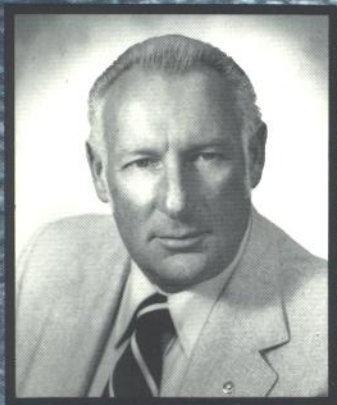
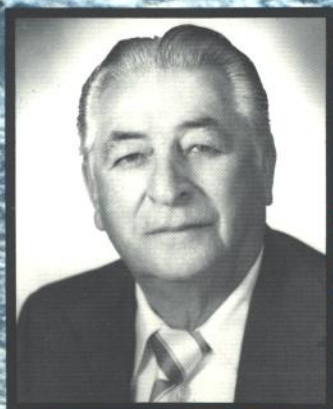
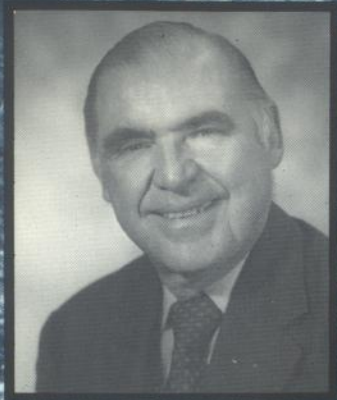


SUFFOLK COUNTY WATER AUTHORITY



1986
Annual
Report

Authority Members



Robert J. Flynn
Chairman

Matthew B. Kondenar
Secretary

William A. Frankenbach
Treasurer and Assistant Secretary

Bert R. Friedman
Miriam T. Anzel

Walter C. Hazlitt
Executive Director

John H. Scheetz
Executive Secretary

Eugene Sidoti
Deputy Executive Director and Controller

William J. Schickler
Chief Engineer

Herbert C. Koehler
Director of Distribution

Bernard T. Hanrahan
Director of Commercial Office Operations

Van Nostrand & Martin
Counsel

William V. Burnell and Associates
Consulting Engineer

Stone & Webster Engineering Corporation
Advisory Engineer

United States Trust Company of New York
Fiscal Agent

Price Waterhouse
Independent Accountants

Prudential-Bache Securities, Inc.
Financial Consultant

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

Top to bottom

Robert J. Flynn
Matthew B. Kondenar
William A. Frankenbach
Bert R. Friedman
Miriam T. Anzel

Chairman's Message



Since its inception in 1951 the Authority has always delivered to its customers a palatable water supply that meets or exceeds water quality standards established by state and federal agencies. To do this, the Authority has maintained its own laboratory which has been utilized to continuously monitor its supply. During the fiscal period covered by this report the laboratory analyzed more than 17,000 individual water samples taken from our production and transmission systems as part of this monitoring program.

On November 13, 1985 the Federal Environmental Protection Agency published new National Primary Drinking Water Regulations in the Federal Register. These proposed standards are expected to become effective in early 1987 and will impose stricter water quality standards on the entire water industry; but in particular on those water purveyors obtaining their supply from deep wells. Since the Authority relies entirely on deep wells to obtain its water supply, these new standards will mean that the Authority will have to spend approximately \$7.5 million to insure that its water supply continues to exceed the Federal standards.

Construction Loan Contracts accounted for \$8,852,000 in fiscal 1986, a new high for Authority activities. The funds received from Construction Loan Contracts combined with funds re-

ceived for main extensions from various governmental agencies accounted for a large portion of construction projects undertaken by the Authority in fiscal 1986. The previous high of \$5,860,000 for funds obtained as a result of Construction Loan Contracts was established in fiscal 1985.

The 1986 fiscal period also saw the Authority reach a new high in total income which stood at \$45,923,000, up from the previous high established in 1984 of \$43,479,000. Operating revenues posted a new high of \$42,339,000 as well, with revenues available for debt service of \$18,012,000 or 1.57 times debt service.

On behalf of the Members of the Authority, I would like to express appreciation for the hard work and dedication of the Authority's 462 employees and I look forward to working with them to continue Authority operations to meet Suffolk's demand for increased public water service throughout fiscal 1987.

Robert J. Flynn
Chairman

Highlights

	May 31,	
	1986	1985
Total Revenues	\$ 45,923,000	\$ 42,071,000
Operating and Maintenance Expense except depreciation	27,911,000	25,926,000
Interest on Bonds and Notes; including amortization of debt discount and expense	8,817,000	7,576,000
Depreciation	6,022,000	5,647,000
Revenues Invested in Facilities for the year	3,173,000	2,922,000
Revenues Invested in Facilities (Since June 1, 1951)	86,072,000	82,899,000
Total Water Plant at Cost	331,259,000	308,416,000
Net Additions to Water Plant	22,843,000	19,206,000
Customers (Active Services)	262,829	256,531
Miles of Main in Service	3,807	3,716
Fire Hydrants in Service	24,262	23,805
Water Production (Million Gallons)	41,516	39,637



Plant Facilities

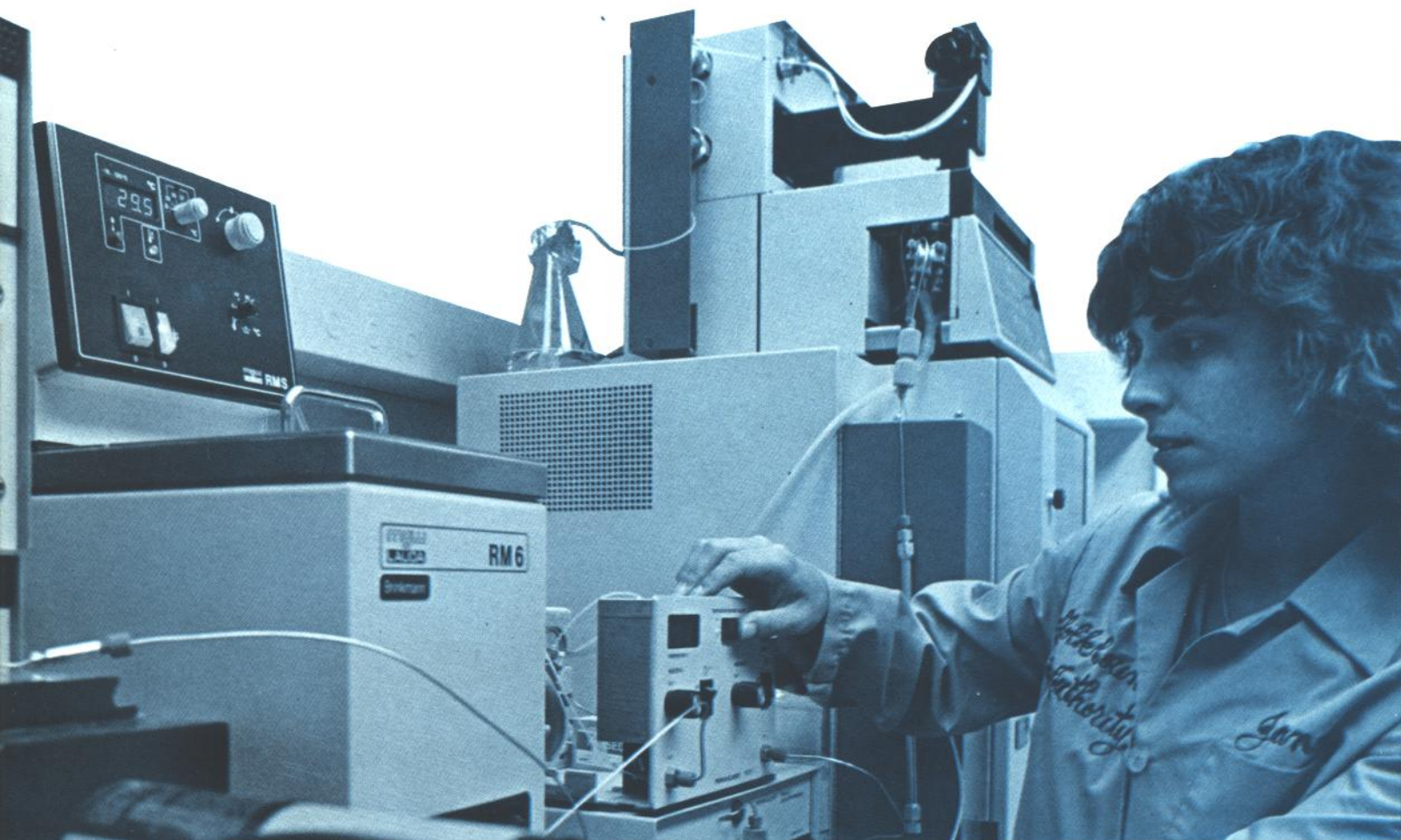


AS OF MAY 31, 1985 ☐

AS OF MAY 31, 1986 ☐

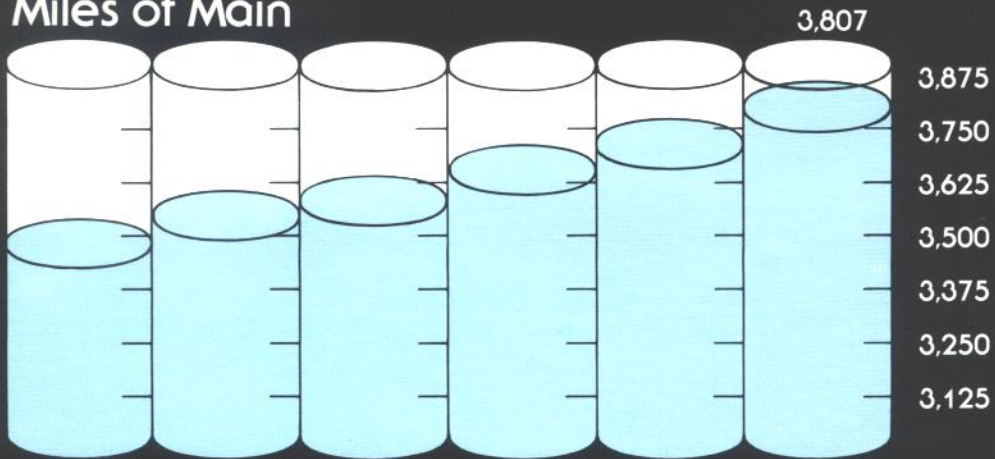
Service Areas or Plants	Wells Active Inactive				Pumping Plants				Storage Facilities				Active Services	
					No.	Capacity-1000 Gals. Daily*			No.	Capacity in 1000 Gallons				
BABYLON	48	48	8	8	19	19	82,102	82,102	9	8	7,815	7,515	54,311	54,893
BAY SHORE	47	49	14	13	20	20	81,274	83,722	7	7	6,012	6,012	47,485	48,024
EAST HAMPTON	33	32	1	2	18	18	23,652	22,860	4	5	3,720	5,720	10,675	10,948
HUNTINGTON	52	53	3	3	21	21	63,878	64,886	11	11	11,842	11,842	28,676	28,880
PATCHOGUE	65	66	8	7	27	27	108,792	110,592	11	11	11,465	11,465	53,377	52,131
PORT JEFFERSON	67	69	2	1	28	28	107,741	109,901	7	7	7,404	7,404	33,885	34,880
SMITHTOWN	48	48	3	3	21	21	83,578	83,578	6	6	6,100	6,100	23,398	23,772
WESTHAMPTON	23	23	—	—	7	7	16,524	16,524	3	4	2,350	3,350	4,724	9,301
TOTALS	383	388	39	37	161	161	567,541	574,165	58	59	56,708	59,408	256,531	262,829

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

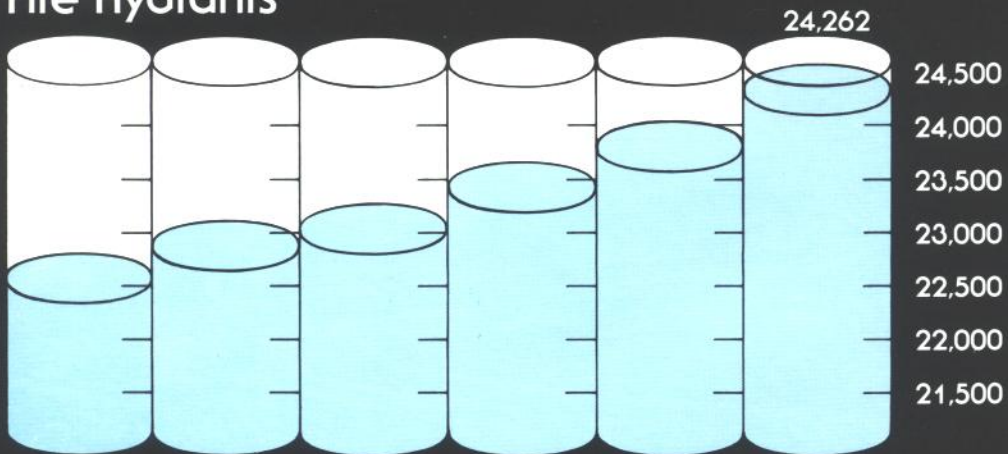


Data Collection

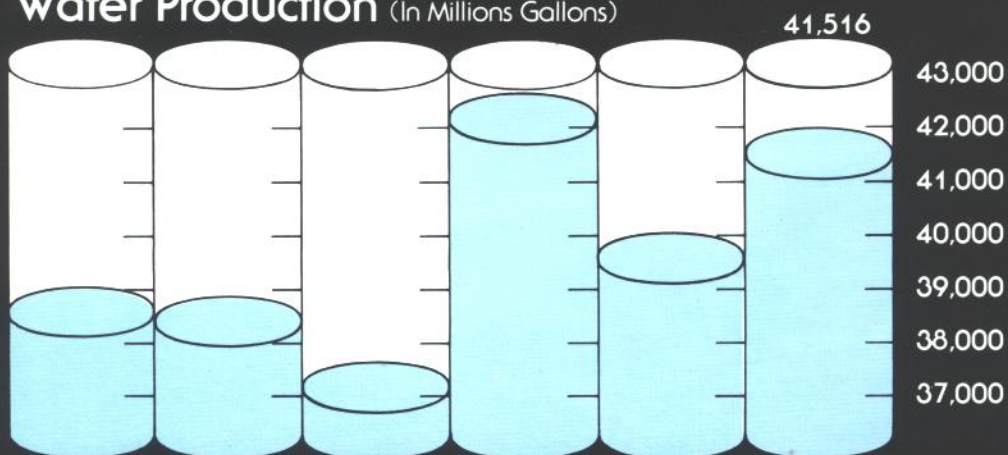
Miles of Main



Fire Hydrants



Water Production (In Millions Gallons)



Keeping Pace with Suffolk County



Ten Years at a Glance 1976-1986

STATISTICS	For Fiscal Year Ended May 31		Ten-Year Growth	Percent Increase
	1986	1976		
Customers	262,829	218,140	44,689	20%
Population Served	890,000	763,000	127,000	17%
Miles of Pipelines	3,807	3,254	553	17%
Fire Hydrants	24,262	21,014	3,248	15%
Water Pumped (Million Gallons)	41,516	31,290	10,226	33%
Employees	462	427	35	8%
FINANCIAL				
Gross Revenue	45,923,000	21,651,000	24,272,000	112%
Water Plant at Cost	331,259,000	197,983,000	133,276,000	67%
Bonded Indebtedness	144,180,000	110,803,000	33,377,000	30%
Total Earnings Employed in the Business at the Close of Period	86,072,000	45,063,000	41,009,000	91%



Coping With an Emergency

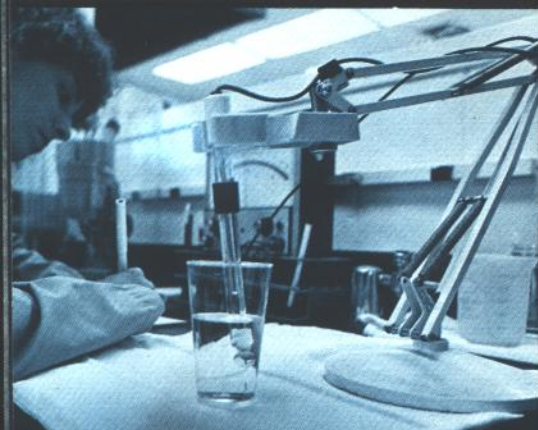
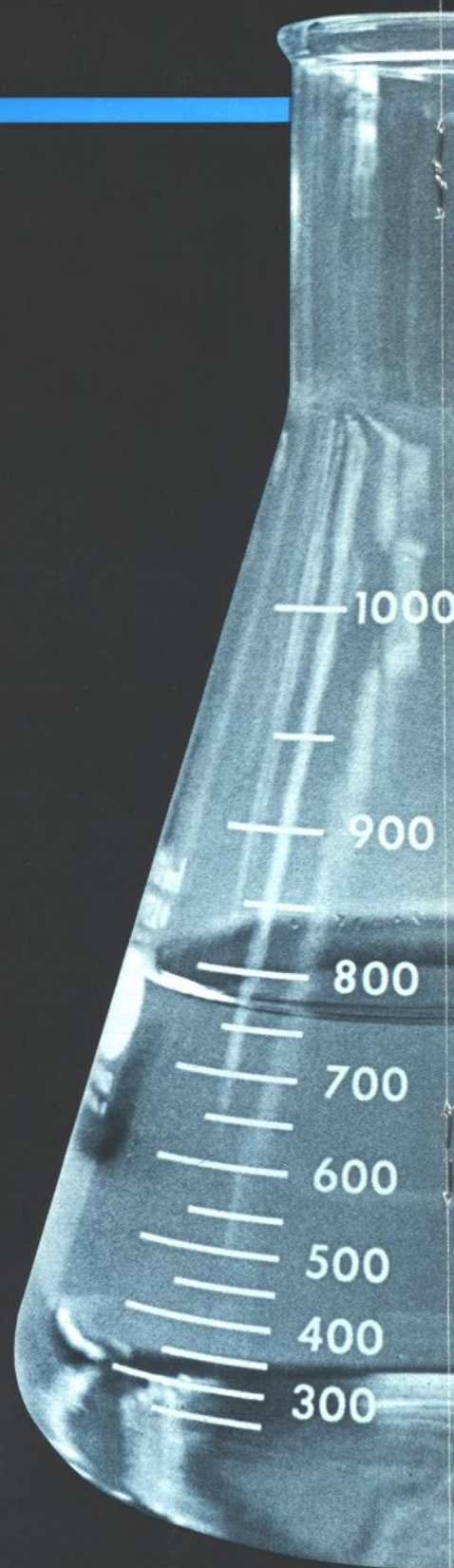
Fiscal 1986 provided a full-fledged test of the Authority's capability to cope with a major emergency as the most severe hurricane to reach the shores of Long Island in 12 years succeeded in virtually paralyzing Long Island for more than five days.

Hurricane Gloria, as it was named by the National Weather Service, knocked out power lines, felled thousands of trees and brought Long Island's transportation system to a virtual standstill.

The Authority, due to its engineering know-how and detailed emergency planning, emerged relatively unscarred from the experience, according to a report issued by Authority Executive Director Walter C. Hazlitt.

The report pointed out that, the Authority's ability to cope with the emergency was the direct result of steps taken over the years in equipping the water supply system with a well-planned, visionary standby power system that was capable of meeting the demands that the storm placed upon the system for a source of public water. Many of these standby Diesel-powered generators are equipped with automatic controls which turn them on when the normal electric power from the Long Island Lighting Company is interrupted, while others have to be turned on manually by Authority personnel. This standby power source operates the pumps which are used to tap Suffolk's underground water resources for the needed water supply.

Mr. Hazlitt pointed out in his report, "that all of the Authority's customers had a safe source of water throughout the entire Gloria emergency period and that Authority operations were maintained at full capability throughout the duration of the emergency."



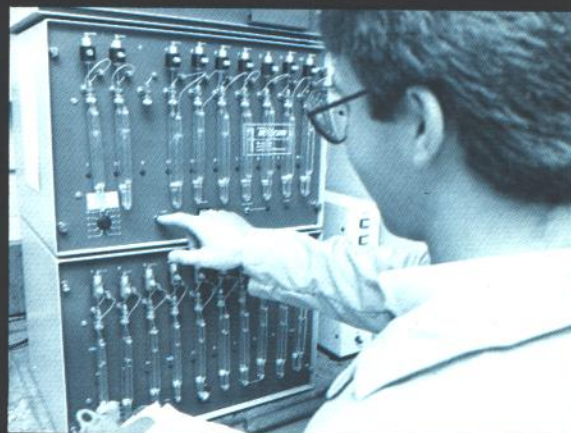
Meeting Stricter Quality Standards

Providing a palatable water supply which meets or surpasses drinking water standards established by State and Federal agencies has always been a major objective of the Suffolk County Water Authority. Meeting these standards is becoming more and more of a challenge as new testing equipment is developed and stricter standards are established by these agencies.

On November 13, 1985 the Federal Environmental Protection Agency published new National Primary Drinking Water Regulations which are expected to go into effect in early 1987. Meeting these new standards will cost the Water Authority more than \$7.5 million over the fiscal period following their adoption.

The new standards apply to the water supply industry as a whole, but will have more specific effects on those suppliers obtaining their water supply from ground water. To meet the standards the Authority will have to abandon two production wells, resulting in the loss of some 1,400 gallons of water per minute to its distribution system. Replacing these two wells will take approximately three years and cost the Authority more than \$600,000.

The new standards also call for increased corrosion control measures designed to reduce the corrosive quality of the water reaching the customer's faucet. The Authority has long been involved in corrosion control, but the new standards will require the Authority to expend some \$5 million to equip all of its 160 pump stations with more sophisticated corrosion control equipment. In addition, the Authority will have to construct a new larger laboratory to make it possible for the Authority to conduct the additional monitoring of its supply that the new standards will mandate. The Authority will also have to spend more than \$550,000 to equip and staff the new laboratory.



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 changes in financial position present fairly the financial position of Suffolk County Water Authority at May 31, 1986 and 1985, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse

Jericho, New York
July 30, 1986

Statement of Revenue and Revenue Invested in Facilities

	For the year ended	
	May 31,	
	1986	1985
Revenues:		
Operating	\$42,339,000	\$38,236,000
Interest	3,584,000	3,835,000
Total revenues	45,923,000	42,071,000
Operating expenses:		
Operations	22,871,000	21,571,000
Maintenance	5,040,000	4,355,000
Total operating expenses, except depreciation deducted below	27,911,000	25,926,000
Revenue before interest and depreciation (Note 4)	18,012,000	16,145,000
Deduct:		
Interest expense	8,638,000	7,414,000
Amortization of debt discount and expense	179,000	162,000
Depreciation	6,022,000	5,647,000
	14,839,000	13,223,000
Revenue invested in facilities:		
For the year	3,173,000	2,922,000
At beginning of year	82,899,000	79,977,000
At end of year	\$86,072,000	\$82,899,000

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



TESTING new wand type meter and meter reading device for use in reading meters located in meter vaults which are sometimes under water is Edward Riley, Meter Shop Supervisor. Meter and wand will eliminate the need to pump out water which collects in vaults.

Balance Sheet



Assets

	May 31,	
	1986	1985
Water Plant, at cost less accumulated depreciation (Note 2)	\$272,980,000	\$256,117,000
Funds held by Fiscal Agent:		
New construction fund	2,304,000	5,891,000
Debt service reserve fund (Note 4)	13,144,000	13,323,000
Bond proceeds fund		5,934,000
	15,448,000	25,148,000
Current Assets:		
Cash (including \$1,930,000 in 1986 and \$1,880,000 in 1985 in interest bearing accounts)	2,055,000	2,007,000
Bank certificates of deposit and repurchase agreements	25,400,000	20,730,000
Additional funds held by Fiscal Agent:		
General fund	100,000	100,000
Debt service fund, cash	7,047,000	6,516,000
Accounts receivable, less allowance for doubtful accounts of \$366,000 in 1986 and \$357,000 in 1985	3,328,000	2,840,000
Interest and other receivables	370,000	211,000
Accrued fire protection revenue	1,027,000	965,000
Materials and supplies, at average cost	1,931,000	1,614,000
Prepayments	1,475,000	473,000
Total current assets	42,733,000	35,456,000
Deferred charges:		
Unamortized debt discount and expense	3,045,000	3,206,000
Other	261,000	213,000
	3,306,000	3,419,000
	\$334,467,000	\$320,140,000

Capitalization and Liabilities

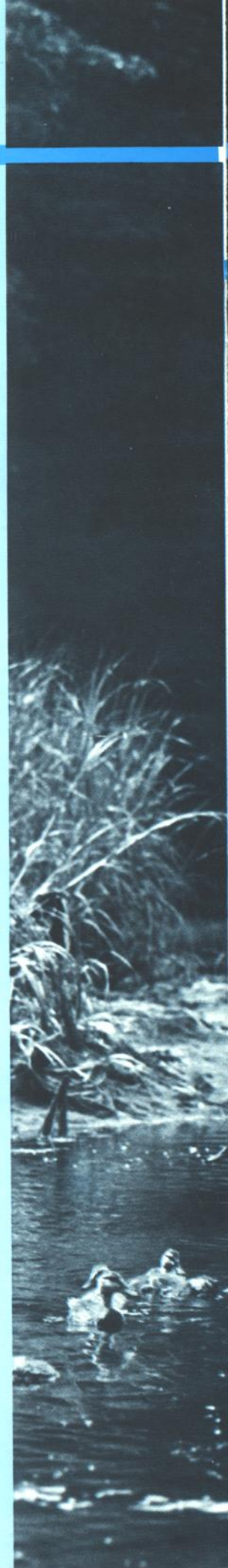
Capitalization:		
Water Works Revenue Bonds, less current portion (Note 3)	\$141,485,000	\$144,180,000
Contributions in aid of construction	67,532,000	61,318,000
Revenue invested in facilities	86,072,000	82,899,000
Total capitalization	295,089,000	288,397,000
Current liabilities:		
Current maturities of Water Works Revenue Bonds (Note 3)	2,695,000	2,380,000
Accounts payable	2,111,000	580,000
Accrued interest	4,399,000	4,178,000
Accrued retirement contributions	4,933,000	4,875,000
Other accrued liabilities	3,135,000	2,356,000
Customer deposits	3,427,000	3,303,000
Total current liabilities	20,700,000	17,672,000
Advances for construction	18,678,000	14,071,000
Commitments (Note 5)		
	\$334,467,000	\$320,140,000

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

Statement of Changes in Financial Position

	Year ended May 31,	
	1986	1985
Financial resources were provided by:		
Operations:		
Revenue invested in facilities	\$ 3,173,000	\$ 2,922,000
Add depreciation and amortization	6,201,000	5,809,000
Less capitalized interest	(170,000)	(283,000)
Working capital provided by operations	9,204,000	8,448,000
Net proceeds from sale of Water Works Revenue Bonds		17,360,000
Advances and contributions for construction, net of refunds of \$203,000 in 1986 and \$237,000 in 1985	10,821,000	7,550,000
Decrease in funds held by Fiscal Agent for new construction, debt service reserve and bond proceeds funds	9,700,000	
	<u>29,725,000</u>	<u>33,358,000</u>
Financial resources were used for:		
Additions to water plant, net of retirements	22,715,000	19,226,000
Current maturities and redemptions of Water Works Revenue Bonds	2,695,000	2,506,000
Increase in funds held by Fiscal Agent for new construction, debt service reserve and bond proceeds funds		8,498,000
Other	66,000	62,000
	<u>25,476,000</u>	<u>30,292,000</u>
Increase in working capital	<u>\$ 4,249,000</u>	<u>\$ 3,066,000</u>
Changes in Elements of Working Capital		
Increase (decrease) in current assets:		
Cash	\$ 48,000	\$ 1,244,000
Bank certificates of deposit and repurchase agreements	4,670,000	2,230,000
Additional funds held by Fiscal Agent	531,000	623,000
Accounts receivable	488,000	236,000
Interest and other receivables	159,000	(63,000)
Accrued fire protection revenue	62,000	8,000
Materials and supplies	317,000	(190,000)
Prepayments	1,002,000	234,000
	<u>7,277,000</u>	<u>4,322,000</u>
(Increase) decrease in current liabilities:		
Current maturities of Water Works Revenue Bonds	(315,000)	(54,000)
Accounts payable	(1,531,000)	113,000
Accrued interest	(221,000)	(506,000)
Accrued retirement contributions	(58,000)	(384,000)
Other accrued liabilities	(779,000)	(93,000)
Customer deposits	(124,000)	(332,000)
	<u>(3,028,000)</u>	<u>(1,256,000)</u>
Increase in working capital	<u>\$ 4,249,000</u>	<u>\$ 3,066,000</u>

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





Note 1 - Summary of Significant Accounting Policies:

■ The Suffolk County Water Authority is a public benefit corporation. Its accounts 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 Authority establishes rates for which it is not required to obtain approval from the PSC.

Water Plant

■ Water plant is carried at original cost, including the cost of purchased and contributed property. The capitalized cost of additions to water plant includes charges for indirect costs such as engineering, supervision, payroll taxes and pension benefits. The original cost of property replaced, retired or otherwise disposed of is deducted from plant accounts and, generally, 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 which is based on the average service lives and net salvage value of properties.

Funds Held by Fiscal Agent

■ The Authority's Resolution authorizing the bond issues requires that all revenue be deposited in the name of the Fiscal Agent and allocated to specific funds. Substantially all funds held by the Fiscal Agent are invested principally in certificate of deposits and other interest bearing accounts. All such investments mature within one year. A portion of this restricted cash represents monies received from the New Construction Fund held by the Fiscal Agent to be used solely for new construction. In addition, the Bond Proceeds Fund, Debt Service Reserve Fund and Debt Service Fund are similarly restricted.

Bank Certificates of Deposit and Repurchase Agreements

■ At May 31, 1986, the Authority has invested \$25,400,000 of its operating funds in certificates of deposit and repurchase agreements, with interest rates that range from 6.20% to 8.00%, that mature at various dates through November 1986. The Authority generally maintains such short-term investments through maturity.

Revenue

■ Billings for water service are generally rendered on a quarterly cycle basis except for fire protection revenues which are billed semi-annually in arrears on June 1 and December 1. The Authority accrues for unbilled fire protection service but all other revenues are recognized when billed.

Income Taxes

■ As a public benefit corporation, the Authority is exempt from Federal and State income taxes.

Bond Premiums or Discounts and Expenses

■ Premiums or discounts and expenses related to the issuance of long-term debt are amortized over the lives of the issues.

Retirement Contributions

■ The Authority makes annual contributions to the New York State Employees' Retirement System to provide retirement benefits for substantially all of its employees as determined by New York State. The total provision for pension costs amounted to \$2,097,000 and \$2,357,000, of which \$639,000 and \$661,000 were capitalized in water plant accounts, in 1986 and 1985, respectively.

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 cost of new main installations. Upon completion of construction, developers are either billed or refunded the differences between the advance and the actual cost. The resulting net completed cost is immediately transferred to Contributions in Aid of Construction. Other construction loan contracts are generally 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 (\$3,967,000 - 1986; \$1,286,000 - 1985).

■ Contributions in Aid of Construction also include 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. No interest is paid on such deposits.

■ During the 1985 and 1984 fiscal years, the Authority adopted resolutions to refund deposits received from residential customers prior to June 1, 1983 and June 1, 1982, respectively. Accordingly, \$150,000 was authorized to be refunded to customers under these resolutions in both 1986 and 1985. Actual refunds paid under these resolutions were \$78,900 and \$84,900, respectively.

Note 2 - Water Plant

	May 31,	
	1986	1985
Land and land rights	\$ 6,243,000	\$ 6,049,000
Wells, reservoirs and structures	54,320,000	48,070,000
Pumping and purification equipment	16,334,000	14,499,000
Distribution systems	227,860,000	214,594,000
Other	4,874,000	4,400,000
Water plant in service	309,631,000	287,612,000
Construction in progress	21,628,000	20,804,000
Water plant, at cost	331,259,000	308,416,000
Less - Accumulated depreciation	58,279,000	52,299,000
Net water plant	<u>\$272,980,000</u>	<u>\$256,117,000</u>

Note 3 - Water Works Revenue Bonds

Series	Interest Rate	Final Maturity Date	May 31,	
			1986	1985
A (Term) ..	2.75%	1985	\$ —	\$ 75,000
B-D	3.50%	1988	330,000	430,000
F	4.10-4.50%	1998	4,500,000	4,620,000
G	4.00-4.10%	2000	3,730,000	3,785,000
H	3.25-3.40%	2001	4,785,000	4,835,000
I	3.25-3.50%	2002	10,550,000	10,980,000
J	0.10-4.00%	2002	9,475,000	9,900,000
K	4.10-4.50%	2002	8,240,000	8,540,000
L	5.00-8.00%	2003	8,550,000	8,790,000
M	6.25-6.50%	2005	6,000,000	6,000,000
N	5.00-6.50%	2006	9,110,000	9,220,000
O	5.50-7.00%	2007	12,280,000	12,370,000
Q	5.75-7.25%	2008	11,825,000	11,945,000
R	5.50-7.00%	2010	15,050,000	15,120,000
S	7.875%	2010	6,000,000	6,000,000
T	9.10%	2011	15,890,000	15,950,000
U ..	7.80-12.00%	2012	17,865,000	18,000,000
Total bonds outstanding			144,180,000	146,560,000
Less: Current maturities and redemptions			2,695,000	2,380,000
			<u>\$141,485,000</u>	<u>\$144,180,000</u>

■ The Authority's debt consists principally of serial bonds which usually mature in increasing annual installments. The Series M bonds mature \$2,000,000 annually from 2003 to 2005. The Series S bonds mature annually in various amounts from 2008 to 2010. After certain dates, the serial bonds are redeemable in the inverse order of their maturity at varying prices in excess of principal amounts depending upon their redemption date. Bond maturities over the next five years are as follows:

Fiscal Year	Amount
1987	\$2,695,000
1988	2,825,000
1989	2,970,000
1990	2,995,000
1991	3,260,000
	<u>\$14,745,000</u>

Note 4 - Debt Service Requirements

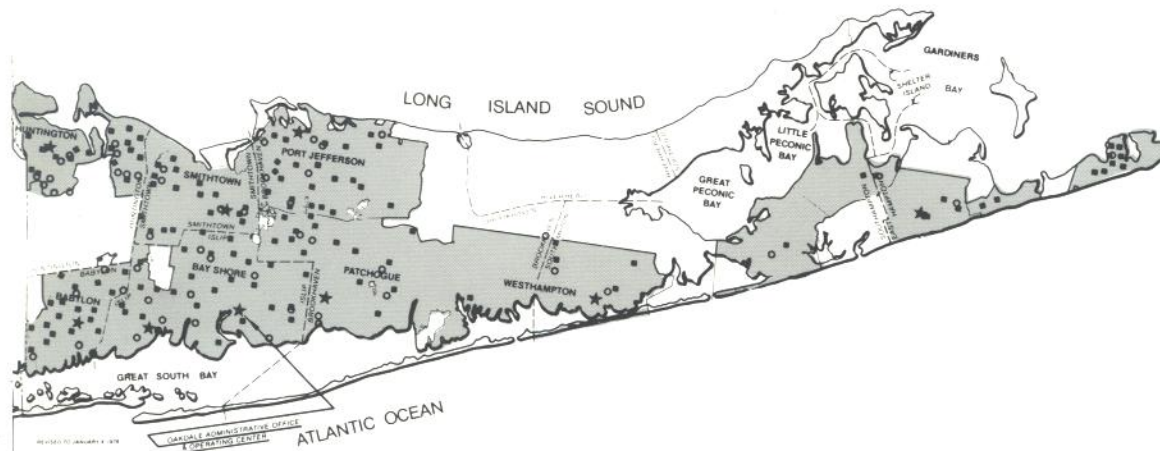
■ As prescribed in the Authority's Resolution, a minimum Debt Service Reserve Fund balance is to be maintained which is the greater of one and one-half years' interest on the outstanding bonds or the maximum annual future requirement for the payment of interest, serial bonds and Sinking Fund requirements. The required balance amounted to \$13,144,000 at May 31, 1986.

■ Debt service requirements for the payment of interest and principal on outstanding bonds at May 31, 1986 approximate \$11,500,000 in each of the next five years. Revenue before interest and depreciation was equivalent to 1.57 times (1.57 in 1985) the debt service requirement for the year ended May 31, 1986.

Note 5 - Commitments

■ The Authority authorized a capital improvement construction budget for the fiscal year ending May 31, 1987 of approximately \$20,700,000. A substantial portion of this amount has been committed at May 31, 1986.

Communities Served



■ SCWA SERVICE AREAS

■ WELL FIELD & PUMP STATIONS

★ COMMERCIAL OFFICES

○ STORAGE FACILITY

BABYLON DISTRICT

Amity Harbor
Amityville
Babylon
Copague
Deer Park
Dix Hills
Lindenhurst
North Amityville
North Babylon
North Lindenhurst
Pinelawn
West Babylon
Wheatley Heights
Wyandanch

BAY SHORE DISTRICT

Bay Shore
Brentwood
Brightwaters
Central Islip
East Islip
Edgewood
Great River
Islip
Islip Terrace
North Bay Shore
North Great River
Oakdale
West Bay Shore
West Islip

HUNTINGTON DISTRICT

Asharoken
Centerport
Cold Spring Harbor
Commack
Crab Meadow
East Huntington
East Neck
East Northport
Eatons Neck
Fort Salonga
Halesite
Huntington
Huntington Bay
Huntington Station
Lloyd Harbor
Northport

EAST HAMPTON DISTRICT

Amagansett
East Hampton
Freetown
Montauk
North Sea
Sag Harbor
Southampton

PATCHOGUE DISTRICT

Bayport
Bellport
Blue Point
Bohemia
Brookhaven
Coram
East Holbrook
East Patchogue
Farmingville
Gordon Heights
Holbrook
Holtsville
Lakeland
Lake Ronkonkoma
Mastic
Mastic Beach
Medford
North Bellport
North Patchogue
Patchogue
Ronkonkoma
Sayville
Selden
Shirley
South Centereach
South Holbrook
South Yaphank
West Bellport
West Ronkonkoma
West Sayville
Yaphank

PORT JEFFERSON DISTRICT

Belle Terre
Centereach
Coram
East Setauket
Lake Grove
Middle Island
Miller Place
Mount Sinai
North Centereach
North Selden
Poquott
Port Jefferson
Port Jefferson Station
Ridge
Rocky Point
Setauket
South Setauket
Sound Beach
South Stony Brook
Stony Brook*
Strong's Neck
Terryville

SMITHTOWN DISTRICT

East Commack
Flowerfield*
Hauppauge
Kings Park
Nesconset
Saint James*
San Remo*
Smithtown
South Hauppauge
West St. James
West Smithtown*
Village of Head of The Harbor
Village of The Branch

WESTHAMPTON DISTRICT

Center Moriches
East Moriches
Eastport
East Quogue
Moriches
South Manor
Quogue
Quogue
Westhampton
Westhampton Beach

* Included in Wholesale Water District



Suffolk County Water Authority

OAKDALE, LONG ISLAND, N.Y. 11769