

SUFFOLK COUNTY WATER AUTHORITY



1997 ANNUAL REPORT



Authority Profile

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

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

The Suffolk County Water Authority is the largest groundwater supplier in the nation and has been operating for 46 years. Currently, the SCWA serves approximately 1.2 million Suffolk County residents. The Authority is operated solely for the benefit of the customers it serves.

Ever mindful that our children are our most valuable treasures, we make sure the drinking water is pure and safe for our smallest consumers.

Our state-of-the-art water testing laboratory analyzed more than 50,000 water samples for 192 compounds this year alone. This includes additional non-mandated testing we conducted to pre-empt any threat to our public water supply system.

Statistical Highlights 1988-1997

	For Fiscal Year Ended May 31 1997	For Fiscal Year Ended May 31 1988	10-Year Growth	Percent Increase
Customers	327,634	275,944	51,690	19%
Population Served	1,180,871	941,000	239,871	26%
Miles of Main	4,826	4,012	814	20%
Fire Hydrants	29,708	25,462	4,246	17%
Water Pumped (billion gallons)	50.1	45.5	4.6	10%
Employees	601	521	80	15%



Financial Highlights 1988-1997

	For Fiscal Year Ended May 31 1997	For Fiscal Year Ended May 31 1988	10-Year Growth	Percent Increase
Gross Revenues	\$ 91,175,000	\$ 58,345,000	\$ 32,830,000	56%
Operating and Maintenance Expense, Except Depreciation	51,390,000	32,995,000	18,395,000	56%
Water Plant at Cost	754,315,000	386,625,000	367,690,000	95%
Bonded Indebtedness	353,350,000	163,170,000	190,180,000	117%
Total Earnings in the Business at the Close of Period	167,612,000	101,467,000	66,145,000	65%



Authority Members,
from left:
Melvin Fritz, D.O.M.D.;
John E. Gee, Jr.;
Michael A. LoGrande;
James T. B. Tripp, Esq.;
Eric J. Russo, Esq.

Authority Members

Michael A. LoGrande
Chairman/Chief Executive Officer
Melvin M. Fritz, D.O.M.D. John E. Gee, Jr.
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
Laura J. Mansi
Director of Public Relations
Robert L. Murray
Director of Production Control
Karen Randazzo Edward J. Rosavitch
Director of Laboratory Services *Chief Engineer*
Donald Slotnick Andrew Varanelli
Director of Distribution *Director of General Services*

Consultants

Van Nostrand & Martin
Counsel
United States Trust Company of New York
Bond Trustee
Price Waterhouse LLP
Independent Accountants
Smith Barney Harris Upham & Co., Inc.
Financial Consultant
Leggette, Brashears & Graham, Inc.
Consulting Groundwater Geologists

Chairman's Message

"A dichotomy" best describes Fiscal Year 1996/1997 – a clamor for public water to address water quality needs on one hand and unfounded fears about the quality of the public supply on the other. While expanding our territory and facilities, we were also aggressively responding with facts to highly inflammatory news stories about radionuclide contamination in the groundwater at Brookhaven National Laboratory. Both efforts have been highly successful, and we continue to extend and improve our system and provide accurate information to the public about the exceptional quality of the water they receive at their taps.

The BNL Story

Escalating public concerns about groundwater contamination at Brookhaven National Laboratory (BNL) became a paramount issue in Suffolk County in early 1997. Almost daily news reports about the discovery of a radionuclide, tritium, in the groundwater at BNL spurred concerns about the quality of drinking water county-wide. Even though the tritium leak posed no immediate danger to any Authority wells in the vicinity of the lab, misleading reports, rumors, and a general lack of knowledge about the water supply began to weaken public confidence in the drinking water.

Early in 1996, prompted by the discovery of a volatile organic chemical in several private wells in the vicinity of BNL, the Authority was approached by the U.S. Department of Energy to supply residents in the North Shirley and East Yaphank area with public water. The Authority responded quickly and provided the main extensions and appurtenances necessary to connect the targeted homes. SCWA staff and multiple contractors completed the initial project within a few short months and on time. More than 13 miles of main were installed in the community, and nearly 750 homes were connected to the Authority's public water supply system.

In late summer 1996, the project was expanded to the Manorville area to eliminate the threat of private well contamination from the pesticide ethylene dibromide. Before year's end, 17,000 more feet of main were installed, and an additional 100 homes were supplied with public water.

In early 1997, due to the growing controversy surrounding the discovery of tritium on the grounds of BNL, the Department of Energy provided the funds for the Authority to further extend water mains in the Manorville area. Another 14 miles of water mains have been installed, and approximately 500 homes will be connected to the public supply before the end of 1997.

We are proud of the herculean efforts of our personnel who worked in conjunction with the Department of Energy and Brookhaven National Laboratory to expedite this project. Bringing public water to BNL's neighbors is the best way to ensure that their drinking water remains pure and safe.

During this time, massive media attention to the BNL story created concerns about the integrity of the public supply – a supply being offered as a precaution

Expanding Our System

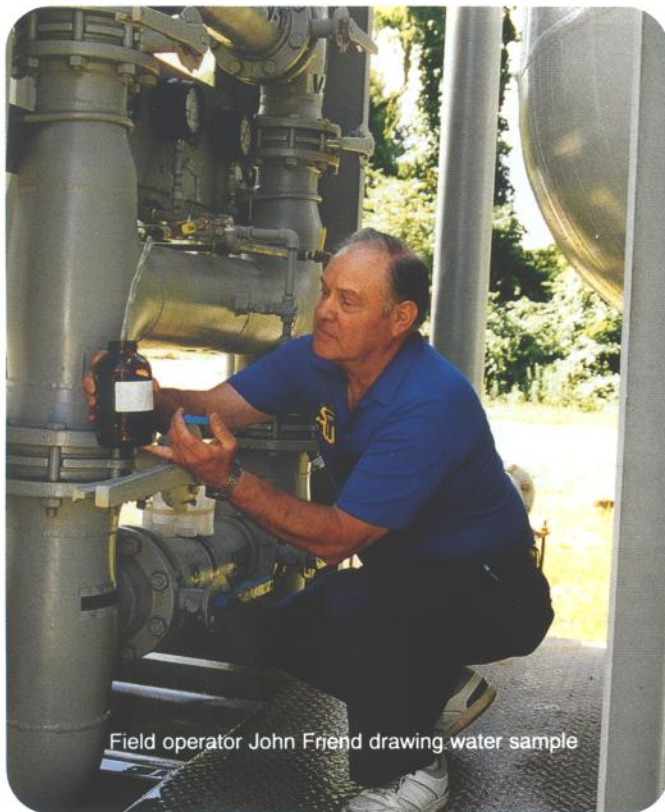
Since 1994, the Authority's expertise in operating and improving existing community water systems has been sought on Fire Island, a remote region of Suffolk County. Six systems have been acquired since then, including three this year alone – the Point O' Woods, Summer Club and Cherry Grove water systems, with a total of 300 customers.

We continue to improve these systems, as necessary, to bring them up to the Authority's high standards. In 1997, we installed new mains for the entire Davis Park system, which we purchased in February of 1996. A referendum is scheduled for next year for possible acquisition of the Fire Island Pines water system, which supplies more than 600 homeowners.

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The Village of Greenport, located on the eastern end of the North Fork of Long Island, provides water to residential and commercial customers both inside and outside its village boundaries. The village has agreed to sell to the Authority its facilities outside its boundaries, which serve approximately 2,100 residential and commercial customers. The cost of the acquisition, including several well fields and the village water tank, is \$3.5 million.

The Greenport system did not have the ability to expand further to accommodate other areas,

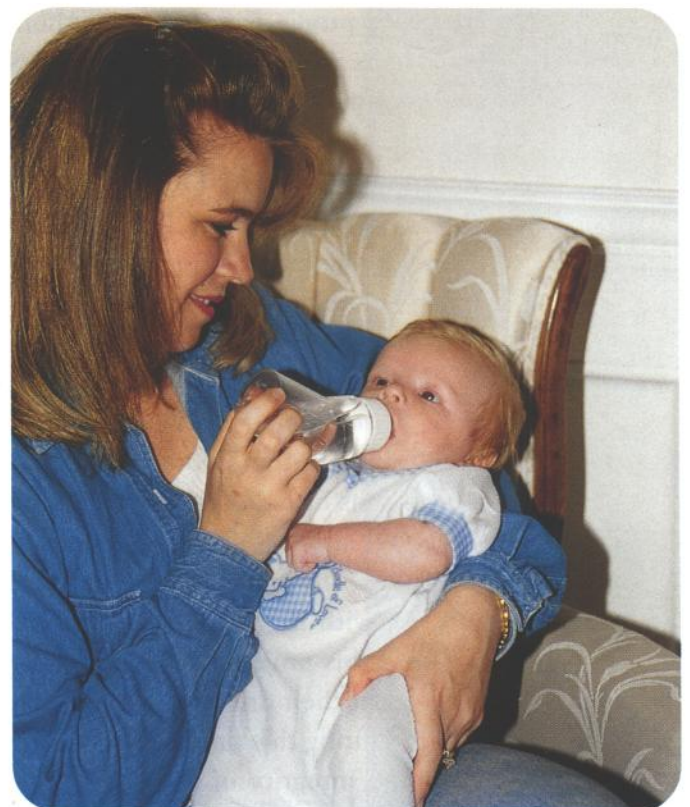


Field operator John Friend drawing water sample

against future contamination. To allay public fears, we stepped up the testing of all the wells in this region. Samples drawn on a monthly basis from the wells are sent to independent certified laboratories in Wyoming and North Carolina for radionuclide testing. We test for all the other contaminants identified in plumes on BNL's property.

When the tests repeatedly demonstrated the excellent quality of the public supply in the area, we launched a massive public information campaign to get the good news out. Through print and radio ads in early April, a special message in our spring bill insert and other outreach efforts, we were successfully able to put the BNL story in perspective as it pertains to the public water supply. Almost immediately after launching this public information campaign, the inquiries surrounding this issue subsided. The message to our customers was and is a guarantee – one that never expires – that we will deliver the highest quality water to our customers in any and all events.

We continue to closely monitor the situation and have put emergency procedures in place for any contingency that may threaten the public water supply in this region. Furthermore, our efforts to keep the public informed continue through appearances at community meetings and periodic updates.



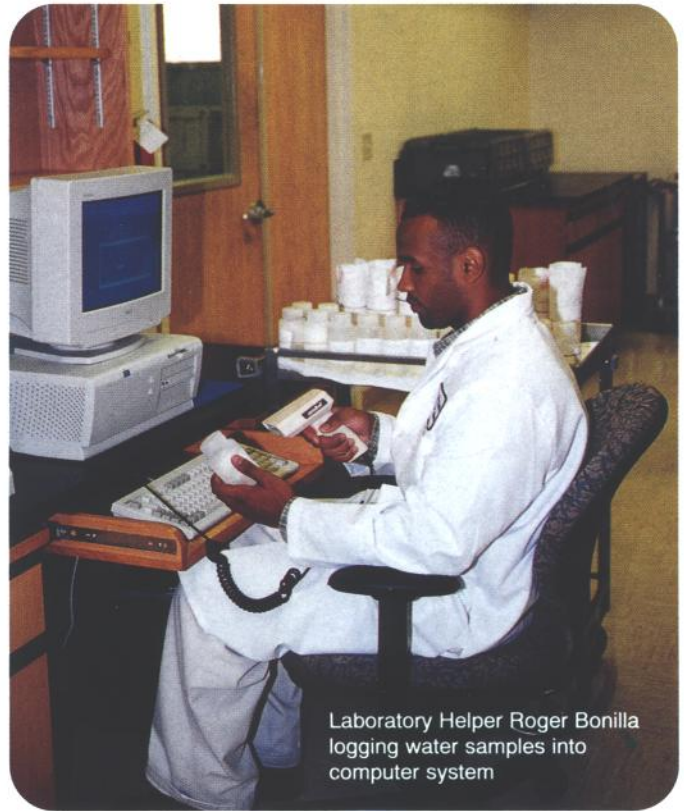
where private wells were experiencing serious water quality problems. However, the Authority, which has approved well sites in the region, will now be able to supply areas like Paradise Point, Goose Creek, Cedar Beach and East Marion within a year or two. Customers in the newly-acquired area will realize a reduction in rates, and improvements to replace and upgrade the water system will begin in the spring of 1998.

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Flanders is another area where residents are clamoring for public water due to poor private well water quality. Discussions are well underway with the Town of Southampton to establish a water supply district for Flanders. The water supply district would contract with the SCWA for installation of water mains in Flanders. If this process is approved, the Authority could bring public water to approximately 1,400 households in the area by the end of 1997.

In May, we reached another agreement with the Town of Southampton to manage and operate the Riverside Water District. This municipally-owned water district, located in the northwest corner of Southampton, has 550 customers. We will begin operating this system on July 1, 1997.

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Laboratory Helper Roger Bonilla logging water samples into computer system

Under a new “fast track” approach initiated this year, the Authority extended more than 10 miles of main in communities where there was an expressed interest in obtaining public water. This new time-saving method eliminates piecemeal main installations and saves money on the preparatory work it normally takes to sign people up. The water mains are installed in total and the cost equally divided among all property owners. After the first year, a surcharge to cover the cost of carrying charges for the main installation is assessed for each year that a property owner does not connect to the public supply. Four projects were completed in this fashion this year, and we are evaluating this new approach to bringing public water into areas in need of timely relief.

Improving Our System

A 10-year strategy to reduce iron in drinking water has been devised in response to aesthetic complaints in some areas of our system where iron is a natural component of the groundwater. Our first iron-removal plant in West Islip uses manganese greensand and has proved extremely successful. During this fiscal year, we employed another iron-removal technique at three well sites on the Montauk peninsula and in the hamlets of Babylon and Bohemia. This method uses specially processed carbon, which is also effective in removing organic contaminants. Four



Assistant Microbiologist Bridget Pellicano running bacteriological analysis for total coliform by membrane filtration

more iron-removal plants are planned for next year.

Another facet of our strategy to reduce iron is to move iron-free water, via large transmission mains, from the north to areas on the south shore, where iron is more prevalent. This year, we installed more than five miles of 24" and 16" mains from Wyandanch to the Copiague/Lindenhurst area. Additional wells are planned to be constructed next year at two sites in Wyandanch to enhance the supply via the new pipeline. In 1998, we plan to install a large transmission main from our iron-removal plant in West Islip to serve an even larger population with iron-free water being produced from this facility.

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In addition to the regular maintenance of the system, we installed three booster stations, dismantled an old and obsolete water tank in Huntington Bay and added four pump stations and seven wells to the system. A new pump station and wells at Laurel Lake in the Town of Southold will supply the Mattituck area, where the Authority is planning a special pilot program that would bring public water to residents and businesses there at no cost. High community participation will make this project possible.

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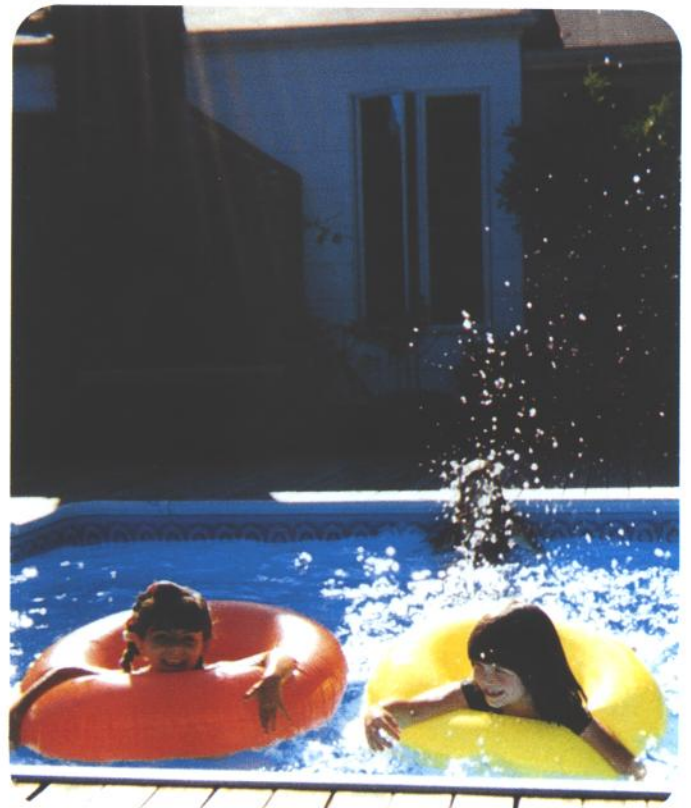
Due to a mild summer in 1996 and the voluntary cooperation of residents and businesses to con-

serve water, mandatory water use restrictions were avoided once again on the Montauk peninsula. Water use dramatically increases in Montauk every summer, threatening our wells with salt water intrusion. To help better control and prevent chloride problems in our supply wells, a Programmable Logic Controller (PLC) was put in service for the 1996 summer season. The PLC is a computer that manages the operating schedules of each well.

These and other improvements we've made in Montauk will not resolve the long-term vulnerability of the Montauk aquifer and water system. Each summer, the viability of the 10 wells that serve this region is threatened. Therefore, after studying all the possible options, the Authority has offered a reasonable solution to enhance the summer supply by installing a pipeline from Napeague (west of the peninsula) to Montauk. We await the results of an environmental review of this proposal by the Town of East Hampton. If approved, the pipeline could be installed in time for the 1998 summer season.

Continuous Monitoring of Water Quality

First and foremost always is our steadfast resolve to make certain that the water that comes out of our customers' taps is pure and safe for everyone

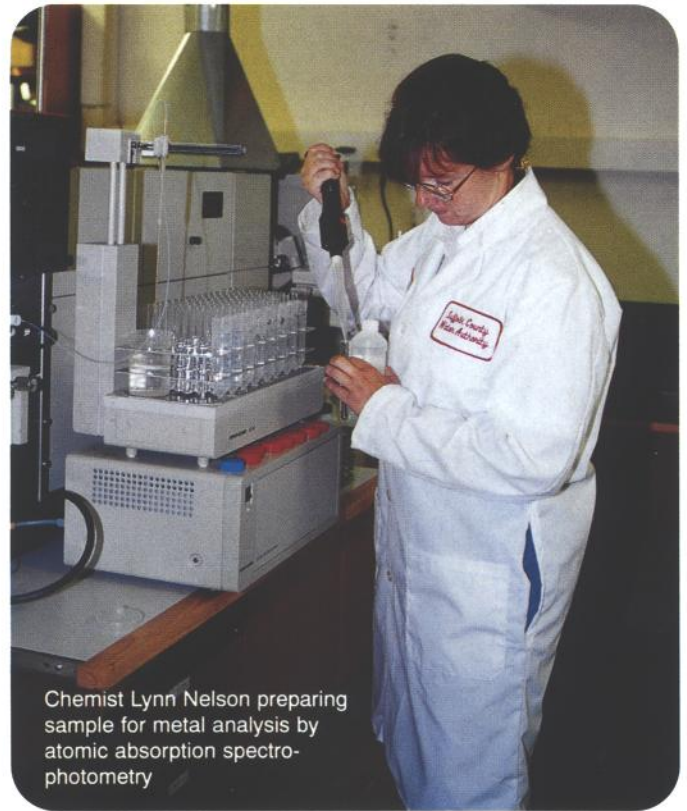


from our tiniest consumer to our most fragile senior citizen. In 1995, we opened the largest, most state-of-the-art groundwater testing laboratory in the nation. In this fiscal year, we tested in excess of 50,000 water samples for more than 192 compounds. Our laboratory operation has received widespread recognition for its highly qualified staff and extraordinary equipment.

Our customers are fortunate to live in the state that has the strictest water testing requirements in the nation. Notwithstanding this fact, the Authority takes a proactive rather than a reactive approach to any potential contamination anywhere in our service territory. This cautionary policy is exemplified in our management of the BNL situation referred to earlier in this report.

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This year, after meeting very rigorous requirements, our laboratory was approved by the U.S. Environmental Protection Agency to participate in an intensive data collection effort on disinfection and disinfection by-products. Sampling at representative SCWA well and distribution sites will begin in July of 1997 and continue for 18 months. The data will be used to evaluate various treatments for reducing contamination involving bacteria, viruses, protozoa and disinfection by-products and will be published in the Federal Register. We are proud and pleased that our



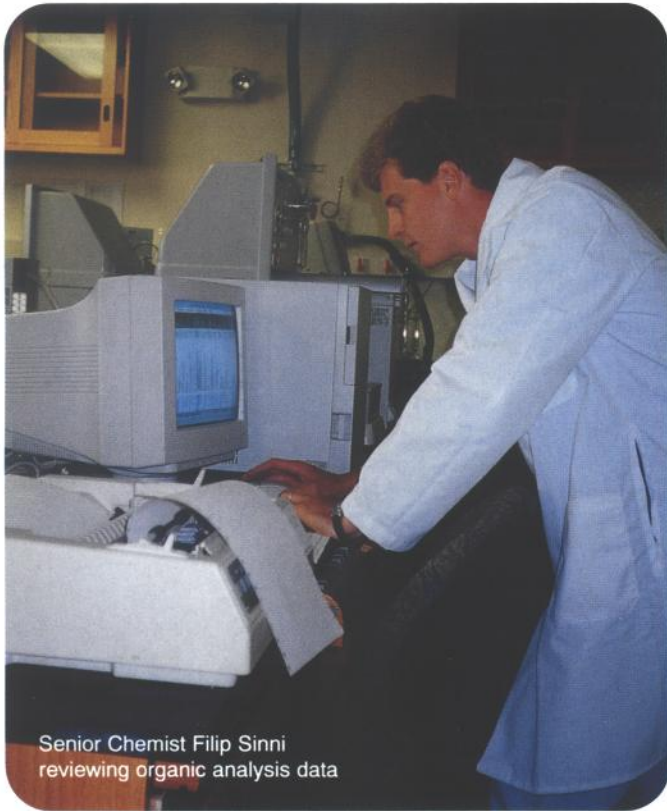
Chemist Lynn Nelson preparing sample for metal analysis by atomic absorption spectrophotometry

laboratory was certified to participate in this data collection effort.

Pollution Prevention Efforts

Our responsibilities go far beyond purveying a safe supply of drinking water to our customers. They must include educating water consumers so that they can be partners in protecting the water source. Over this past year, our Pollution Prevention Program has cosponsored several workshops on environmental compliance and pollution prevention with agencies such as the state Department of Environmental Conservation and the Empire Development Corporation, focusing on industry sectors such as printing and metal finishing. In addition, the Program has created a public access library located at the Authority's Technical Services Building in Great River. The library contains more than 600 documents on pollution prevention information for various industry sectors.

It was gratifying to see the Students and Industries for Pollution Prevention initiative begin its work this year. This initiative, funded by an Environmental Protection Agency grant and an in-kind match provided by the Authority, trained student teams to help companies identify ways to reduce the use of toxic and hazardous chemicals in their processes.



Senior Chemist Filip Sinni
reviewing organic analysis data

In the first year, 25 interning graduate students with science and/or engineering backgrounds visited printing shops, electronic firms, circuit board manufacturers and a research laboratory and passed on the latest information on chemical reduction in the work place. The Authority views this as a win-win situation for the environment, for the companies who decrease costs and improve worker safety, and for the students who gain invaluable knowledge and work experience.

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We continue to send a strong message to would-be polluters in Suffolk County – we will not tolerate the contamination of the public drinking water supply. We commenced two separate legal actions this year against two major corporations. Both have been found liable by the courts to the Authority for damages sustained to our property. In addition to a moral duty, we have a fiduciary responsibility to our ratepayers and bondholders to recoup the costs borne by the Authority because of polluters.

Winning Countywide Honors in Water Taste Contest

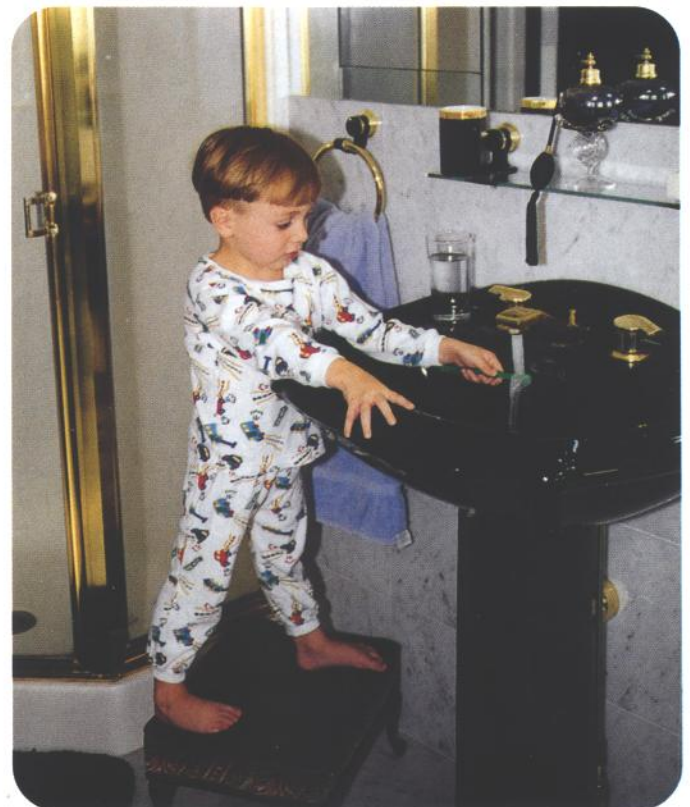
Suffolk County residents are fortunate to have generally good tasting water. However, since the taste does vary from place to place, our employees conducted an in-house drinking water taste contest to

select the sample to be submitted to the Long Island Water Conference's annual contest for National Drinking Water Week. Their efforts were rewarded when volunteer tasters at the Smith Haven Mall in Lake Grove chose the SCWA sample as the best from Suffolk County. The achievement also makes us eligible to participate in regional and statewide contests.

Collecting Payments Through the Internet

Some Authority employees were given the opportunity to pay their water bills through Billsite on the Internet this year. This pilot program is administered by Electronic Funds and Data Corporation of Bridgehampton. Implementing this program makes us the first water utility to offer such a service, which will be extended to our other customers in the fall of 1997.

Employees who have signed up for the new service now receive, view and pay their bills through a web-based interface, saving check-writing charges and the cost of postage stamps. Participants can also read the same information other customers receive enclosed with bills sent by mail and call up additional information about the Authority in the comfort of their homes. The program is expected to improve our cash flow and reduce the costs of producing bills and processing payments.



Maintaining Financial Stability

In a continuing effort to provide safe, potable water to those in need, the Authority during the last fiscal year expended approximately \$37,000,000 in capital costs, which included approximately \$3,000,000 in remediation, \$2,141,000 in system acquisitions, and \$22,276,000 in main extensions. Funding for these capital costs comes from monies available after the payment of operating, maintenance, and debt service expenses and from the issuance of Revenue Bonds. During this fiscal year, \$38,470,000 in Water Service Revenue Bonds were issued. Additionally, approximately \$4,000,000 was spent in main extension and related costs for the various Brookhaven National Laboratory projects. These monies are being fully reimbursed by the U.S. Department of Energy.

As a result of above average rainfall during the summer of 1996, water usage and, consequently, related revenues were lower than anticipated. Continued monitoring of operating and maintenance costs minimized the impact of the reduced revenues. The resulting monies available to pay interest and principal of outstanding debt (debt coverage) was 1.48 (2.05 - excluding subordinate debt). Strong fiscal management allows for the Authority to maintain a strong presence in the bond market, as witnessed by the municipal bond ratings "AAA" and "Aaa" assigned by Standard and Poor's Rating Services and Moody's Investor Service, Inc., respectively.

SCWA Loses Longest-Serving Board Member

On January 29, 1997, the SCWA Board, management and staff lost a dear friend, our elder statesman, and a devoted public servant when Matthew Kondenar passed away. He was the longest-serving member of the Board – actively serving from 1965 until his passing. Mr. Kondenar's service to the Authority and the residents of Suffolk County will be long remembered.

On April 15, 1997, the Suffolk County Legislature appointed John E. Gee, Jr., to serve as the newest member of the Authority's Board. Mr. Gee, a business owner and life-long resident of Suffolk County, also brings to the Board 20 years of experience as a structural ironworker, foreman and job superintendent. At the same time, the legislature reappointed James Tripp, who has been a member of the SCWA Board of Directors since 1986, to a new five-year term extended through May of 2002. Mr. Tripp is a nationally-recognized environmental attorney, and the Authority is fortunate to have the benefit of his expertise.

Mission Accomplished

The changes that we have made to the Authority over the last six years to eliminate bureaucratic tendencies and instill professionalism at every level prepared us for the diverse challenges presented to us this year. We responded to each challenge with energy, alacrity and sensitivity. Therefore, I can say with pride and confidence that this has been an extremely successful year for the Authority. I, and my fellow Board Members, would like to express our sincere gratitude to the employees who worked to make it all possible. In addition, we would be remiss if we did not recognize the many others, in government, business and the community at large, whose enthusiastic and professional support for our programs and initiatives helped us meet our goals.

Sincerely,



MICHAEL A. LoGRANDE, Chairman and CEO

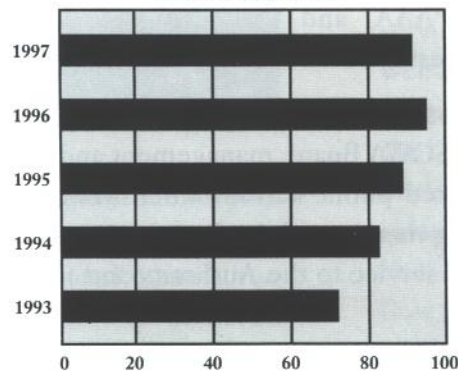
1996-1997 Highlights

May 31

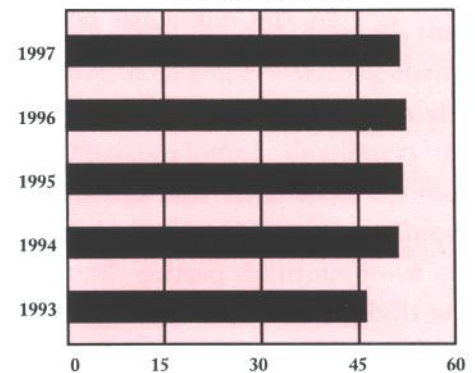
	1997	1996
Total Revenues.....	\$ 91,175,000	\$ 97,968,000
Operating and Maintenance Expense except depreciation.....	51,390,000	52,319,000
Interest on Bonds and Notes; including amortization of debt discount and expense.....	20,492,000	19,874,000
Depreciation	12,962,000	12,355,000
Revenues invested in Facilities for the year	6,722,000	13,914,000
Revenues invested in Facilities (since June 1, 1951)	167,612,000	160,890,000
Total Water Plant at cost	754,315,000	709,763,000
Net Additions to Water Plant	47,462,000	35,069,000
Customers (Active Services)	327,634	322,340
Miles of Main in Service	4,826	4,731
Fire Hydrants in Service.....	29,708	29,224
Water Production (Billion Gallons).....	50.1	56.7

Five-Year Financial Highlights

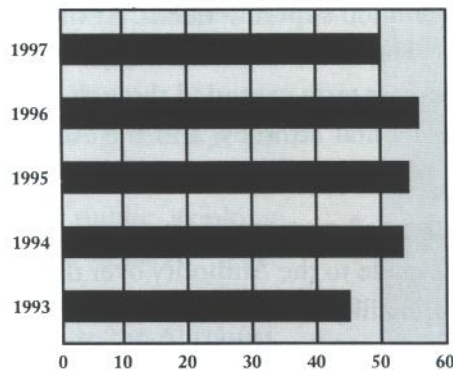
Total Revenues
Dollars/Millions



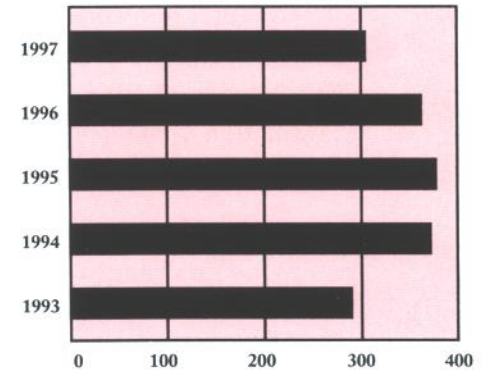
Operating Expenses
Dollars/Millions



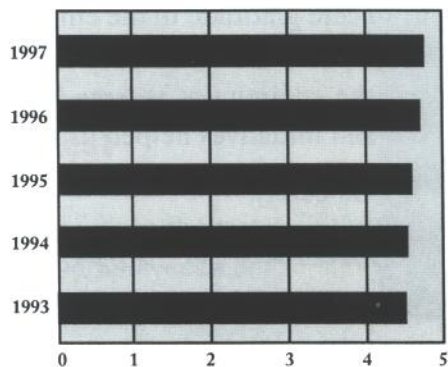
Water Delivered
Gallons/Billions



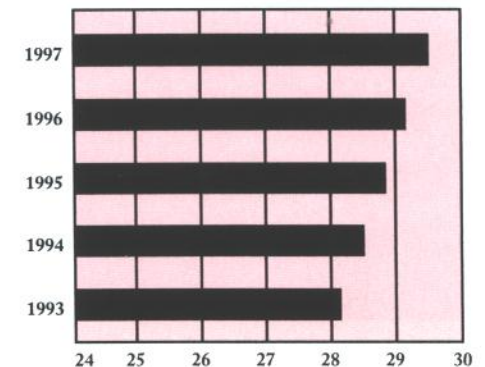
Peak Day Delivery
Gallons/Millions



Miles of Main
Miles/Thousands



Fire Hydrants in Service
Thousands



Financial Statement



Fiscal Year 1996 – 1997

**Report of
Independent
Accountants**

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, 1997 and 1996 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
Melville, New York
July 25, 1997

Balance Sheet

(Amounts in Thousands)

	May 31,	
	1997	1996
ASSETS		
Water plant, at cost less accumulated depreciation	\$ 603,301	\$ 568,298
Current Assets:		
Cash and cash equivalents	25,225	43,081
Short-term investments	13,839	12,079
Construction fund	22,100	5,175
Accounts receivable, less allowance for doubtful accounts of \$316 in 1997 and \$324 in 1996	7,900	8,779
Accrued water service and fire protection revenues	9,994	10,153
Interest and other receivables	1,474	1,105
Materials and supplies, at average cost	6,880	4,793
Prepayments and other current assets	1,863	2,689
Total Current Assets	89,275	87,854
Funds held by fiscal agent	16,585	16,044
Long-term investments	52,896	36,250
Long-term construction fund	14,945	18,472
Intangible assets	8,651	8,871
Other assets	15,957	14,305
	109,034	93,942
	\$ 801,610	\$ 750,094
CAPITALIZATION AND LIABILITIES		
Capitalization:		
Water System Revenue Bonds, less current portion, less unamortized discount	\$ 337,458	\$ 306,941
Bond anticipation notes payable	70,000	70,000
Contributions in aid of construction	164,812	153,852
Revenue invested in facilities	167,612	160,890
Total Capitalization	739,882	691,683
Current Liabilities:		
Current maturities of Water System Revenue Bonds	7,625	7,220
Accounts payable	3,517	3,487
Accrued interest	8,960	8,930
Deferred revenue	1,000	1,000
Accrued retirement contributions	1,717	1,976
Accrued employee welfare	5,760	4,387
Other accrued liabilities	190	951
Customer deposits	6,649	7,065
Notes payable	2,300	-
Total Current Liabilities	37,718	35,016
Advances for construction	11,374	8,712
Deferred revenue	6,000	7,000
Deferred compensation fund	6,636	5,383
Notes payable	-	2,300
Commitments and contingencies (Note 9)		
	\$ 801,610	\$ 750,094

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,	
	1997	1996
Revenue:		
Operating	\$ 79,566	\$ 87,267
Interest and other	11,609	10,701
Total revenue	91,175	97,968
Operating Expenses:		
Operations.....	41,308	42,150
Maintenance.....	10,082	10,169
Total operating expenses.....	51,390	52,319
Revenue before depreciation, amortization, and interest.....	39,785	45,649
Deduct:		
Interest expense, net	19,211	18,552
Depreciation and amortization.....	13,852	13,183
	33,063	31,735
Revenue invested in facilities	6,722	13,914
At beginning of year.....	160,890	146,976
At end of year.....	\$ 167,612	\$ 160,890

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

Statement of Cash Flows

(Amounts in Thousands)

	For the year ended	
	May 31,	
	1997	1996
Cash Flows from Operating Activities:		
Revenue invested in facilities	\$ 6,722	\$ 13,914
Adjustments to reconcile revenue invested in facilities to net cash provided by operations		
Depreciation and amortization	13,852	13,183
Capitalized interest	(503)	(652)
(Increase) decrease in operating assets		
Short-term investments	(1,760)	13,197
Accounts receivable	879	(1,409)
Interest and other receivables	(369)	281
Accrued water service and fire protection revenues	159	172
Materials and supplies and prepayments	(1,261)	(833)
Other assets	(1,652)	(9,136)
Increase (decrease) in operating liabilities		
Accounts payable	30	(371)
Accrued interest	30	(51)
Deferred revenue	(1,000)	8,000
Accrued retirement contributions	(259)	309
Deferred compensation fund	1,253	1,479
Accrued employee welfare	1,373	(253)
Other accrued liabilities	(761)	565
Customer deposits	(416)	290
Net cash provided by operating activities	16,317	38,685
Cash Flows from Investing Activities:		
Additions to water plant, net of retirements	(47,462)	(35,069)
Long-term investments	(16,646)	(7,247)
Increase in construction fund	(13,398)	6,320
Net cash used in investing activities	(77,506)	(35,996)
Cash Flows from Financing Activities:		
Proceeds from issuance of Water System Revenue Bonds	37,472	-
Proceeds from notes payable	-	35,000
Repayment of current maturities of Water System Revenue Bonds	(7,220)	(6,395)
Advances for construction, net of refunds	13,622	5,762
Funds held by fiscal agent	(541)	(395)
Net cash provided by financing activities	43,333	33,972
Net (decrease) increase in cash and cash equivalents	(17,856)	36,661
Cash and cash equivalents at beginning of year	43,081	6,420
Cash and cash equivalents at end of year	\$ 25,225	\$ 43,081

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

Notes to Financial Statements

MAY 31, 1997 and 1996

(Dollar Amounts in Thousands)

Note 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.

Acquisitions

During July 1996, the Authority acquired the Sun Hill and Swan Lake water facilities for an aggregate purchase price of \$2,297. The acquisition has been accounted for as a purchase in accordance with Accounting Principles Board Opinion No. 16 and therefore, the results of operations of Sun Hill and Swan Lake are included in the Company's financial statements beginning in August 1995, when the Authority began operating these facilities. The aggregate purchase price of these water facilities was allocated to the fair value of the net assets acquired, water plant.

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 costs to remove, less any salvage, is charged to accumulated depreciation. The costs of repairs, minor betterments and renewals are charged to maintenance expense as incurred. The Authority does not credit water plant for contributions in aid of construction.

Depreciation

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

Cash and cash equivalents

Investments which 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, as described in Note 4) be maintained 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, 1997, the Authority has invested \$6,930 of its construction, operating and other funds in certificates of deposit with interest rates that range from 5.48% to 5.97% and which mature at various dates through October 29, 1997. Additionally, the Authority has invested \$79,564, \$13,252 and \$4,034 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.

Intangible Assets

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

Goodwill 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 (\$3,623 - 1997; \$4,320 - 1996).

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, 1997 and 1996 of \$1,349 and \$517 and a prepayment of \$1,513 and \$2,266 as of May 31, 1997 and 1996, respectively.

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 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, revenue 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 not been materially different from management's estimates.

Supplemental Disclosure of Cash Flow Information

For the year ended May 31, 1996, capital lease obligations of \$567 were incurred when the Company entered into leases for new equipment. Interest paid, net of amounts capitalized, was \$19 and \$18 during fiscal 1997 and 1996, respectively.

Reclassifications

Certain fiscal 1996 balances have been reclassified, for comparative purposes.

Note 2 – Water Plant

	May 31,	
	1997	1996
Land and land rights	\$ 15,119	\$ 14,123
Distribution systems	470,304	444,079
Wells, reservoirs and structures	67,957	62,472
Pumping and purification equipment	66,254	59,517
Other	38,747	36,572
Water plant in service	658,381	616,763
Less - accumulated depreciation	151,014	141,465
Net water plant in service	507,367	475,298
Construction in progress	95,934	93,000
Water plant	\$ 603,301	\$ 568,298

Depreciation expense amounted to \$12,962 and \$12,355 for the years ended May 31, 1997 and 1996, respectively.

Note 3 – Water System Revenue Bonds

Outstanding bonds are summarized as follows:

Series	Interest Rate	Final Maturity Date	May 31,	
			1997	1996
1988	6.50-7.375 %	2010	\$ 26,860	\$ 30,895
1992 B	5.10-5.625 %	2017	57,440	57,825
1992 C	4.50-6.00 %	2017	38,495	38,770
1993	4.80-5.10 %	2013	89,950	92,475
1994	5.00-6.00 %	2017	102,135	102,135
1997	4.10-5.30%	2012	38,470	-
Total bonds outstanding			353,350	322,100
Less: Current maturities payable			7,625	7,220
Unamortized discount . . .			8,267	7,939
			\$ 337,458	\$306,941

The payment of principal and interest of the Series 1988 to 1997 Bonds, is insured by a municipal bond insurance policy issued by MBIA Corporation or AMBAC Indemnity Corporation, except for Series 1992 C, for which the Authority maintains the minimum debt service reserve fund balance.

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

Fiscal Year	Amount
1998	\$ 7,625
1999	8,090
2000	8,985
2001	12,630
2002	13,290

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 1988-1997 Bonds or the average of the annual installments of debt service with respect to all Series 1988-1997 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 1988-1997 Bonds, except for the 1992 C Bonds, 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 1992 C Bonds, the Authority maintains a debt service reserve fund.

Average debt service requirements for the payment of interest and principal on outstanding 1992 C bonds at May 31, 1997, approximate \$4,053 for the remaining term of the bonds. Revenue before interest and depreciation was equivalent to 1.48 times (1.77 in 1996) the debt service requirement, for the year ended May 31, 1997. The minimum debt service requirement is 1.10.

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, 1997 and 1996 the effective interest rate was 3.39% and 3.53%, 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 this retirement system are established by New York State law and may be amended only by the State Legislature. The New York State Employees’ Retirement System issues a publicly available financial report. The report may be obtained from the New York State and Local Retirement Systems, A.E. Smith State Office Building, Albany, New York 12244. Benefit provisions vary as follows:

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

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

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

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

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

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

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

Tier III members with 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 benefits for the Authority on a separate basis.

Pension expense recorded in the Authority's accounts was zero for the years ended May 31, 1997 and May 31, 1996. 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 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 \$6,636 and \$5,383 at May 31, 1997 and May 31, 1996, 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. The expense amounted to \$656 and \$697 for the year ended May 31, 1997 and 1996.

Note 9 – Commitments and Contingencies

The Authority authorized a capital improvement construction budget for the fiscal year ending May 31, 1998 of approximately \$38,489.

As of May 31, 1997, the Authority is obligated under several operating leases, for meter reading and computer equipment and under capital leases, for computer equipment, with initial or remaining terms of one year or more as follows:

Year ending May 31,	Operating	Capital
1998	\$ 405	\$ 184
1999	355	184
2000	322	169
2001	290	-
2002	306	-
Total minimum lease payments.....	\$ 1,678	537
Less: amounts representing interest.....		44
Present value of minimum lease payments		\$ 493

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

In June and July 1997, the Authority purchased two privately owned public water utilities, for an aggregate purchase price of \$191.

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
Lonelyville
Nesconset
Nissequogue**
North Amityville
North Babylon
North Bay Shore
North Great River
North Lindenhurst
Northport
Oakdale**
Pinelawn

Point of Woods
St. James*
San Remo*
Smithtown
South Hauppauge
Summer Club
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
Rensselaer
Shirley
Southold
South Ridge
Speonk
Westhampton
Westhampton Beach



East Hampton

(Satellite Office – Eastern Regional Office)

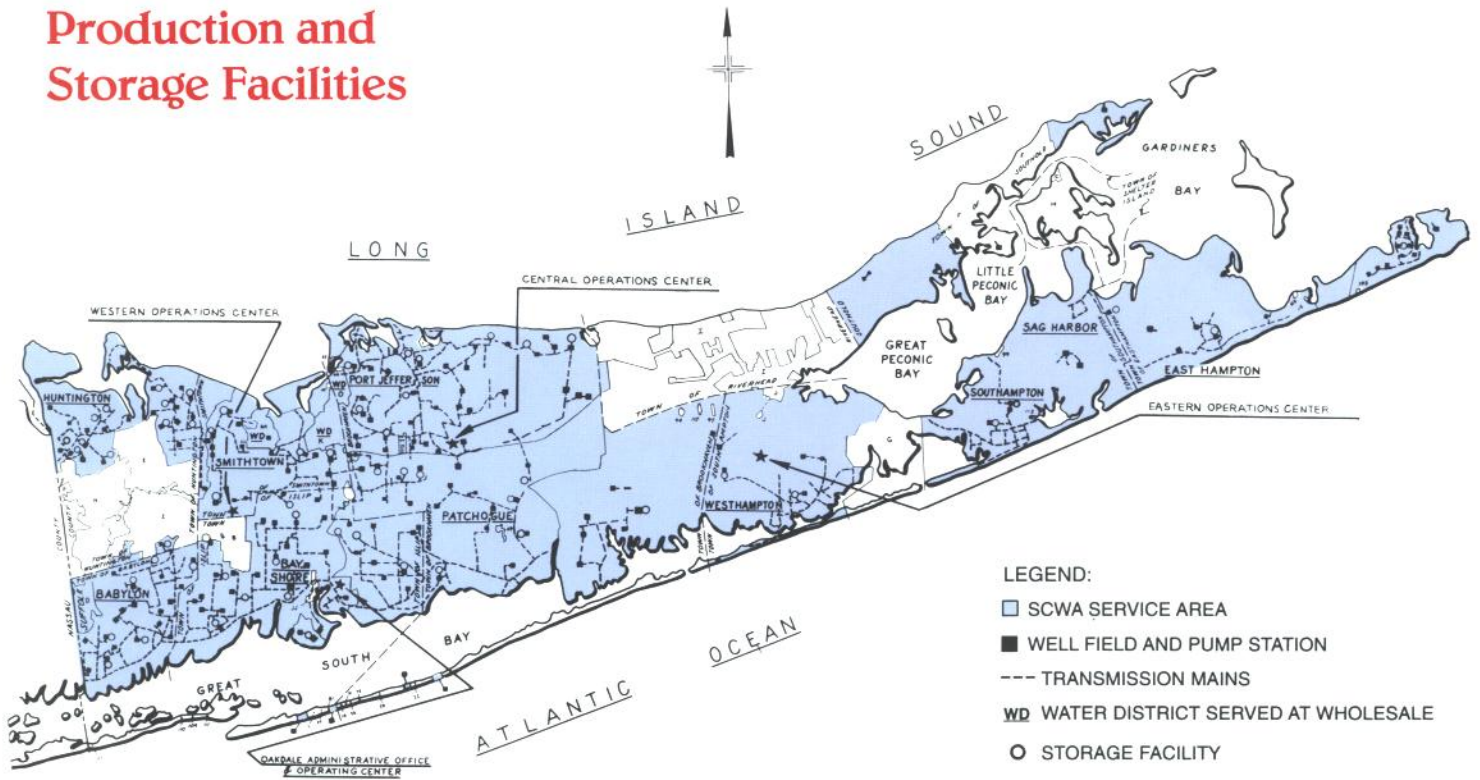
Ronald P. Blake
32 Montauk Hwy.
East Hampton, NY 11937

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



Our Guarantee
Pure, Safe & Constantly Tested



It's Our Drinking Water Too!

Suffolk County Water Authority

Oakdale, Long Island, N.Y. 11769