

*Celebrating  
Forty-Five  
Years  
of  
Public  
Service*



*Suffolk County  
Water Authority  
1996  
Annual Report*

## Authority Profile

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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 45 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.

**Cover Photo:** Bob Kittle, Senior Mechanic, preparing granular activated carbon filter for changeout of carbon media. The other photos contained in this report represent just some of the facets of SCWA operations and the job skills necessary to provide the highest quality water to our customers.

This report is printed on recycled paper.

*"Of all our natural resources  
water has become  
the most precious"*

*— Rachel Carson, Silent Spring*



Kevin Louser, Laboratory

## Statistical Highlights 1987-1996

	For Fiscal Year Ended May 31 1996	For Fiscal Year Ended May 31 1987	10-Year Growth	Percent Increase
Customers	322,340	269,454	52,886	20%
Population Served	1,161,790	920,000	241,790	26%
Miles of Main	4,731	3,900	831	21%
Fire Hydrants	29,224	24,724	4,500	18%
Water Pumped (billion gallons)	56.7	43.0	14	32%
Employees	588	487	101	21%



Transportation crew inspecting  
reconditioned service truck

## Financial Highlights 1987-1996

	For Fiscal Year Ended May 31 1996	For Fiscal Year Ended May 31 1987	10-Year Growth	Percent Increase
Gross Revenues	\$97,968,000	\$ 56,754,000	\$41,214,000	73%
Operating and Maintenance Expense, Except Depreciation	52,365,000	28,542,000	23,823,000	83%
Water Plant at Cost	709,763,000	355,113,000	354,650,000	100%
Bonded Indebtedness	322,100,000	166,390,000	155,710,000	94%
Total Earnings in the Business at the Close of Period	160,890,000	92,562,000	68,328,000	74%

## Authority Members

Michael A. LoGrande  
*Chairman / Chief Executive Officer*

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

Matthew B. Kondenar  
*Secretary*

Eric J. Russo, Esq.

James T. B. Tripp, Esq.

## Management

### Staff

Michael A. LoGrande  
*Chairman / Chief Executive Officer*

Frank Faber  
*Chief Financial Officer*

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

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

Michael Stevenson  
*Deputy Chief Executive Officer  
for Administration*

William C. Arabio  
*Director of Information Services*

Ralph H. Gunther  
*Assistant Chief Engineer*

Laura J. Mansi  
*Director of Public Relations*

Robert L. Murray  
*Director of Production Control*

Karen Randazzo  
*Chief Chemist*

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

Donald Slotnick  
*Director of Distribution*

## Consultants

Van Nostrand & Martin  
*Counsel*

United States Trust Company  
of New York  
*Bond Trustee*

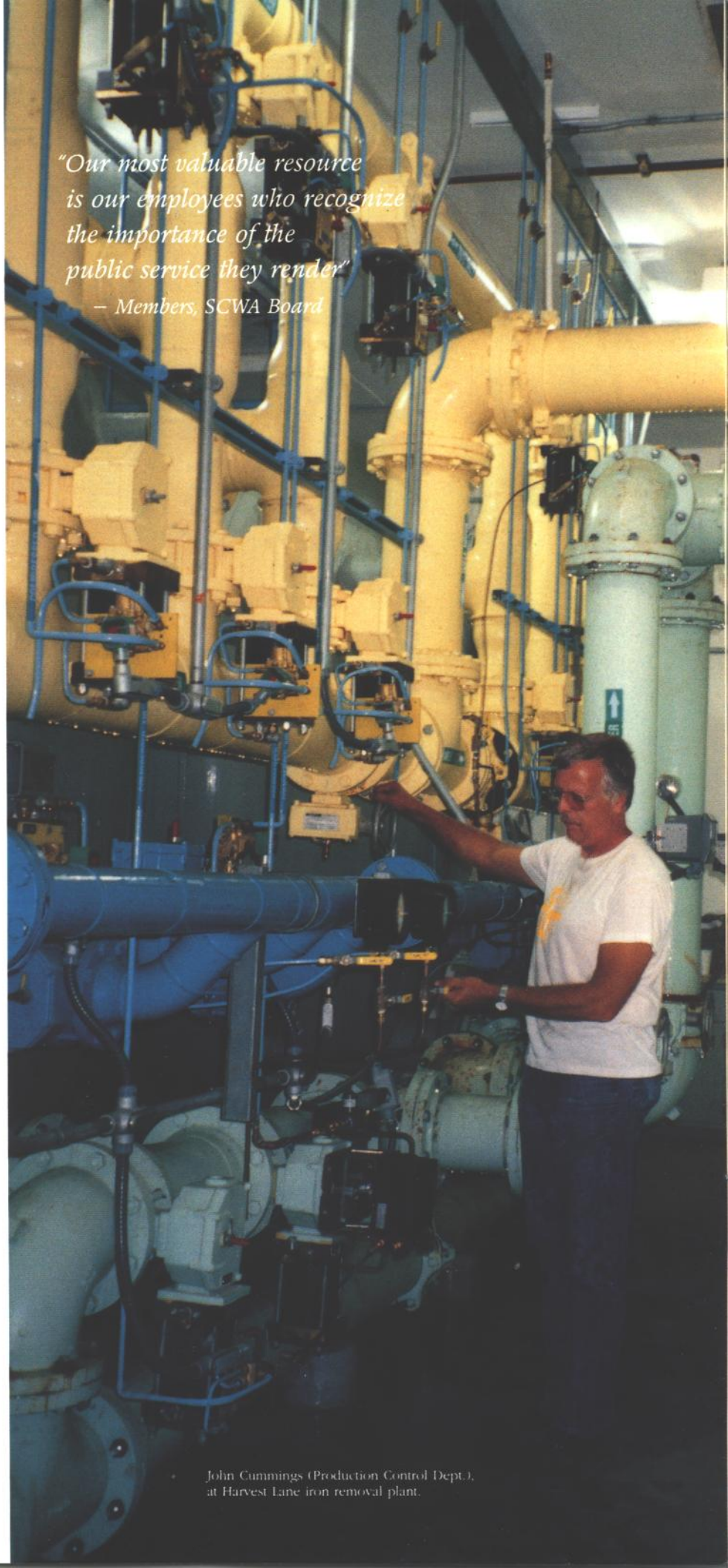
Price Waterhouse  
*Independent Accountants*

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

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

*"Our most valuable resource  
is our employees who recognize  
the importance of the  
public service they render"*

*— Members, SCWA Board*



John Cummings (Production Control Dept.),  
at Harvest Lane iron removal plant.

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

### *Forty-Five Years of Public Service*

The Members of the Suffolk County Water Authority are pleased to present our annual report for the 1995/1996 fiscal year, a year in which we celebrate forty-five years of public service. The Authority's overall performance from its inception in 1951 to the present has been one of excellent financial standings and customer service, and above all, an unwavering commitment to the delivery of the best quality water available to all our customers. The result is that we have one of the finest water delivery systems in the nation.

This has been a time for the Members of the Board, management and staff to celebrate the accomplishments of the past and reaffirm our commitment to meet the challenges of the future – a future that we know will require even more in the way of water testing, public education and the utilization of advancing technologies.

### *Maintaining a Steady Financial Course*

Strong fiscal management throughout our 45 years of service has always been a cornerstone for the success and stability of our operations. SCWA's rates have been and continue to be one of the lowest in the state. Through improved cash management and budgetary systems, we do not anticipate rate increases to exceed the rate of inflation for years to come. While adhering to the strong investment guidelines as prescribed by New York State, SCWA has been able to enhance its cash management processes. In doing so, the Authority has increased its investment earnings while minimizing the effect on overall rates to the customer. During the past fiscal year, investment earnings were \$6,700,000.

In 1995, a new detailed budgetary system was initiated providing rigid control over spending while indexing spending to planned systems improvements. During fiscal year 1996, the finance area continued this budgetary "upgrading" process, resulting in greater interactivity of departments in budget preparation and responsibility of its results. Efforts such as these allowed us to maintain overall operating and maintenance costs under budget while dealing with unbudgeted production costs occurring as a direct result of high pumpage during the summer of 1995.

Our capital program for the replacement and addition to the existing infrastructure is funded, in part, by internally-generated funds. The balance comes from the issuance of debt. We maintain the lowest possible debt service by monitoring the municipal bond market and constant surveillance of new monetary requirements. During this fiscal year, \$35,000,000 in variable rate bond anticipation notes were issued to take advantage of the lower rates afforded by this financing medium.

## *Continued Growth Through Acquisitions and Development*

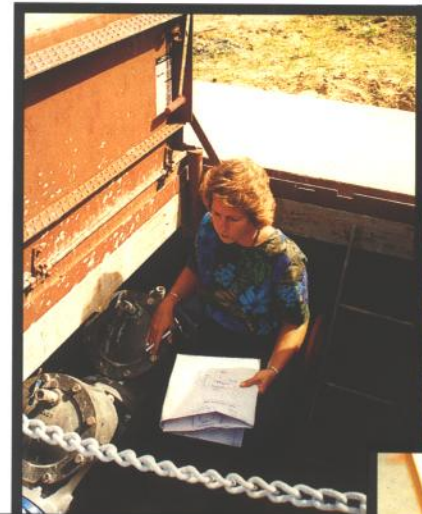
On August 1, 1995, the Authority assumed control through condemnation of the Sunhill and Swan Lake Water Companies, two privately owned companies serving some 1,800 customers in Selden and Patchogue respectively. We immediately connected these systems to ours and have subsequently made the improvements necessary to bring these systems up to our high standards. In addition to improved water quality and service, these new customers have realized a reduction in their water rates.

## *Federal Aid for Expansion of Public Supply in Brookhaven*

In the spring of 1996, a volatile organic chemical was found in several private wells in North Shirley. The plume was traced to an abandoned chemical plant – Precision Concepts, southwest of the Brookhaven National Laboratory. Yet, the U.S. Department of Energy offered to pay for the installation of public water mains and the connections to approximately 1,000 homes in the vicinity of the contamination even though the contamination did not come from the lab.

Concern about the water quality of private wells near Brookhaven National Laboratory spurred additional concerns about the quality of the groundwater in the region, including the issue of radionuclides. As a precaution and to allay fears, the SCWA and the Suffolk County Department of Health Services conducted extensive testing of all the public wells in this region and found them to be free of all organic contamination. Additionally, all monitoring results for radionuclides at our public supply wells were nonexistent or well below drinking water standards and were indicative of naturally occurring radioactivity. The public water supply in this region, as elsewhere in the system, is of the highest quality. To further ensure the residents of this area, the Authority and the Suffolk County Department of Health Services have increased monitoring at all the surrounding well sites.

Donna Stein, Cross Connection Dept.



L. to R. Ken Horan and John Walsh, Engineering Dept.



Peter Busacca, Laboratory

The Authority has completed Phase I of the water main installation project and 475 homes in North Shirley have been connected to the water supply. We are beginning the second phase of the project, paid for by the U.S. Department of Energy, where approximately 400 other homes will be connected to our system.

In yet a third phase of the project, more than 100 additional homes will also be eligible to receive public water.

Rudy Kriklava, Inventory and Stores Depts.



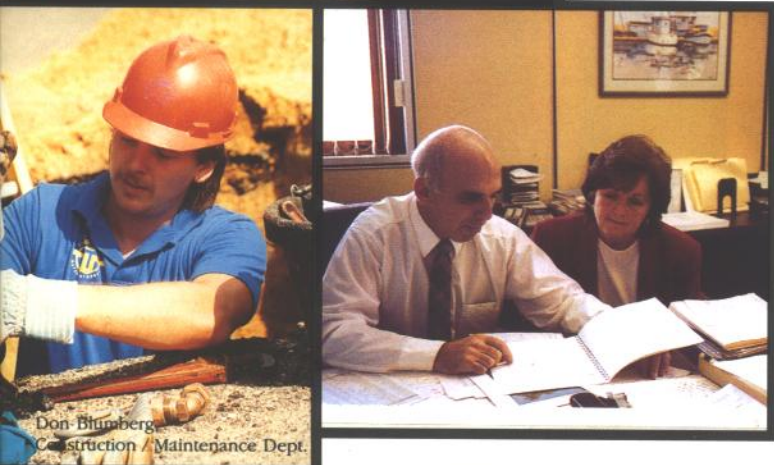
The people who reside in the areas in the vicinity of Brookhaven National Laboratory have been given an unprecedented opportunity by the federal government to hook-up to the SCWA's public water supply at no cost to them.

The overwhelming majority have opted to do so. Most important of all, they can be assured that in any and all events, the water we supply will meet or exceed the strictest standards in the nation.

Larry Kulick and Pat Tougher, Finance Division

## *On Fire Island*

We have continued to respond to requests from both municipal and privately owned water companies on Fire Island to manage or takeover their facilities. Last year, we managed and operated the Kismet and Lonelyville water systems. Since that time, we have acquired these water systems and have made improvements to both. During this fiscal year, we also acquired the Davis Park Water District with 275 customers. We are currently discussing options for Water Authority cooperation with regard to Cherry Grove, Fire Island Pines, Point O' Woods, Ocean Bay Park and Fire Island Summer Club water systems.



Don Blumberg, Construction / Maintenance Dept.

William Hursky, Construction/ Maintenance Dept.

## *Water Pumpage Records Set in Summer of 1995*

Record high pumpages have been set at the Authority over the last three summers. This is due to the hot and dry summers we have been experiencing. The summer of 1995 saw a constant high demand for water throughout the season. In August, SCWA customers broke all previous records for that month by using 9.5 billion gallons of water. Water use was up 37% over the same period in 1994. In September, as the drought continued, water use was up 18% over the previous year.

While other areas in the tri-state region declared "drought watches," this was not necessary in Suffolk County. Our aquifer system holds trillions of gallons of water, some of which fell to the earth thousands of years ago. It would take many years of successive droughts to have any real effect on the Suffolk County Water Authority system.



L. to R.: A.J. Hopf and Bradley Majuk, Construction and Maintenance Dept.

## *A Call for Conservation at Montauk*

Unlike the vast majority of the Authority's water system, the Montauk peninsula is one small isolated area where water conservation is essential during the summer months when the population dramatically increases. The Montauk peninsula has a limited supply of fresh water due to a shallow aquifer and saltwater interfacing around and under the peninsula necessitating pumping limitations to prevent the salting of the public wells for this area.

A Stage I Water Alert was issued by the Authority for the Montauk peninsula in the summer of 1995. We asked for the voluntary cooperation of the residents and business owners, as well as the visitors to this area, to voluntarily conserve water. Although we came close on several occasions, we did not have to issue a Stage II Water Alert, which would have meant the implementation of mandatory water use restrictions. We have no doubt that the cooperation of many to conserve water in Montauk made a real difference during a period of time when water usage was unusually high in the rest of the region.

## *SCWA Supplied the Water to Fight Pine Barrens Fire*

Our water system withstood one of its toughest tests in late August of 1995 when a wildfire in the pine barrens in Westhampton burned out of control. Heavy winds caused the fire to spread rapidly, and over the course of several days, 6,000 acres of pine barrens were burned.

Remarkably, there was no loss of life and property damage was minimal. We supplied more than four million gallons of water to fight this fire. This was no small feat due to the fact that the fire occurred during a period when water demand was extremely high owing to the long drought. Because of our excellent water system, the around-the-clock efforts of our personnel and the cooperation of the public, we were able to maintain adequate water pressures. The efforts of our employees during this public emergency were outstanding. It was an exemplary team effort and a proud moment in our history as our employees backed up the extraordinary performances of our County's volunteer firefighters.

Clark Smith, Construction / Maintenance Dept.

Mario Lupo, Production Control Dept.



John Friend, Production Control Dept.



Joe Romano, Meter Dept.

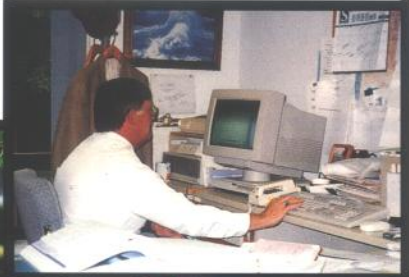


Constructing foundation of first iron removal plant



## *SCWA's First Iron Removal Plant On-Line*

Bob Dassler, Engineering Dept.



In March of 1996, our first iron removal plant went on-line at our Harvest Lane Pump Station in West Islip. This facility is removing iron from the water at this site using manganese greensand.

Iron is a naturally occurring element in some areas of Long Island's groundwater and presents aesthetic inconveniences to some of our customers. The Harvest Lane Pump Station was chosen as the first site for iron-removal because of its distance from neighboring well stations enabling a good analysis of the effectiveness of this iron-removal technology. The results here will be studied along with other strategies to develop an accelerated plan to alleviate this problem in other high iron areas in a cost-effective manner.

In the long term, we know that resolving this issue will greatly reduce customer service calls and the costs associated with them. Most important of all, we fully recognize that all of our customers deserve to receive a product that not only meets all quality standards, but aesthetic expectations as well.

## *Other Improvements to Water System*

The completion of the data base for our Advanced Pipeline Modeling and Simulation Program using the Stoner Model has greatly facilitated ongoing and necessary improvements to the water system. This year we made interconnections within the Towns of Huntington and Babylon to

improve pressures and fire protection in certain communities.

Nearly four miles of large transmission mains were constructed in this regard. Also, we replaced or newly installed some three miles of main as part of our iron mitigation efforts. In addition,

we were able to eliminate the cost of road restoration when we constructed three miles of large transmission mains in connection

with the road widening of N.Y.S. 25A. Improvements in the

largest town, Brookhaven, included a booster station in Sound Beach and additional wells in Centereach and Miller Place.

## *Meter Replacement Program*

In the spring of 1996, we began an all-out effort to replace old, obsolete and hard-to-read meters. In the next two years, we expect

to replace some 20,000 meters with new odometer (straight-read) meters. This will enable more of our customers to participate in our customer meter reading program, "Read H2O." Currently, some 65% of

our customers eligible to participate in the program are sharing in the proceeds of the "read your own meter" effort. Not only do these

customers receive a direct savings (a dollar per reading), but they are helping to keep meter reading costs down for all our customers.

We are replacing obsolete meters with meters that will be adaptable to future automated meter reading capabilities, when the cost of these new and progressing technologies becomes more reasonable.



Contractors installing vault



L. to R. Carmen Cordero and Trish Timpe, Customer Service Division

## Expanded Uses of Our "Read H2O" System

Our "Read H2O" Program utilizes an interactive voice response system capable of a variety of applications to improve customer service. This year, we activated a new feature whereby our customers can check their last transaction and account balance simply by calling the "Read H2O" 800-number and selecting this option. In only 6 months of use, nearly 20,000 calls were logged. This has enabled our customer service representatives to better serve those with more pressing needs.

Also, we activated another feature of the voice response system that allows the Authority to convey important information quickly to our customers. An automated Call-Out System, now in place, is capable of alerting our customers in the event of a water emergency or disruption of service due to necessary maintenance of our system.

## Expanded Laboratory Services

The Authority's new laboratory has received widespread recognition for its highly qualified staff and its extraordinary equipment. Now the largest groundwater testing laboratory in the nation, SCWA Lab tests Erie County's water and soon will be testing the City of Buffalo's water supply in addition to testing over 60,000 samples per year from our own system.

## SCWA's Groundwater System Free of Cryptosporidium

In the summer of 1995, the U.S. Environmental Protection Agency (USEPA) issued warnings about cryptosporidium, an infectious parasite in drinking water. However, cryptosporidium has only been found in surface water systems that have inadequate filtration systems or none at all. Long Island has a natural filter consisting of sand and gravel which precipitation passes through on its way to the underground aquifer system.

To be able to assure those people who might feel at risk because of a compromised immune system, we collected samples for testing at Stony Brook University. The laboratory tested for parasitic contaminants and the results confirmed what we already knew, cryptosporidium is not a concern on Long Island.

Contractors constructing tank in Huntington



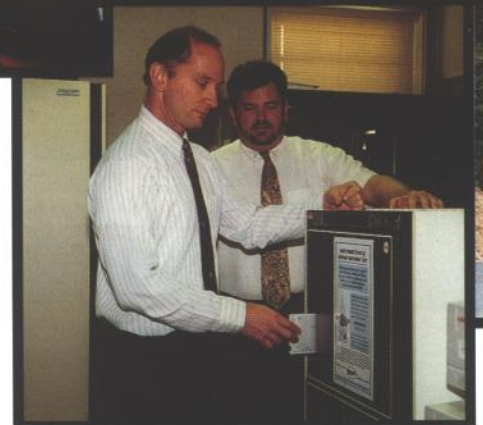
Dan Reynolds (front), Dick Gartner (rear), Drafting Dept.



Fred Berg, Construction/Maintenance Dept.



L. to R.: Judy Jacobson, Ray Corwin, and Jeff Altorfer, Policy/Planning Dept.



Eric Heim (front) and Otis Keath, Information Services Dept.

## Educational Efforts Promote Water Protection

Recognizing that public education is the key to the future integrity of the public water supply, the Authority offers various learning opportunities to the schools in Suffolk County. We sponsor contests, conduct tours of our laboratory and pump stations, hold seminars for educators, and provide educational materials for students and teachers in an effort to promote the protection of our groundwater resources.

On another level, we have a "Pollution Prevention Program" for small and medium-sized businesses in our region. The program's mission is to promote long-term protection of Suffolk County's groundwater resources by effecting a decrease in the quantity and toxicity of wastes generated in Suffolk County, thereby reducing the need and costs of remediation.

JoAnn Timpe, Meter Dept.



To enhance the objectives and capabilities of our Pollution Prevention Program, the Authority received a \$159,850 federal grant in August of 1995. The grant was secured by the New York State Department of Environmental Conservation to work with three Long Island Universities: New York Institute of Technology, State University of New York at Stony Brook and Polytechnic University at Farmingdale in collaboration with the Rhode Island Center for Pollution Prevention, to develop and implement a pollution prevention technical assistance program for small and mid-sized businesses and industries on Long Island. The Authority will be providing in-kind funds in the form of staff time.

Specially trained interning graduate students with science and/or engineering backgrounds are commissioned through the program to work directly with businesses and industries seeking to prevent and reduce pollution while reducing costs in the process.

As a non-regulatory program, the assistance is free and confidential.

This program furthers our goals to protect our drinking water supply wells, provides a real world experience for graduate students and helps businesses reduce costs related to disposal, treatment, regulatory compliance and potential liabilities, enhancing their competitive edge.

We embarked on yet another educational effort in April of 1996 when the first edition of a publication called, "Connections," was released to libraries, public officials and the press. Connections is a publication of the Long Island Groundwater Research Institute Advisory Council established in 1994 at the State University of New York at Stony Brook.

The newsletters, which are published throughout the year are designed to improve the public's understanding of groundwater geology and chemistry and Long Island's aquifer system. The newsletters focus primarily on public health issues. The first issue dealt with the latest information on breast cancer on Long Island and the related studies in progress. The Authority provides the principal funding for this publication in cooperation with the Long Island Regional Planning Board.

Gerard Cetta,  
Engineering  
Dept.



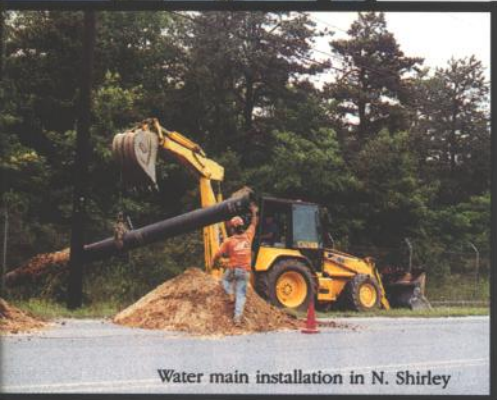
## Our Strongest Asset

The community we serve is the heart of our mission. It is in that context that we have worked hard over the last forty-five years to achieve the levels of quality, reliability and economy that has earned the SCWA its ranking as the largest and one of the best groundwater delivery systems in the country.

An organization is only as good as its people, and certainly our employees are critical to the success of the Authority. The fact that our average employee service is more than 12 years indicates the loyalty, commitment and talent of our personnel. And while we celebrate our past achievements, our focus is on the future, seeking ways to build on our success through a process of continual renewal.

Sincerely,

MICHAEL A. LoGRANDE, Chairman and CEO



Water main installation in N. Shirley

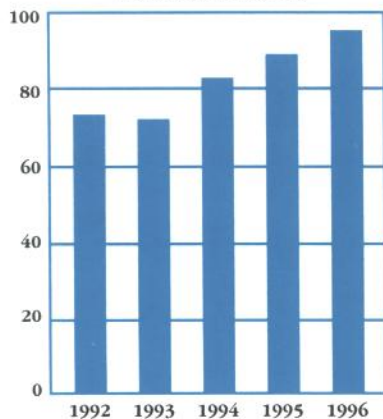
# 1995-1996 Highlights

May 31

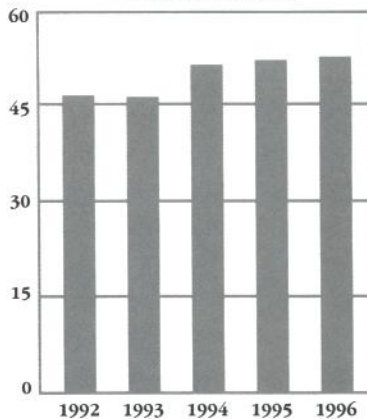
	1996	1995
Total Revenues.....	\$ 97,968,000	\$ 90,816,000
Operating and Maintenance Expense except depreciation .....	52,365,000	52,841,000
Interest on Bonds and Notes; including amortization of debt discount and expense .....	19,874,000	19,130,000
Depreciation .....	12,355,000	11,539,000
Revenues invested in Facilities for the year.....	13,914,000	9,348,000
Revenues invested in Facilities (since June 1, 1951).....	160,890,000	146,976,000
Total Water Plant at cost.....	709,763,000	675,182,000
Net Additions to Water Plant.....	34,571,000	45,197,000
Customers (Active Services) .....	322,340	316,067
Miles of Main in Service .....	4,731	4,684
Fire Hydrants in Service .....	29,224	28,886
Water Production (Billion Gallons).....	56.7	54.7

## Five-Year Financial Highlights

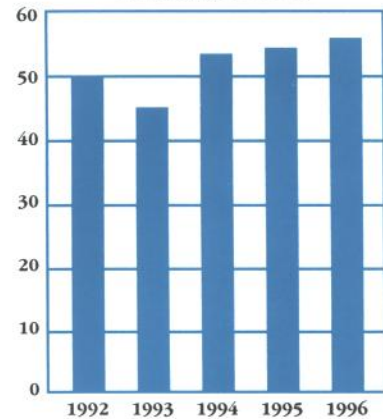
*Total Revenues*  
Dollars/Millions



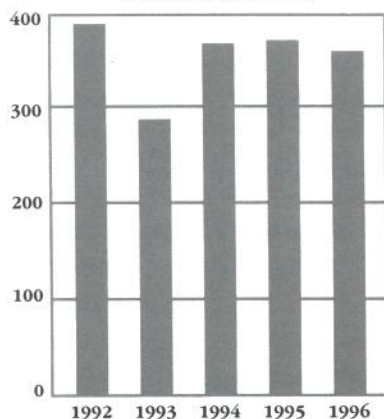
*Operating Expenses*  
Dollars/Millions



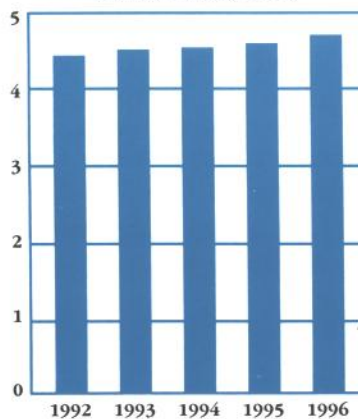
*Water Delivered*  
Gallons/Billions



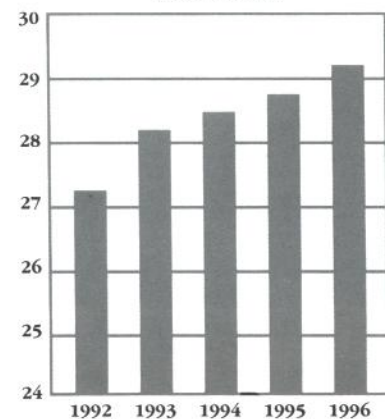
*Peak Day Delivery*  
Gallons/Millions



*Miles of Main*  
Miles/Thousands



*Fire Hydrants in Service*  
Thousands



*Financial  
Statement  
Fiscal Year  
1995-1996*

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L. to R.: Bill Rogers  
and Michael Walsh,  
Construction/Maintenance Dept.

*Report of  
Independent  
Accountants*

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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, 1996 and 1995 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 1, 1996

# Balance Sheet

(Amounts in Thousands)

	May 31,	
	1996	1995
<b>ASSETS</b>		
Water plant, at cost less accumulated depreciation (Note 2) .....	\$ 568,298	\$ 544,932
Construction fund .....	5,175	29,972
<b>Current Assets:</b>		
Cash and cash equivalents .....	43,081	6,420
Short-term investments .....	12,079	25,276
Accounts receivable, less allowance for doubtful accounts of \$324 in 1996 and \$433 in 1995 .....	7,779	7,370
Interest and other receivables .....	1,105	1,386
Accrued water service and fire protection revenues .....	10,153	10,325
Materials and supplies, at average cost .....	4,793	4,674
Prepayments and other current assets .....	3,689	1,975
Funds held by fiscal agent .....	16,044	15,649
<b>Total Current Assets</b> .....	<b>98,723</b>	<b>73,075</b>
Long-term investments .....	36,150	28,903
Long-term construction fund .....	18,477	-
Intangible assets .....	8,871	9,077
Other assets (Note 7) .....	14,400	5,524
	<b>77,898</b>	<b>43,504</b>
	<b>\$ 750,094</b>	<b>\$ 691,483</b>
<b>CAPITALIZATION AND LIABILITIES</b>		
<b>Capitalization:</b>		
Water System Revenue Bonds, less current portion, less unamortized discount (Note 3) .....	\$ 306,941	\$ 313,799
Bond anticipation notes payable (Note 5) .....	70,000	35,000
Contributions in aid of construction .....	153,852	146,508
Revenue invested in facilities .....	160,890	146,976
<b>Total Capitalization</b> .....	<b>691,683</b>	<b>642,283</b>
<b>Current Liabilities:</b>		
Current maturities of Water System Revenue Bonds (Note 3) .....	7,220	6,395
Accounts payable .....	3,487	3,858
Accrued interest .....	8,930	8,981
Deferred revenue .....	8,000	-
Accrued retirement contributions (Note 6) .....	1,976	1,667
Other accrued liabilities (Note 7) .....	10,721	8,930
Customer deposits .....	7,065	6,775
<b>Total Current Liabilities</b> .....	<b>47,399</b>	<b>36,606</b>
Advances for construction .....	8,712	10,294
Notes payable (Note 5) .....	2,300	2,300
Commitments and contingencies (Note 9) .....		
	<b>\$ 750,094</b>	<b>\$ 691,483</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,	
	1996	1995
<b>Revenue:</b>		
Operating.....	\$ 87,267	\$ 81,831
Interest and other .....	10,701	8,985
Total revenue.....	97,968	90,816
<b>Operating Expenses:</b>		
Operations.....	42,150	41,057
Maintenance .....	10,169	11,784
Total operating expenses.....	52,319	52,841
Revenue before depreciation, amortization, and interest.....	45,649	37,975
<b>Deduct:</b>		
Interest expense, net .....	18,552	16,293
Depreciation and amortization .....	13,183	12,334
	31,735	28,627
Revenue invested in facilities .....	13,914	9,348
At beginning of year.....	146,976	137,628
At end of year.....	\$ 160,890	\$ 146,976

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



# Statement of Cash Flows

(Amounts in Thousands)

	For the year ended May 31,	
	1996	1995
<b>Cash Flows from Operating Activities:</b>		
Revenue invested in facilities.....	\$ 13,914	\$ 9,348
Adjustments to reconcile revenue invested in facilities to net cash provided by operations.....		
Depreciation and amortization .....	13,183	12,334
Capitalized interest.....	(652)	(2,155)
(Increase) decrease in operating assets		
Short-term investments .....	13,197	(22,953)
Accounts receivable .....	(1,409)	(1,181)
Interest and other receivables.....	281	(830)
Accrued water service and fire protection revenues.....	172	(243)
Materials and supplies and prepayments.....	(833)	(788)
Funds held by fiscal agent .....	(395)	(912)
Other assets.....	(9,136)	(532)
Increase (decrease) in operating liabilities		
Accounts payable.....	(371)	(222)
Accrued interest .....	(51)	358
Deferred revenue .....	8,000	-
Accrued retirement contributions .....	309	275
Other accrued liabilities .....	1,791	1,277
Customer deposits .....	290	160
Net cash provided by (used in) operating activities.....	38,290	(6,064)
<b>Cash Flows from Investing Activities:</b>		
Additions to water plant, net of retirements.....	(35,069)	(44,997)
Long term investments .....	(7,247)	(16,476)
Decrease in construction fund.....	6,320	16,193
Net cash used in investing activities.....	(35,996)	(45,280)
<b>Cash Flows from Financing Activities:</b>		
Proceeds from notes payable.....	35,000	34,594
Repayment of current maturities of Water System Revenue Bonds.....	(6,395)	(5,880)
Advances for construction, net of refunds.....	5,762	5,908
Net cash provided by financing activities .....	34,367	34,622
Net increase (decrease) in cash and cash equivalents .....	36,661	(16,722)
Cash and cash equivalents at beginning of year .....	6,420	23,142
Cash and cash equivalents at end of year.....	\$ 43,081	\$ 6,420

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

# Notes to Financial Statements

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MAY 31, 1996 and 1995

(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, 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.

### Water Plant

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

### Depreciation

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

### Cash and cash equivalents

Investments which will mature in ninety days or less are considered cash equivalents.

### Funds Held by Fiscal Agent

The 1988 General Bond Resolution, as amended, (the "Resolution") requires that a debt service reserve fund (or bond insurance be maintained as described in

Note 4) 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.

### Construction Fund

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

### Investments

At May 31, 1996, the Authority has invested \$3,641 of its construction, operating and other funds in certificates of deposit with interest rates that range from 5.2% to 5.55% and which mature at various dates through December 24, 1996. Additionally, the Authority has invested \$61,339, \$2,986 and \$3,915 in Treasury Notes, repurchase agreements and U.S. Government bonds, respectively. These investments are stated at amortized cost which approximates market value. It is the Authority's intent to hold such investments until maturity.

### 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.

### Intangible Assets

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

Goodwill represents the excess of the purchase price over 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. Other construction loan contracts are written for a five year period and provide for refunding a percentage of revenue collected from these projects which is charged to the original advance. The resulting net balance at the expiration of the contract is transferred to Contributions in Aid of Construction (\$4,320 - 1996; \$2,413 - 1995).

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

### Customer Deposits

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

### Prepayments

The Authority amortizes workers compensation premiums over the claims period of 48 months. This results in a charge to insurance expense during the years ended May 31, 1996 and 1995 of \$516,750 and \$249,508, and a prepayment of \$2,266 and \$1,619 as of May 31, 1996 and 1995, respectively.

### Use of Estimates in Financial Statement Preparation

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

### Concentrations of Credit Risk

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

### Supplemental Disclosure of Cash Flow Information

Capital lease obligations of \$567 were incurred when the Company entered into leases for new equipment.

### Reclassifications

Certain fiscal 1995 balances have been reclassified, for comparative purposes.

## Note 2 – Water Plant

	May 31,	
	1996	1995
Land and land rights.....	\$ 14,123	\$ 12,562
Distribution systems.....	444,079	424,715
Wells, reservoirs and structures.....	62,472	57,613
Pumping and purification equipment.....	59,517	50,549
Other.....	36,572	26,608
Water plant in service.....	616,763	572,047
Less - accumulated depreciation.....	141,465	130,250
Net water plant in service.....	475,298	441,797
Construction in progress.....	93,000	103,135
Water plant.....	\$ 568,298	\$ 544,932

Depreciation expense amounted to \$12,355 and \$11,410 for the years ended May 31, 1996 and 1995, respectively.

## Note 3 – Water System Revenue Bonds

Outstanding bonds are summarized as follows:

Series	Interest Rate	Final Maturity Date	May 31,	
			1996	1995
1988	6.50-7.375 %	2010	\$ 30,895	\$ 34,740
1992 B	5.10-5.625 %	2017	57,825	57,855
1992 C	4.50-6.00 %	2017	38,770	39,030
1993	4.8-5.10 %	2013	92,475	94,735
1994	5.00-6.00 %	2017	102,135	102,135
<b>Total bonds outstanding . . .</b>			<b>322,100</b>	<b>328,495</b>
Less: Current maturities payable . .			7,220	6,395
Unamortized discount . . . . .			7,939	8,301
			<b>\$ 306,941</b>	<b>\$ 313,799</b>

Interest paid, net of amounts capitalized, was \$18,553 and \$15,935 during fiscal 1996 and 1995, respectively.

The payment of principal and interest of the Series 1988 and 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 payable over the next five fiscal years are as follows:

<b>Fiscal Year</b>	<b>Amount</b>
1997 . . . . .	\$ 7,220
1998 . . . . .	7,625
1999 . . . . .	8,090
2000 . . . . .	8,985
2001 . . . . .	10,420

## **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, 1996 approximate \$25,228 in each of the next five years. Revenue before interest and depreciation was equivalent to 1.77 times (1.71 in 1995) the debt service requirement for the year ended May 31, 1996.

## **Note 5 – Notes Payable**

In May 1993, the Authority acquired Shorewood Water Corporation. In connection with the acquisition, the Authority issued a note payable to the former stockholders totaling \$2,300 with interest payable monthly at 4.89% through May 3, 1998, the date of principal maturity.

In February 1996 and December 1994, the Authority issued bond anticipation notes each in the amount of \$35,000. 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 and December 21, 1999, the date of principal maturity, for the 1996 and 1994 notes, respectively. As of May 31, 1996 and 1995 the effective interest rate was 3.53% and 3.55%, respectively.

## **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 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 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 their annual salary to the Employees' Retirement System and eligible Tier I and II members may make contributions under certain conditions. The Authority is required by the same statute to contribute the remaining amounts necessary to pay benefits when due.

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

Pension expense recorded in the Authority's accounts was zero for the years ended May 31, 1996 and May 31, 1995. However, the pension accrual increased due to retirement costs capitalized to construction work in progress of \$309 and \$275 for the years ended May 31, 1996 and 1995. The zero balance in pension expense is 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.

### Note 7 – Deferred Compensation

All Authority employees may participate in a deferred compensation program designated as an Internal Revenue Code Section 457 plan. This program enables employees to contribute a portion of their salary, on a tax deferred basis, to group variable annuity contracts. All assets in the plan remain the property of the Authority until paid or made available to participants and, accordingly, are subject to the claims of the Authority's general creditors. The assets and related liabilities of the plan are recorded at the assets' market values. The Authority has no liability for making contributions to the deferred compensation program. The Authority remits deferred compensation amounts withheld from employees' salaries to an outside fiduciary agent who administers the program and invests program assets as instructed by each of the participants. Assets in such program amounted to \$5,383 and \$3,905 at May 31, 1996 and May 31, 1995, respectively. Assets of the plan are included in other assets and the liability to employees is included in other accrued liabilities in the Authority's balance sheet.

### Note 8 – Postretirement Benefits

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

### Note 9 – Commitments and Contingencies

The Authority authorized a capital improvement construction budget for the fiscal year ending May 31, 1997 of approximately \$38,342.

As of May 31, 1996 the Authority is obligated under several operating leases, for meter reading and computer equipment, with initial or remaining terms of one year or more as follows:

Year ending May 31,	
1997 .....	\$ 216
1998 .....	128
1999 .....	123
2000 .....	60
<b>Total minimum lease payments .....</b>	<b>\$ 527</b>

As of May 31, 1996 the Authority is obligated under a capital lease, for computer equipment, with remaining terms as follows:

Year ending May 31,	
1997 .....	\$ 170
1998 .....	170
1999 .....	170
2000 .....	57
<b>Total minimum lease payments .....</b>	<b>\$ 567</b>

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

### Note 10 – Subsequent Events

On July 21, 1996, the Authority took possession of two privately owned public water utilities, by way of condemnation; for an aggregate purchase price of \$2,297.

# Regional Offices and Communities Served

## Western Regional Office

REGIONAL MANAGER  
Clifford Foy  
260 Motor Parkway  
Hauppauge, NY 11788

Amity Harbor  
Amityville  
Asharoken  
Babylon  
Bay Shore  
Brentwood  
Brightwaters  
Centerport  
Central Islip  
Cherry Grove  
Cold Spring Harbor  
Commack  
Copiague  
Crab Meadow  
Davis Park  
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



Jessica Ballan (right), Customer Service Division

Lonelyville  
Nesconset  
Nissequogue\*\*  
North Amityville  
North Babylon  
North Bay Shore  
North Great River  
North Lindenhurst

Northport  
Oakdale\*\*  
Pinelawn  
St. James\*  
San Remo\*  
Smithtown  
South Hauppauge  
Village of the Branch

Village of Islandia\*\*  
West Babylon  
West Bay Shore  
West Islip  
West St. James  
West Smithtown\*  
Wheatley Heights  
Wyandanch

## Central Regional Office

REGIONAL MANAGER  
Dona Roberts  
2045 Route 112, Suite 1  
Coram, NY 11727

Bayport  
Belle Terre  
Bellport  
Blue Point  
Bohemia  
Brookhaven  
Canaan Lake  
Centereach  
Coram  
East Holbrook

East Patchogue  
East Setauket  
Farmingville  
Gordon Heights  
Hagerman  
Holbrook  
Holtsville  
Lake Grove  
Lakeland  
Lake Panamoka  
Lake Ronkonkoma  
Medford  
Middle Island\*\*  
Miller Place  
Mount Sinai

North Bellport  
North Centereach  
North Patchogue  
North Selden  
Oakdale\*\*  
Patchogue  
Poquott  
Port Jefferson  
Port Jefferson Station  
Ridge  
Rocky Point  
Ronkonkoma  
Sayville  
Selden  
Setauket  
Shoreham  
Sound Beach

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

## Eastern Regional Office

REGIONAL MANAGER  
Ronald P. Blake  
1098 Old Riverhead Road  
Westhampton Beach, NY 11978

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

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

## East Hampton

(Satellite Office – Eastern Regional Office)

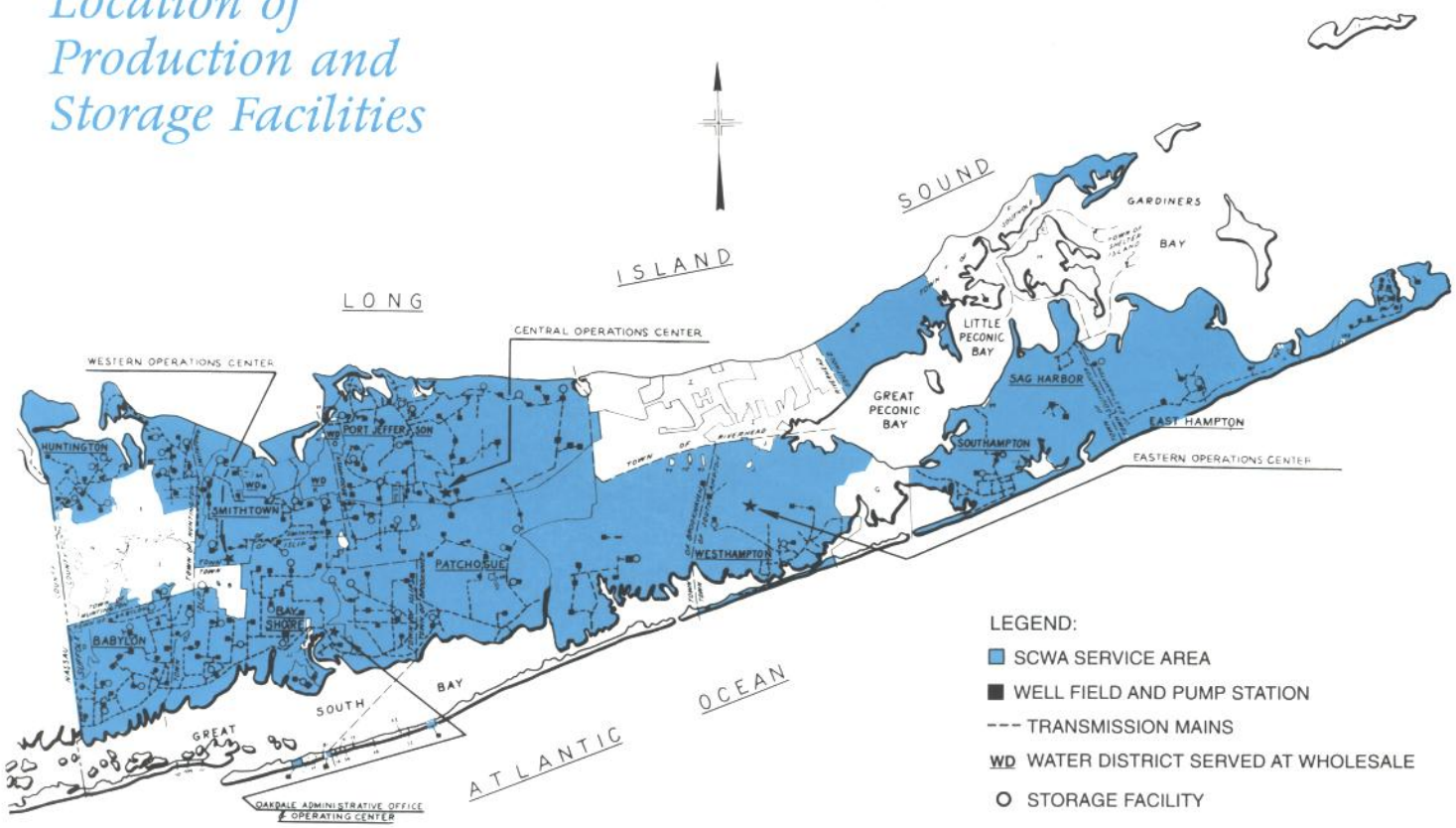
Ronald P. Blake  
32 Montauk Hwy.  
East Hampton, NY 11937

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

\* Included in  
Wholesale  
Water District

\*\* Serves portion  
of area

# Service Areas and Location of Production and Storage Facilities



- LEGEND:
- SCWA SERVICE AREA
  - WELL FIELD AND PUMP STATION
  - TRANSMISSION MAINS
  - WD WATER DISTRICT SERVED AT WHOLESALE
  - STORAGE FACILITY



*Suffolk County Water Authority*

Oakdale, Long Island, N.Y. 11769