from operating activities</b>		
Revenue invested in facilities.....	\$ 21,453	\$ 23,898
Adjustments to reconcile revenue invested in facilities to net cash provided by operations		
Depreciation and amortization .....	18,645	17,254
Capitalized interest.....	(1,120)	(558)
Changes in operating assets and liabilities		
Accounts receivable, net .....	674	(961)
Accrued water service and fire protection revenues.....	(4,365)	664
Interest and other receivables.....	227	(430)
Materials and supplies and prepayments.....	(863)	(279)
Other assets.....	1,542	2,598
Accounts payable.....	3,310	(1,232)
Accrued interest.....	198	220
Deferred revenue.....	(1,000)	(1,000)
Accrued retirement contributions.....	(704)	557
Accrued employee welfare.....	552	(398)
Other accrued liabilities.....	1,821	(544)
Customer deposits.....	(601)	27
Net cash provided by operating activities.....	39,769	39,816
<b>Cash flows from investing activities</b>		
Purchase of investment securities, net of sales.....	(26,909)	(15,075)
Net cash used in investing activities.....	(26,909)	(15,075)
<b>Cash flows from capital financing activities</b>		
Additions to water plant, net of retirements.....	(54,536)	(57,292)
Disbursements from (designations to) the construction fund.....	30,150	(24,869)
Proceeds from issuance of EFC Bonds.....	15,988	875
Proceeds from issuance of water system revenue bonds.....	38,200	—
Proceeds from notes payable.....	—	50,000
Repayment of notes payable.....	(35,900)	(200)
Repayment of current maturities of Bonds payable.....	(9,407)	(4,325)
Repayment of capital lease obligation.....	(216)	—
Proceeds from advances for construction, net of refunds.....	10,569	10,996
Payment of bonds and notes payable issuance costs.....	(1,560)	(27)
Designations to the debt service reserve and bond funds.....	(4,942)	(2,672)
Net cash used in capital financing activities.....	(11,654)	(27,514)
Net increase (decrease) in cash and cash equivalents.....	1,206	(2,773)
Cash and cash equivalents at beginning of year.....	2,757	5,530
Cash and cash equivalents at end of year.....	\$ 3,963	\$ 2,757
<b>Supplemental disclosures of cash flow information:</b>		
Interest paid.....	\$ 21,397	\$ 19,614
Borrowings under capital lease obligation.....	\$ 1,104	\$ —

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

# Notes to Financial Statements

Suffolk County Water Authority

May 31, 2001 and 2000

(Dollar amounts in thousands)

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

### Acquisition

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

### Water Plant

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

### Depreciation

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

### Cash and Cash Equivalents

Investments with maturity dates of ninety days or less are considered cash equivalents.

### Debt Service Reserve and Bond Funds

In accordance with the 1988 General Bond Resolution, as amended (the "Resolution"), the Authority maintains a debt service reserve fund (or bond insurance, as described in Note 5) and a bond fund that is held by a Fiscal Agent.

The bond fund is used solely for the purpose of paying the principal and interest on the bonds, and for retiring the bonds prior to maturity. Amounts in the bond fund are invested in repurchase agreements, U.S. Treasury Notes and U.S. government securities.

### Construction Fund

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

### Deferred Charges

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

### Intangible Assets

Goodwill is recorded for the excess of the purchase price over the fair value of net assets acquired, and is being amortized over 40 years using the straight-line method.

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

Under existing standard construction loan contracts with residential real estate developers and others, the developer advances to the Authority the estimated cost of new main installations. Upon completion of construction, the developer is either billed or refunded the difference between the advance and the actual cost. The resulting net completed cost is transferred to Contributions in Aid of Construction.



## Notes to Financial Statements (continued)

Suffolk County Water Authority

May 31, 2001 and 2000

(Dollar amounts in thousands)

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.

### Accrued Employee Welfare

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

### Revenue

Revenue is recognized based on actual customer water usage, including estimates for unbilled periods.

### Income Taxes

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

### Use of Estimates

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

### Concentration of Credit Risk

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

### Reclassifications

Certain fiscal 2000 balances have been reclassified in order to conform with the current year presentation.

### Recent Accounting Pronouncements

#### *Management's Discussion and Analysis for State and Local Governments*

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

#### *Goodwill and Other Intangibles*

In June 2001, the Financial Accounting Standards Board (FASB) issued Statements of Financial Accounting Standards No. 142, "Goodwill and Other Intangibles." This statement addresses financial accounting and reporting for acquired goodwill and other intangibles. The provisions of this statement are required to be applied starting with fiscal years beginning after December 15, 2001. As a result, management has estimated that amortization of intangibles will decrease by approximately \$151.

## 2. WATER PLANT

	2001	2000
Land and land rights .....	\$ 17,644	\$ 17,055
Distribution systems .....	610,604	574,104
Wells, reservoirs and structures .....	84,518	81,913
Pumping and purification equipment .....	90,117	87,013
Other .....	54,362	50,020
Water plant in service .....	857,245	810,105
Less—accumulated depreciation .....	203,217	189,277
Net water plant in service .....	654,028	620,828
Construction in progress .....	115,326	108,849
Water plant.....	<u>\$769,354</u>	<u>\$729,677</u>

Depreciation expense amounted to \$17,187 and \$16,362 for the years ended May 31, 2001 and 2000, respectively.

## 3. CASH AND CASH EQUIVALENTS AND INVESTMENTS

#### *Cash and Cash Equivalents*

Cash consists of insured (FDIC) or collateralized deposits which have carrying values of \$3,963 and \$2,757 and bank balances of \$5,197 and \$5,350 at May 31, 2001 and 2000, respectively.

## Investments

Investments consist of the following:

	2001	2000
Certificates of deposit .....	\$ 48,425	\$ 27,899
Debt service reserve and bond fund		
Repurchase agreements <sup>(a)</sup> .....	18,456	18,181
U.S. Treasury bills <sup>(a)</sup> .....	1,088	—
Medium term notes <sup>(a)</sup> .....	4,306	1,242
Long-term notes <sup>(a)</sup> .....	1,778	—
Other <sup>(a)</sup> .....	141	1,404
Construction fund		
Repurchase agreements .....	—	275
Certificates of deposit .....	8,700	46,925
Medium term notes <sup>(b)</sup> .....	13,572	5,349
Other .....	127	—
Repurchase agreements .....	—	4,001
Investment pool .....	41,318	24,967
Medium term notes <sup>(b)</sup> .....	16,099	21,761
U.S. Treasury bills .....	—	305
Investments* .....	<b>\$154,010</b>	<b>\$152,309</b>

(a) Funds are held by fiscal agent.

(b) Includes \$12,149 of funds held by fiscal agent.

\*Includes investments, construction fund, debt service reserve and bond funds.

Accrued interest on investments is included in interest and other receivables on the balance sheet. Investments bear interest rates that range from 3.6% to 6.71% and that mature at various dates through May 2021.

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

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

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

## 4. BONDS PAYABLE

Outstanding bonds are summarized as follows:

Series	Interest Rate	Final Maturity Date	May 31, 2000	Issued	Matured	May 31, 2001
<b>Water System Revenue Bonds</b>						
1992B Senior Lien <sup>(a)</sup> .....	5.10–5.63%	2017	\$ 56,185	\$ —	\$ 460	\$ 55,725
1993 Senior Lien <sup>(a)</sup> .....	4.80–5.10%	2013	65,390	—	3,325	62,065
1993 Subordinate Lien <sup>(a)</sup> .....	4.80–5.10%	2013	16,915	—	495	16,420
1994 Senior Lien <sup>(a)</sup> .....	5.00%	2017	64,000	—	—	64,000
1994 Subordinate Lien <sup>(a)</sup> .....	4.13–6.00%	2017	37,725	—	1,330	36,395
1997 Senior Lien <sup>(a)</sup> .....	4.10–5.25%	2012	38,470	—	2,210	36,260
1997A Senior Lien <sup>(a)</sup> .....	4.00–5.00%	2022	43,005	—	870	42,135
2001A Senior Lien <sup>(b)</sup> .....	4.13–5.25%	2023	—	38,200	—	38,200
<b>Environmental Facilities Corporation Revenue Bonds</b>						
1998B <sup>(b)</sup> .....	3.65–5.20%	2017	5,722	—	237	5,485
1999A <sup>(b)</sup> .....	2.77–4.91%	2018	5,377	—	200	5,177
2000A <sup>(b)</sup> .....	3.80–5.96%	2019	875	—	35	840
2000B <sup>(b)</sup> .....	4.31–5.74%	2020	—	5,359	—	5,359
2001A <sup>(b)</sup> .....	3.48–5.17%	2021	—	10,629	245	10,384
Total bonds outstanding .....			333,664	\$54,188	\$9,407*	378,445
Less: Unamortized discount .....			6,149			5,626
Current maturities payable .....			9,162			10,078
			<b>\$318,353</b>			<b>\$362,741</b>

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

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

\*Includes current year amortization.



**May 31, 2001 and 2000**

(Dollar amounts in thousands)

*Water System Revenue Bonds*

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

In June 1998, the Authority defeased its remaining Series 1988 Water System Revenue Bonds by making a payment to an irrevocable trust held by the Authority's fiscal agent. The transaction constituted an in-substance defeasance and effectively transferred the obligation to repay the Series 1988 Water System Revenue Bonds from the Authority to the fiscal agent. At May 31, 2001 and 2000, respectively, \$40,580 and \$45,840 of principal on the 1988 Water System Revenue Bonds remained outstanding.

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

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

Interest expense on the bonds outstanding during the fiscal year was \$17,549 and \$16,685 for the years ended May 31, 2001 and 2000, respectively.

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

Fiscal Year	Amount
2002.....	\$10,078
2003.....	14,262
2004.....	14,919
2005.....	15,630
2006.....	16,410

**5. DEBT SERVICE REQUIREMENTS**

As prescribed in the Authority's Resolution, a minimum debt service reserve fund balance is to be maintained, which is the lesser of 10% of the proceeds of the Water System Revenue Bonds Series 1992B-1997A plus the EFC Revenue Bonds Series 1998B-2001A or the average of the annual installments of debt service with respect to Water System Revenue Bonds Series 1992B-2001A plus the EFC Revenue Bonds Series 1998B-2001A outstanding for the current and all future fiscal years. The Authority may purchase bond insurance in lieu of the debt service reserve fund requirement. The Authority has elected to maintain bond insurance on the Water System Revenue Bonds Series 1992B-2001A, for the payment of principal and interest on stated maturity and sinking fund installment dates and in the event of default by the Authority. For the Water System Revenue Bonds Series 2001A and EFC Revenue Bonds Series 1998B, 1999A, 2000A, 2000B and 2001A Bonds, the Authority elected to maintain a minimum debt service fund balance of 10% of the proceeds.

Revenue before interest expense and depreciation was equivalent to 2.26 times (2.32 in 2000) the debt service requirement, for the year ended May 31, 2001. The minimum debt service requirement on all bonds is 1.10.

On July 26, 2001, the Authority was issued \$17,634 of proceeds under the Environmental Facilities Corporation 2001B Revenue Bond offering. The bonds have a final maturity date of May 26, 2021 and bear interest rates ranging from 2.62% to 5.15%. The interest cost of these bonds is subsidized by the State of New York drinking water revolving fund (refer to Note 4).

## 6. NOTES PAYABLE

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

Series	Final Maturity Date	Balance at May 31, 2000	Issued	Redeemed	Balance at May 31, 2001
1996 .....	02/08/01	\$ 33,900	\$—	\$33,900	\$ —
1997 .....	11/01/02	42,500	—	2,000	40,500
2000 .....	05/01/05	50,000	—	—	50,000
<b>Total notes outstanding .....</b>		<b>\$126,400</b>	<b>\$—</b>	<b>\$35,900</b>	<b>\$90,500</b>

These notes are issued in anticipation of the issuance of long-term revenue bonds or replacement BANS, the proceeds of which will be used to repay the notes payable; accordingly, these notes are recorded as non-current at May 31, 2001.

These notes are periodically remarketed, and therefore, interest on these notes is based on the minimum interest rate that, under prevailing financial market conditions, enables the notes to be sold at par, subject to the applicable effective interest rate period. The effective interest rate period may be daily, weekly, monthly, or semi-annually. Interest is payable periodically, based upon the effective interest rate period, through February 8, 2001, November 1, 2002 and May 1, 2005, the date of principal maturity, for the 1996, 1997 and 2000 notes, respectively.

As of May 31, 2001 and 2000, the effective interest rate was 3.41% and 3.39%, respectively.

Interest expense on the BANS was \$4,243 and \$2,952 for the years ended May 31, 2001 and 2000, respectively.

On June 27, 2001, the Authority issued \$90,000 of variable rate bond anticipation notes to fund construction activities. The notes mature on June 1, 2006 and are expected to be periodically remarketed to bear interest 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 notes pay interest at the date of issuance at 2.91%.

## 7. PENSION PLAN

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

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

Tier I —members who last joined prior to July 1, 1973.

Tier II —members who last joined on or after July 1, 1973 and prior to July 27, 1976.

Tier III —members who last joined on or after July 27, 1976 and prior to September 1, 1983.

Tier IV —members who joined on or after September 1, 1983.

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



May 31, 2001 and 2000

(Dollar amounts in thousands)

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

Tier III members with 5 or more years of credited service after July 1, 1973, are eligible to retire with full benefits at age 62 or at age 55 with 30 years of service and with reduced benefits for retirement between ages 55 and 62 with less than 30 years of service. Benefits are integrated with Social Security beginning at age 62. If members retire at age 62 and have 25 or more years of credited service, the service retirement benefit will be 2% of final average salary for each year of service (not to exceed 30 years), plus 1.5% of the final average salary for each year of credited service beyond 30 years. If members retire at age 62 with fewer than 25 years of credited service, the service retirement benefit will be 1.66% of the final average salary for each year of service.

Tier IV members with 5 or more years of credited service are eligible to retire with full benefits at age 62 or at age 55 with 30 years of service and with reduced benefits for retirement between ages 55 and 62 with less than 30 years of service. Benefits are equivalent to Tier III members.

Retirement benefits vest after 5 years of credited service and are payable at age 55 or greater. The Employees' Retirement System also provides death and disability benefits.

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

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

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

After 5 years in the retirement system, veterans will be able to purchase up to 3 years of military service credit, at a cost of 3% of their last year's salary, for each year of credit acquired. Member is required to have been on active duty for at least one day during the following eligible periods:

- World War 2 (12/7/41–12/31/46)
- Korean War (6/27/50–1/31/55)
- Viet Nam Era (2/28/61–5/7/75)

Pension expense contractually required by New York State and recorded in the Authority's accounts was zero and \$430 for the years ended May 31, 2001 and 2000. The zero amount of pension expense was the result of a change in the actuarial method utilized by New York State in 1994 in determining the contributions to be made to the Retirement System. The Authority has recorded an accrued retirement contribution liability for certain pensions costs of employees related to construction work in progress which have been capitalized to water plant.

## 8. DEFERRED COMPENSATION

All Authority employees may participate in a deferred compensation program designated as an Internal Revenue Code Section 457 plan. This program enables employees to contribute a portion of their salary, on a tax deferred basis, to group variable annuity contracts. The assets and related liabilities of the plan are recorded at the assets' market values and are excluded from the Authority's balance sheet. The Authority has no obligation to make contributions to the deferred compensation program. The Authority remits deferred compensation amounts withheld from employees' salaries to an outside fiduciary agent who administers the program and invests program assets as instructed by each of the participants. Assets in such program amounted to \$12,533 and \$12,448 at May 31, 2001 and 2000, respectively.

## 9. POSTRETIREMENT BENEFITS

The Authority's employees participate in the New York State Health Insurance Plan, a multi-employer plan, which provides certain health insurance benefits for retired employees. Substantially all the Authority's employees may become eligible for these benefits if they reach normal retirement age while working for the Authority. The cost of retiree health care benefits is recognized as an expense as costs are incurred. The expense amounted to \$1,251 and \$1,012 for the years ended May 31, 2001 and 2000, respectively.

## 10. CAPITAL LEASES

In June 2000, the Authority entered into a capital lease agreement for various computer equipment. Future minimum payments under the capital lease obligation are scheduled as follows:

Year ending May 31,

2002 .....	\$ 217
2003 .....	217
2004 .....	217
2005 .....	216
2006 .....	216
Total minimum lease payments .....	1,083
Less: amounts representing interest .....	144
Present value of minimum lease payments .....	939
Less: current portion .....	164
	<u>\$ 775</u>

## 11. COMMITMENTS AND CONTINGENCIES

### *Operating Leases*

As of May 31, 2001, the Authority is obligated under several operating leases with various lease terms through 2006, for meter reading and computer equipment:

Year ending May 31,

2002 .....	\$260
2003 .....	247
2004 .....	215
2005 .....	126
2006 .....	—
	<u>\$848</u>

Rental expense for operating leases was \$274 and \$313 for the years ended May 31, 2001 and 2000, respectively.

### *Legal Proceedings*

The Authority is involved in various litigation 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, revenues invested in facilities or cash flows.

## Report of Independent Accountants

To the Members of Suffolk County Water Authority

In our opinion, the accompanying balance sheets 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, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Authority's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America 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 Coopers LLP*

July 31, 2001



## Regional Offices and Communities Served

### Western Regional Office

Regional Manager

**Clifford Foy**

260 Motor Parkway

Hauppauge, NY 11788

Amityville\*  
Babylon\*  
Bay Shore  
Brentwood  
Centerport  
Central Islip  
Cherry Grove  
Cold Spring Harbor  
Commack  
Copiague  
Davis Park  
Deer Park  
Dix Hills†  
East Islip  
East Northport  
Eaton's Neck  
Edgewood  
Fair Harbor  
Fire Island Pines  
Fort Salonga  
Great River  
Halesite  
Hauppauge  
Huntington  
Huntington Station  
Islip  
Islip Terrace  
Kings Park  
Kismet  
Lonelyville  
Nesconset  
North Amityville  
North Babylon  
North Great River  
North Lindenhurst  
Northport  
Oakdale†  
Point of Woods  
St. James\*†  
Smythtown\*†  
Summer Club  
Village of Amityville  
Village of Asharoken  
Village of Babylon  
Village of the Branch  
Village of Brightwaters  
Village of the Head of the Harbor  
Village of Huntington Bay  
Village of Islandia†  
Village of Lindenhurst  
Village of Nissequogue  
Village of Northport  
West Babylon  
West Islip  
Wheatley Heights  
Wyandanch

### Central Regional Office

Director of Customer Service

**Steven Romano**

2045 Route 112, Suite 1

Coram, NY 11727

Bayport  
Bellport  
Blue Point  
Bohemia  
Brookhaven  
Centereach  
Coram  
East Patchogue  
East Setauket  
Farmingville  
Gordon Heights  
Holbrook  
Holtsville  
Lake Grove  
Lake Panamoka  
Lake Ronkonkoma  
Medford  
Middle Island  
Miller Place  
Mount Sinai  
Oakdale†  
Patchogue  
Poquott  
Port Jefferson  
Port Jefferson Station  
Ridge  
Rocky Point  
Ronkonkoma  
Sayville  
Selden  
Setauket  
Shoreham  
Sound Beach  
Stony Brook\*†  
Village of Belle Terre  
Village of Bellport  
Village of Islandia†  
Village of Lake Grove  
Village of Old Field  
Village of Patchogue  
Village of Port Jefferson  
Village of Shoreham  
Wading River  
West Sayville  
Yaphank

### Eastern Regional Office

Regional Manager

**Dona Roberts**

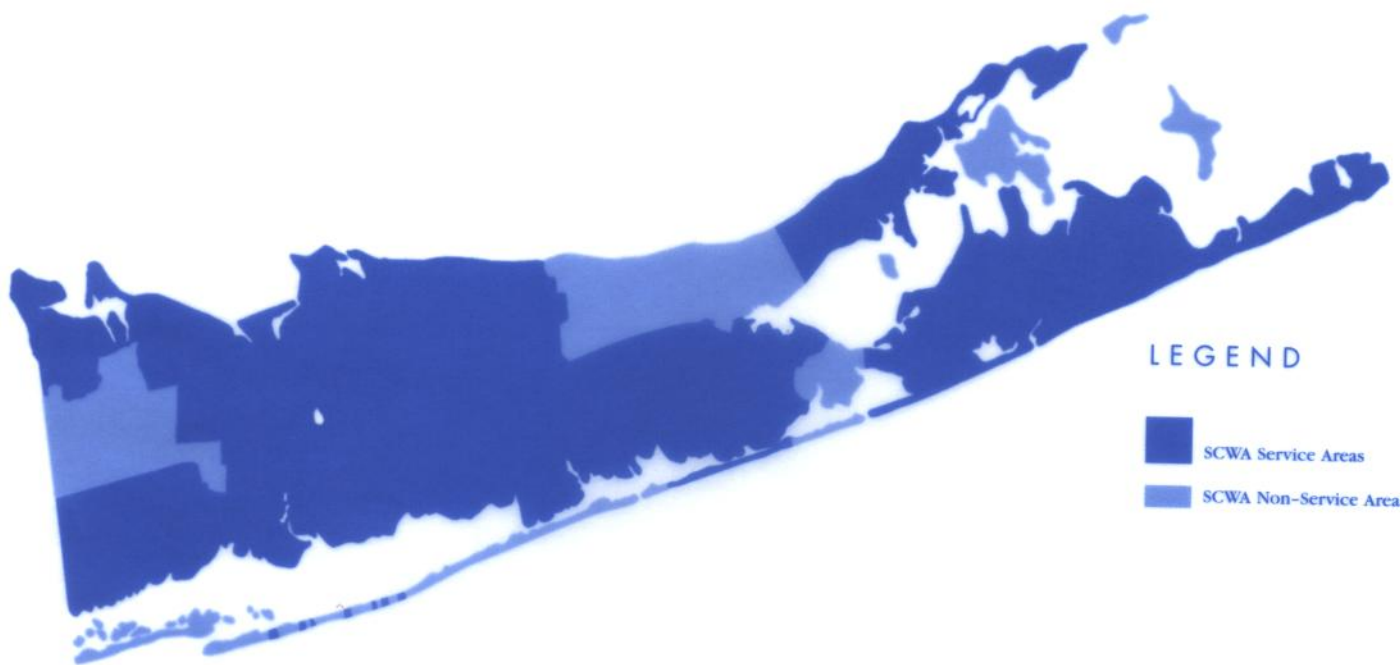
624 Old Riverhead Road

Westhampton Beach, NY 11978

Amagansett  
Bridgehampton  
Calverton†  
Camp Hero  
Center Moriches  
Cutchogue  
East Hampton  
East Marion  
East Moriches  
Eastport  
East Quogue  
East Yaphank  
Flanders  
Fleets Neck  
Greenport†  
Laurel  
Manorville  
Mastic  
Mastic Beach  
Mattituck  
Mattituck Creek East  
Mattituck Creek West  
Montauk  
Moriches  
New Suffolk  
North Haven  
North Sea  
North Shirley  
Noyack  
Oakville  
Orient  
Peconic  
Quogue  
Quogue  
Remsenburg  
Riverside\*  
Rose Grove  
Sag Harbor  
Sagaponack  
Shinnecock Hills  
Shirley  
Southampton  
Southold  
Speonk  
Village of Southampton  
Wainscott  
Watermill  
Westhampton  
Westhampton Beach

\*Included in Wholesale Water District

†Serves portion of area



# LEGEND

- SCWA Service Areas
- SCWA Non-Service Areas





### **Groundwater Guardian Program**

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

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

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



ADMINISTRATION OFFICE

4060 Sunrise Highway • Oakdale, NY 11769 • (631) 589-5200