

Suffolk County Water Authority



1993 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 over 40 years. Currently, the SCWA serves approximately 1.1 million Suffolk County residents. The Authority is operated solely for the benefit of the customers it serves.



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.

Left to Right: Matthew B. Kondenar; James
T.B. Tripp, Esq.; Michael A. LoGrande;
Eric J. Russo, Esq.; Melvin M. Fritz, D.O.M.D.



Chairman's Message

The Members of the Suffolk County Water Authority are pleased to present the annual report for the fiscal year 1992-1993. During this fiscal year, we can report that according to an American Water Works Association survey, the SCWA became the largest ground-water supplier in the country, serving over 1.1 million Suffolk County residents. However, far more important than being the largest groundwater purveyor is that we pride ourselves on running one of the finest water systems in the nation. Over the last 42 years, the Authority has unfailingly delivered a safe and constant supply of water to meet all of the needs of our customers. Although water standards and testing requirements have increased substantially over the years, we have managed to keep rates extremely reasonable. Through recessions, building slumps, and reduced revenue periods caused by extreme weather conditions, we have maintained a fiscally sound operation committed to supplying all our customers with an affordable and excellent quality supply of water.

Unifying System

In keeping with our mandate, the Authority continues to make progress in unifying the public water supply system in Suffolk County.

On May 5, 1993, the Authority successfully completed the purchase of the Shorewood Water Company, adding 5,300 new customers to the SCWA system. We have been able to upgrade that system to meet our standards and significantly reduce rates some 35-40% for the residents of the Shoreham, Lake Panamoka, Wading River and Ridge communities without impacting water rates for the rest of the Authority's customers. A separate 10-year rate structure was adopted at the end of which time, these customers will pay the same rates as all other Water Authority customers.

Also, on June 25, 1993, the Authority acquired the Culross Corporation, a small water delivery system serving 52 homes in Rocky Point.

Customers of the commonly-owned Swan Lake and Sunhill Water Companies, servicing the areas of East Patchogue and Selden respectively, continue to express grievances against their companies. As a public benefit corporation, we have attempted to institute condemnation proceedings against Swan Lake and Sunhill and we are awaiting a decision by the New York State Appellate Division regarding a technical objection raised by these companies.

In 1992, the Sunhill Water Company applied to the Public Service Commission for a 94% rate increase primarily due to water quality problems requiring a large capital investment in water treatment. In order to help Sunhill customers avoid such a sizeable and onerous rate increase, the Authority offered to allow Sunhill to connect to the SCWA system and obtain water at a wholesale rate. An agreement was reached and the proposed rate increase was reduced to 17%, thereby affording a substantial savings for Sunhill customers.

In behalf of the customers of Swan Lake and Sunhill Water Companies, the Authority continues to pursue a negotiated purchase of these water companies, as well as the condemnation course of action. We remain committed to bringing about a fair and equitable resolution of this matter for all concerned parties.

Despite the continued building slump on Long Island, the SCWA installed 61 miles of water mains this year, primarily due to established homes and businesses connecting to the public water supply system. A number of large main extensions took place in the Brookhaven Township. One of the largest of these was in Mastic, where 15,000 feet of water main has been constructed

Management

Staff

Michael A. LoGrande
Chairman / Chief Executive Officer

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

William C. Arabio
Director of Information Services

Nicolo DiBartolo
Director of Finance

Patrick J. Dugan
Director of Laboratory Services

Robert G. Graven
*Executive Director of
Customer Service*

Ralph H. Gunther
Assistant Chief Engineer

James A. Hartnett
Director of General Services

Laura J. Mansi
Director of Public Relations

Robert L. Murray
Director of Production Control

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

Donald Slotnick
Director of Distribution

Michael Stevenson
Director of Human Services

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 Ground-Water Geologists

and 200 residences were connected to the system. This project, like so many others, was a cooperative effort between the SCWA and various agencies of government, each making a contribution to bring public water to families in need of a quality supply.

Reorganization

It is very important for a service organization to take a look at itself periodically to make certain that its structure and the individual functions performed within it truly serve all the needs of its customers first and foremost. This year was an ideal time for review and change due to numerous retirements realized through early retirement incentives initiated by the state. The basic structure of the Authority has stayed relatively the same since its inception in 1951. However, the Authority has grown tremendously in these four decades and is currently serving nearly 80% of the population in Suffolk County. In addition, the water industry has become much more complex and technologized and the concerns and needs of water consumers have changed and increased. Therefore, with improved customer service as the focal point, a reorganization plan was developed and implemented over the last year. We believe the new structure will better facilitate the needs of our customers and better prepare us for the approaching 21st century.

To supplement the reorganization and ensure the success of its objective, improved customer service, a series of management seminars have been carried out throughout the year designed to redirect the Authority to function as a sensitive customer service company. The Authority's top management has been given assigned reading of the latest publications on modern management techniques designed to improve customer service. In the next year middle management

and field supervisors will receive stepped up training to achieve superior customer relations.

Consolidation of Facilities

Over the last several years, in an effort to eliminate leased space, the Authority has purchased properties and buildings at recession prices enabling a consolidation and modernization of our facilities. The consolidation has secured greater efficiency and improved employee morale and most of all, improved service to the customer. A part of that effort includes simplifying procedures to enable our customers to more easily transact business over the telephone, lessening the necessity for office visits where possible. At the same time, we will be extending business hours to 8:00 in the evening to accommodate those who work and find it necessary to make direct contact at the district office level.

Our new Western Regional Office located in Hauppauge, opened in the spring of 1993, consolidating the Babylon, Bay Shore, Huntington and Smithtown District Offices into one centralized facility for the western region of Suffolk County. The consolidation has allowed for a delineation of responsibilities among managers and staff, thereby providing better customer service and greater efficiency in all aspects of district office operations.

This new office will also house the Authority's new laboratory, currently under construction. This state-of-the-art drinking water testing facility will be the largest of its kind in the Northeast and will also serve as the centerpiece of the Authority's educational efforts.

The new Western Regional Office was formally dedicated to Matthew Kondenar who has served as a Member of the Board since 1966. His 27 years of dedicated service to the Authority has earned him the respect of all who have served with him, as well as the employees of

New Western Regional Office located in Hauppauge. Building dedicated to Board Member, Matthew Kondenar (inset).



the Authority, who benefit from his extensive knowledge of the water industry and his personal interest in their responsibilities at the Authority.

Improvements to System

The Bridgehampton Water Company was acquired in the summer of 1992 and major improvements interconnecting the two systems were made this year. In all, three miles of mains were constructed to make connections from Southampton and Sag Harbor to Bridgehampton. As a result, we have improved the integrity and reliability of both systems. In addition, the tie-ins eliminated the need to construct an elevated storage tank in Bridgehampton, saving the SCWA over \$1,000,000.

A concentrated effort was launched this year to change zone boundaries in lower pressure areas in the system in order to provide better pressure to the customers of these areas. Making these on-going changes has been facilitated through the SCWA's computer based Advanced Pipeline Modeling and Simulation Program using the Stoner Model acquired in 1991. The entire database will be completed in 1995, allowing for many other kinds of improvements as necessary to the water system.

The Town of Southold, located on the North Fork of Eastern Long Island, has a limited amount of water resources and most people are supplied with water from their own private wells. However, a number of these wells are increasingly showing quality problems from varying contaminants. Therefore, at the invitation of the Town, the SCWA commenced a pilot program to bring public water to a portion of Laurel where there have been documented cases of contamination over the past decade. Thus far, 3,000 feet of water main have been constructed and residents of the area continue to connect to the system.

In addition, we acquired 92 acres in Laurel, 7 acres in Cutchogue and 2 acres in Peconic, as potential sites for supply wells and pumping facilities to service the future needs of Southold.

In order to eliminate the manual recording of data associated with meter reading, the Authority has begun implementing the Itron System, a meter reading data capture system. The pilot phase of the program began last year in Bay Shore and has been expanded to our Westhampton Beach District Office, an area particularly conducive to applying this technology. Using a hand-held computer, meter readings are captured or recorded, depending on the meter, then returned to the

office where the information is automatically transferred by computer line to the main frame. Not only will this program eliminate manual recording of data and the time and paper associated with it, but it will allow the speedy transfer of more accurate information for expeditious billing purposes. It will save substantial time and money. Implementation of the program for the entire SCWA service territory should be completed within the next two years.

Refinancings

During fiscal year 1993, the Authority issued \$208,635,000 of certain bonds for the purpose of refunding a portion of previously issued bonds to take advantage of recently decreasing long term interest rates. The Authority's continuing growth through private well conversions, new home construction and acquisition programs requires a constant source of construction funds. While some of these funds are provided from regular operations, the balance must be borrowed. The Authority, however, monitors financial requirements constantly to maintain the lowest possible debt service cost. The refundings of \$208,635,000 are an integral part of this process and in this fiscal year, the Authority was able to reduce its' debt service costs in excess of \$4,000,000.

Statistical Highlights 1984-1993

	For Fiscal Year Ended May 31 1993	1984	10-Year Growth	Percent Increase
Customers	308,352	250,544	57,808	23%
Population Served	1,112,832	826,000	286,832	35%
Miles of Main	4,564	3,645	919	25%
Fire Hydrants	28,181	23,474	4,707	20%
Water Pumped (billion gallons)	46.5	42.2	4.3	10%
Employees	586	440	146	33%

Financial Highlights 1984-1993

Gross Revenues	\$ 72,577,000	\$ 43,479,000	\$ 29,098,000	67%
Operating and Maintenance Expense, Except Depreciation	46,330,000	23,967,000	22,363,000	93%
Water Plant at Cost	593,436,000	289,210,000	304,226,000	105%
Bonded Indebtedness	274,325,000	131,009,000	143,316,000	109%
Total Earnings in the Business at the Close of Period	\$133,349,000	\$79,977,000	\$53,372,000	67%

Water Quality Improvements

The Authority is about to launch two pilot programs, both firsts for the Authority, which deal with the inorganic compound, nitrate, which we are finding in higher amounts generally on Long Island, and iron, a natural constituent of the water in some parts of the County. There are currently several well sites where the level of nitrates is slowly increasing, although none of these wells exceed New York State's stringent water standard for this inorganic compound. Nitrates in water is usually associated with fertilizers and some organic wastes.

In anticipation of potentially exceeding the standard in the near future requiring shut-down of wells important to the system and the trend we are seeing for higher nitrates generally on Long Island, the Authority will construct a "pilot" denitrification plant in Fort Salonga within the year. The site selected, the Middleville Road Pump Station, is an important well field where the well capacity is needed and the levels of nitrates are approaching the limit. We will be utilizing a proven technology recommended by the Suffolk County Department of Health Services. This plant will serve

as a model for any future plants that may be needed. The equipment will be below grade and as unobtrusive as possible to the host community, resembling the small pump station buildings currently at our sites.

Iron in water, often referred to as rusty or brown water, continues to be the subject of complaint from our customers in some areas of the County where iron is a natural component of the water. While iron in drinking water has not been deemed a health hazard by the regulators, it presents other problems and inconveniences to the water consumer. It is unappealing aesthetically and stains clothing and plumbing fixtures. The Authority has employed a number of strategies to mitigate the problem from the use of sequestering agents (to hold the iron in solution) to a systematic flushing program, which has been somewhat successful in some areas.

Heretofore, the technology to remove iron in drinking water, which required large tracts of land, was relatively new, unproven and extremely cost prohibitive. However, more recently,

the technology and the costs associated with it have improved significantly. Therefore in 1994, the Authority will construct its first iron removal plant at the Harvest Lane Pump Station in West Islip. The location of this site is ideal because it is somewhat set apart from neighboring SCWA wells making monitoring of the reduction in iron easier to determine.

Based on the experimental results of this plant and the construction costs incurred, the Authority will evaluate this project and will make a decision on proceeding with similar projects where iron is a source of inconvenience to our customers.

Legislative Watch

Like many businesses today, we realize that it is important to keep abreast of governmental legislative agendas that pertain to one's industry. In fact, it would be a serious omission of responsibility to one's customers to do otherwise. The SCWA, of course, is supportive of legislation and programs that effectively and necessarily ensure the best quality water for all public consumers. We have demonstrated that support on a continual basis.

However, we also have the responsibility to protect our ratepayers from insupportable legislation which threatens to increase costs to the water consumer absent any corresponding benefits. Additionally, we have a responsibility to recognize and expose legislative initiatives that would instate "hidden taxes" on the water consumer through the public water supplier. It is a trend we have been seeing in recent years, coming from a variety of governmental agencies at various levels of government. Heretofore, the policy of not taxing the basic essentials of life was inviolate and we believe it should remain so. To begin taxing water would set a dangerous precedent with serious consequences for all our citizens.

In response to a 1993 state proposal to impose a so-called "fee" on all public water suppliers, the SCWA launched a campaign to alert the appropriate state officials and our customers about this proposed "hidden tax," on drinking water. Information was disseminated through bill inserts and press releases. In addition, our billing envelopes contained the message, printed in red, "Water Is Essential To Life — Don't Let Them Tax It." Once it was clearly understood that the proposed fee was a precedent-setting tax on drinking water, Governor Mario Cuomo withdrew the proposal. The Governor responsibly noted that water suppliers should not be viewed as additional sources of revenue for government needs during poor economic times. In behalf of our customers, we thanked Governor Cuomo for his decisive action in recognition that drinking water should not be taxed.

The SCWA's Cross Connection Control Program was reviewed and modified this year to address a number of criticisms we had received about certain requirements

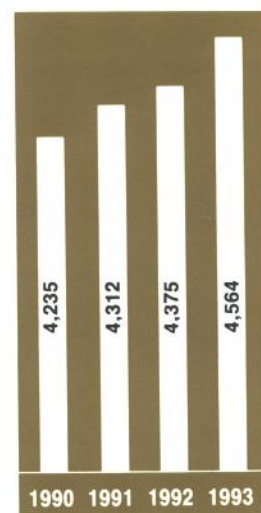
of the program and how those requirements were enforced. The program was established in 1979 to meet the legal requisites of the New York State Sanitary Code which seeks to prevent potential sources of contamination from cross-connecting or back-flowing into the public water supply system. Back-flow can occur when there is a sudden drop in water pressure, due for example, from firefighting efforts. It is a beneficial and necessary law and the Authority has sought to comply to the fullest extent of the law. However, after a review of the law by the SCWA and a clarification of the law by the N.Y.S. Department of Health, it was determined that several components of our program were not mandated but rather, left to the discretion of the water supplier. Therefore, after careful review, the Authority will no longer require the installation and annual inspection of backflow devices for double-walled solar panels, residential swimming pools and certain inground sprinkling systems. The negligible risk, in those instances, do not justify the onerous cost of prevention to the customer potentially in excess of one hundred million dollars.

While we have relaxed these requirements, which unduly placed the burden of responsibility on the customer, the Authority will take steps to modify our own system which will ensure that hazardous backflow will not enter the public water supply. We will be installing dual check valves on every residential service which will effectively protect the system. This is the surest and most equitable way of dealing with this potential hazard.

Reaching Consensus — Central Pine Barrens Plan

The question of how best to protect and preserve the central pine barrens while considering the concerns of property owners and development interests in this region has been a burning issue in Suffolk County for well over a decade. In October of 1992, the N.Y.S. Court of Appeals, which recognized the intrinsic ecological and hydrogeological significance of this region, issued

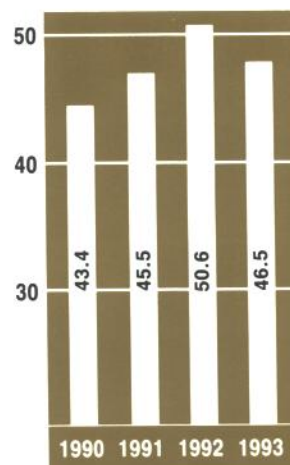
MILES OF MAIN



FIRE HYDRANTS IN SERVICE



WATER PUMPAGE (Billion Gallons)





SCWA purchased land in Laurel for future water production purposes.



Iron removal facility in Lake Katrine — Ulster, N.Y. — visited by SCWA staff.



New liquid sodium hypochlorite (chlorine) bulk storage facility in Westhampton Beach.

a decision calling for "centralized planning" by a single regional entity responsible for setting deadlines and the ability to act promptly. This was in keeping with prior state mandates.

In an effort to spur a concerted effort towards this end, a Long Island Water Summit and a Pine Barrens Symposium, funded in part by the SCWA, were held. These and other attempts to bring the interested parties together set the stage for the serious discussion necessary to meet the intent of the law. Between April and July of 1993, the Authority hosted weekly meetings for a panel composed of representatives from the state, county and the three townships in which this region lies, as well as environmental and civic organizations, the business sector and developers. The Water Authority provided the technical support needed for the effort.

The Authority's staff skillfully worked to reach a consensus among divergent views, draft legislation creating the planning entity, and a framework within which it would operate with definitive time frames. All of the objectives were met, within a four month period, to the credit of this ad hoc committee who displayed tremendous commitment and dedication to a monumental task.

The legislation developed by this committee was adopted by the N.Y.S. Legislature and signed into law by the Governor on July 14, 1993. The Water Authority's interests were protected in the legislation which preserves a large watershed region accessible for public water supply use. This planning initiative to protect and preserve the central pine barrens of Suffolk County was an historic event matching similar successful initiatives undertaken in New Jersey and Cape Cod, Massachusetts. We are very gratified that the Authority was able to serve the people of the County by acting as a catalyst for progress in this significant environmental issue.

Educational Efforts

Education is perhaps the most important function of the public groundwater supplier today. We fully realize that the best way to protect the integrity of the water source and avoid the high cost of remediation is by educating every sector of the community as to what they can do to prevent the degradation of their water supply. It is also important to dispel myths and misinformation that may cause unfounded fears and anxiety concerning the quality of the public water supply. Public water consumers need to know, that in any event, the water they receive at their taps meets all water quality standards and indeed, often exceeds them. However, to do that and keep costs affordable, their understanding and cooperation are invaluable.

An important component of our public education program is our "Source Reduction Program," formed in 1987. This educational service provides technical pollution prevention information and assistance to business and industry in Suffolk County. The primary objectives are to reduce the quantity and toxicity of wastes generated by business and industry without causing economic hardship. Through this program, we have been able to show that good pollution prevention measures and lowering costs are not mutually exclusive.

One of the workshops we sponsored this year was for metal spray painting operations. This one-day workshop entitled, "Waste Minimization Opportunities For Metal Spray Painting Operations" was funded through a U.S. Environmental Protection Agency grant. The objective was to provide direct educational and technical assistance to those industries involved in metal spray painting to help them prevent pollution, reduce waste, lower disposal costs, maximize worker safety and decrease liability. The workshop was well-attended and well-received. Our hope is that the information shared at these kinds of workshops

and other forums will be translated into actions that will prevent degradation of the water source and decrease the need and expense of remediation.

Breast cancer is a subject of serious concern on Long Island as it is in many places in the country. A number of citizen groups and agencies, including the SCWA, are working cooperatively by sharing information and ideas to aid in the study of this disease.

Unfortunately, breast cancer, as with many other forms of cancer, has no single identifiable cause, leaving the field wide open to speculation on probable causes. While a great deal of public awareness has served to provide early detection, some individuals could not pass up the opportunity to sensationalize or even capitalize on the understandable fear among women in our County.

Therefore, as the largest groundwater supplier on Long Island, we felt we had a special obligation to communicate with the public to allay any unnecessary or unwarranted fears related to the public drinking water supply. A full page ad in Newsday sought to make it very clear that there is absolutely no evidence whatsoever from any qualified and respected health and/or research agency linking Long Island's public drinking water to breast cancer. Indeed, New York State has the strictest and most comprehensive water purity standards in the nation. The public supplier must meet those standards and as is the case with the Water Authority, more often than not, we exceed the most stringent standards. This message was well-received by a grateful public and the Authority will continue to communicate, as we did in this instance, to assure the public that we will continue to surpass the highest water quality standards for our customers, as well as our own families and loved ones.



Sanding of Station Road Water Tank in Bellport (Containment structure totally encloses tank to prevent dust particles from being emitted into atmosphere).



Portable drilling rig used to install replacement well at Washington Street Wellfield in the Village of Northport.



Dismantling old and obsolete water tank on Waterworks Road in Patchogue.

Public education efforts are continual. Billing inserts, annual water supply statements, tours of our facilities, contests with water conservation and protection themes for school children, the Source Reduction Program and seminars and workshops, etc., all serve as a means of conveying information to the public. We believe that expending efforts to inform our

customers is the best way to sustain the public's confidence as well as to maintain the integrity of the water source.

We have much to be proud of at the Suffolk County Water Authority, but our single greatest asset is our employees. At the end of the fiscal year the Authority had 586 full time employees and the Board Members and I want to thank them all for the important accomplishments achieved during the year. We look

forward to the future with renewed enthusiasm and commitment to providing the best quality water and service to our customers at the most reasonable price possible.

Sincerely,

Michael A. LoGrande

MICHAEL A. LoGRANDE
Chairman / Chief Executive Officer

Plant Facilities 1992-1993

Service Areas of Plants	WELLS				Pumping Plants				Storage Facilities				Active Services	
	Active	Inactive	No.	Capacity - 1,000 Gallons Daily*	No.	1,000 Gallons	No.	1,000 Gallons	No.	1,000 Gallons	No.	1,000 Gallons		
BABYLON	48	46	3	0	19	19	80,928	80,928	7	7	7,220	7,220	56,088	56,080
BAY SHORE	48	48	12	9	21	21	91,872	91,872	7	7	6,012	6,012	50,389	50,433
PATCHOGUE	71	71	5	5	29	29	115,776	115,776	12	11	12,465	12,230	62,009	62,402
HUNTINGTON	54	54	2	2	22	22	67,104	67,104	11	11	11,842	11,842	30,743	30,716
PT. JEFFERSON	68	72	5	4	30	33	112,464	116,064	8	9	7,854	8,854	41,419	47,173
SMITHTOWN	45	45	3	3	20	20	83,520	83,520	6	6	6,100	6,100	25,598	25,611
WESTHAMPTON	34	35	0	0	14	14	28,800	29,808	4	4	4,050	4,050	20,887	22,220
EAST HAMPTON	33	33	4	3	19	19	26,280	26,388	5	5	5,720	5,720	12,416	13,717
TOTALS	401	404	34	26	174	177	606,744	611,460	60	60	61,263	62,028	299,549	308,352

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

AS OF MAY 31, 1992 ☐

AS OF MAY 31, 1993 ☐

Highlights 1992-1993

	May 31	
	1993	1992
Total Revenues	\$ 72,577,000	\$ 74,506,000
Operating and Maintenance Expense except depreciation	46,330,000	46,577,000
Interest on Bonds and Notes; including amortization of debt discount and expense	12,624,000	13,158,000
Depreciation	10,199,000	9,747,000
Revenues Invested in Facilities for the year	(17,255,000)	5,024,000
Revenues Invested in Facilities (since June 1, 1951)	133,349,000	150,604,000
Total Water Plant at Cost	593,436,000	549,719,000
Net Additions to Water Plant	43,717,000	32,971,000
Customers (Active Services)	308,352	299,549
Miles of Main in Service	4,564	4,375
Fire Hydrants in Service	28,181	27,216
Water Production (Billion Gallons)	46.5	50.6

Report of Independent Accountants

Price Waterhouse

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, 1993 and 1992 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

Jericho, New York
August 18, 1993

Statement of Revenue And Revenue Invested in Facilities

(Amounts in Thousands)

	For the year ended May 31,	
	1993	1992
Revenues:		
Operating	\$ 69,729	\$ 72,228
Interest and other	2,848	2,278
Total revenues	72,577	74,506
Operating Expenses:		
Operations	36,220	35,043
Maintenance	10,110	11,534
Total operating expenses	46,330	46,577
Revenue before depreciation, amortization, interest, and extraordinary loss	26,247	27,929
Deduct:		
Interest expense, net	12,225	12,829
Amortization of debt discount and issue costs	399	329
Depreciation	10,199	9,747
	22,823	22,905
Revenue before extraordinary loss	3,424	5,024
Extraordinary loss (Note 3)	20,679	
Revenue invested in facilities	(17,255)	5,024
At beginning of year	150,604	145,580
At end of year	\$ 133,349	\$ 150,604

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

Balance Sheet

(Amounts in Thousands)

	May 31,	
	1993	1992
ASSETS		
Water plant, at cost less accumulated depreciation (Note 2)	\$ 482,810	\$ 447,794
Construction fund	21,445	3,800
Current Assets:		
Cash (including \$2,394 in 1993 and \$443 in 1992 in interest bearing accounts)	4,779	2,688
Short-term investments	26,642	18,716
Bond fund held by fiscal agent	16,467	10,879
Accounts receivable, less allowance for doubtful accounts of \$392 in 1993 and \$212 in 1992	4,051	4,537
Interest and other receivables	1,314	355
Accrued water service and fire protection revenues	10,546	9,637
Materials and supplies, at average cost	5,253	4,228
Prepayments and other current assets	599	583
Total Current Assets	69,651	51,623
Long term investments	5,298	2,999
Unamortized debt discount and issue costs	11,339	4,621
Other (Notes 1,7)	9,796	2,686
	26,433	10,306
	\$ 600,339	\$ 513,523

CAPITALIZATION AND LIABILITIES

Capitalization:		
Water System Revenue Bonds, less current portion (Note 3)	\$ 269,065	\$ 196,085
Contributions in aid of construction	134,438	125,600
Revenue invested in facilities	133,349	150,604
Notes payable (Note 5)	3,964	
Total Capitalization	540,816	472,289
Current Liabilities:		
Current maturities of Water System Revenue Bonds (Note 3)	5,260	3,880
Notes payable (Note 5)	18,097	
Accounts payable	4,695	3,346
Accrued interest	6,409	7,000
Accrued retirement contributions (Note 6)	1,139	895
Other accrued liabilities (Note 7)	7,388	6,391
Customer deposits	6,696	6,159
Total Current Liabilities	49,684	27,671
Advances for construction	9,839	13,563
Commitments and Contingencies (Note 9)		
	\$ 600,339	\$ 513,523

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

Statement of Cash Flows

(Amounts in Thousands)

	For the year ended May 31,	
	1993	1992
Cash Flows from Operating Activities:		
Revenue invested in facilities	\$ (17,255)	\$ 5,024
Adjustments to reconcile revenue invested in facilities to net cash provided by operations:		
Extraordinary loss	20,679	
Depreciation and amortization	10,598	10,076
Capitalized interest	12	(1,154)
(Increase) in bond fund held by fiscal agent	(5,588)	(680)
Decrease (increase) in accounts receivable	486	(15)
(Increase) decrease in interest and other receivables	(273)	891
(Increase) decrease in accrued water service and fire protection revenues	(909)	491
(Increase) in materials and supplies and prepayments	(1,041)	(177)
Increase in accounts payable	508	388
(Decrease) increase in accrued interest	(591)	599
Increase in accrued retirement contributions	244	294
Increase (decrease) in other accrued liabilities	997	(273)
Increase in customer deposits	537	9
Net cash provided by operating activities	8,404	15,473
Cash Flows from Investing Activities:		
Additions to water plant, net of retirements	(34,664)	(32,809)
Cost of business, net of cash acquired	(11,681)	
Long term investment	(2,299)	(2,999)
Other	(1,076)	(582)
Net cash used in investing activities	(49,720)	(36,390)
Cash Flows from Financing Activities:		
Net proceeds from issuance of Water System Revenue Bonds	236,856	
Cost of U.S. Government Securities deposited in escrow trust fund for payment of Refunded Bonds	(186,412)	
Proceeds from issuance of notes payable	17,300	
Repayment of current maturities of Water System Revenue Bonds	(3,880)	(3,665)
Advances for construction, net of refunds	5,114	3,446
(Increase) decrease in construction fund	(17,645)	(28,700)
Net cash provided by financing activities	51,333	28,481
Net increase in cash and cash equivalents	10,017	7,564
Cash and cash equivalents at beginning of year	21,404	13,840
Cash and cash equivalents at end of year	\$ 31,421	\$ 21,404

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

Notes to Financial Statements

MAY 31, 1993 and 1992

(Amounts in Thousands)

Note 1 - Summary of Significant Accounting Policies:

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

Acquisition

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

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

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

Statement of Cash Flows

For purposes of the Statement of Cash Flows, short-term investments which have an original maturity of ninety days or less are considered cash equivalents. Interest paid, net of amounts capitalized, was \$12,816 and \$12,230 during fiscal 1993 and 1992, respectively.

Water Plant

Water plant is carried at original cost, including the cost of purchased and contributed property. The capitalized cost of additions to water plant includes charges for indirect 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, 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 of 2.14% which is based on the average service lives and net salvage values of properties.

Funds Held by Fiscal Agent

The 1988 General Bond Resolution, as amended, (the "Resolution") requires that a debt service reserve fund (see 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, as of May 31, 1993 and May 31, 1992.

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, 1993, the Authority has invested \$13,575 of its construction, operating and general funds in certificates of deposit with interest rates that range from 2.85% to 3.05% and which mature at various dates through August 4, 1993. Additionally, the Authority has invested \$19,069, \$17,741 and \$2,999 in Treasury Notes, repurchase agreements and bonds, respectively. It is the Authority's intent to hold such investments until 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 30 and December 31. The Authority accrues for unbilled water revenues and fire protection service.

Income Taxes

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

Bond Premiums or Discounts and Issue Costs

Premiums or discounts and issue costs related to the issuance of long-term debt are amortized on a straight line basis over the lives of the respective issues.

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 (\$5,812 - 1993; \$5,525 - 1992;).

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

Customer Deposits

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

Note 2 - Water Plant

May 31,		
	1993	1992
Land and land rights	\$ 9,374	\$ 8,354
Distribution systems	392,457	369,131
Wells, reservoirs and structures	78,637	70,503
Pumping and purification equipment	25,992	23,387
Other	21,435	18,700
Water plant in service . . .	527,895	490,075
Less - Accumulated depreciation	110,626	101,925
Net water plant in service	417,269	388,150
Construction in progress . .	65,541	59,644
Water plant	\$ 482,810	\$ 447,794

Note 3 - Water System Revenue Bonds

On July 15, 1992, the Authority issued \$40,000 of Series 1992A Water System Revenue Bonds. The Series 1992A Bonds were issued for the purpose of financing the cost of improvements to the Authority's Water System.

During 1993, the Authority issued \$208,635 of certain bonds for the purpose of refunding a portion of its Series 1988 Bonds, Series 1989 Bonds, Series 1990 Bonds, Series 1991 Bonds and Series 1992A Bonds, (referred to as the "Refunded Bonds") as follows:

Date	Series	Amount
July 15, 1992	Series 1992B	\$ 58,085
September 15, 1992	Series 1992C	52,000
March 15, 1993	Series 1993 Senior Lien Bonds	70,135
March 15, 1993	Series 1993 Subordinate Lien Bonds	28,415
		\$ 208,635

The net proceeds from the Series 1992B and 1992C and Series 1993 Bonds were deposited with an escrow agent pursuant to an escrow agreement, and invested in U.S. Government Securities. The maturities of these securities and related earnings thereon are expected to provide sufficient cash flow to meet the debt service requirements of the Refunded Bonds. These refunding transactions effectively released the Authority from its obligation to repay the Refunded Bonds and constituted a defeasance in substance.

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

Cost of U.S. Government Securities deposited in escrow trust funds	\$ 186,412
Carrying amount of Refunded Bonds, including current maturities and net of unamortized discount	165,733
Net extraordinary loss	\$ 20,679

Outstanding bonds are summarized as follows:

May 31,				
Series	Interest Rate	Final Maturity Date	1993	1992
1988	6.50-7.375%	2010	\$ 41,585	\$130,640
1989	6.05-7.00 %	2001	2,340	9,825
1990	5.90-7.125%	2015		29,500
1991	5.2 -7.0 %	2016		30,000
1992 A&B	5.10-5.625%	2017	83,020	
1992 C	4.50-6.00 %	2017	48,830	
1993	4.8 -5.10 %	2013	98,550	
Total bonds outstanding			274,325	199,965
Less: Current maturities and redemptions			5,260	3,880
			\$269,065	\$196,085

The payment of principal and interest of the Series 1988 to 1993 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 (see Note 4).

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

Fiscal Year	Amount
1993	\$ 5,260
1994	6,150
1995	6,560
1996	7,460
1997	7,880

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 1988-1993 Bonds or the average of the annual installments of debt service with respect to all Series 1988-1993 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 1988-1993 Bonds for the payment of principal and interest on stated maturity and sinking fund installment dates in the event of default by the Authority.

Average debt service requirements for the payment of interest and principal on outstanding bonds at May 31, 1993 approximate \$21,191 in each of the next five years. Revenue before interest and depreciation was equivalent to 1.54 times (1.58 in 1992) the debt service requirement for the year ended May 31, 1993 (1.67 excluding the Subordinate Lien Bonds at May 31, 1993).

Note 5 - Notes Payable

On December 2, 1992, the Authority issued \$15,000 of its Bond Anticipation Notes, 1992 ("Notes") to provide capital for the cost of improvements and additions to the Authority's Water System. The Notes bear interest at 3.25% with principal and interest payable on December 2, 1993.

In connection with the acquisition of Shorewood described in Note 1, the Authority assumed bonds payable of \$4,761 bearing interest at 6.25-9.125%, of which \$3,097 was paid in June 1993 and included in current notes payable at May 31, 1993; \$1,664 is payable annually through November 1, 2007 and included in long term notes payable at May 31, 1993.

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

Note 6 - Pension Plan

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

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

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

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

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

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

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

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

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

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

Pension expense recorded in the Authority's accounts was zero for the years ended May 31, 1993 and May 31, 1992. The zero balance in pension expense is the result of a change in the actuarial method utilized by New York State in determining the contributions to be made to the Retirement System.

Note 7 - Deferred Compensation

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 \$2,330 and \$1,720 at May 31, 1993 and May 31, 1992, 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 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, 1993 of approximately \$58,098.

The Authority is obligated under several operating leases for offices and equipment which, in the aggregate, approximate \$616 and expire at various dates through 1997.

The Authority is involved in various litigation resulting from the ordinary course of operations. In the opinion of management, and based on advice from legal counsel, no material liability exists with respect to these lawsuits.

District Offices and Communities Served

EAST HAMPTON OFFICE

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

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

PATCHOGUE OFFICE

MANAGER
Dona Roberts
336 West Main St.
Patchogue, NY 11772

Bayport
Bellport
Blue Point
Bohemia
Brookhaven
Coram
East Holbrook
East Patchogue
Farmingville
Gordon Heights
Hagerman
Holbrook
Holtsville
Lakeland
Lake Ronkonkoma

Medford

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

PORT JEFFERSON OFFICE

MANAGER
Steven Romano
120 West Broadway
Port Jefferson, NY 11777

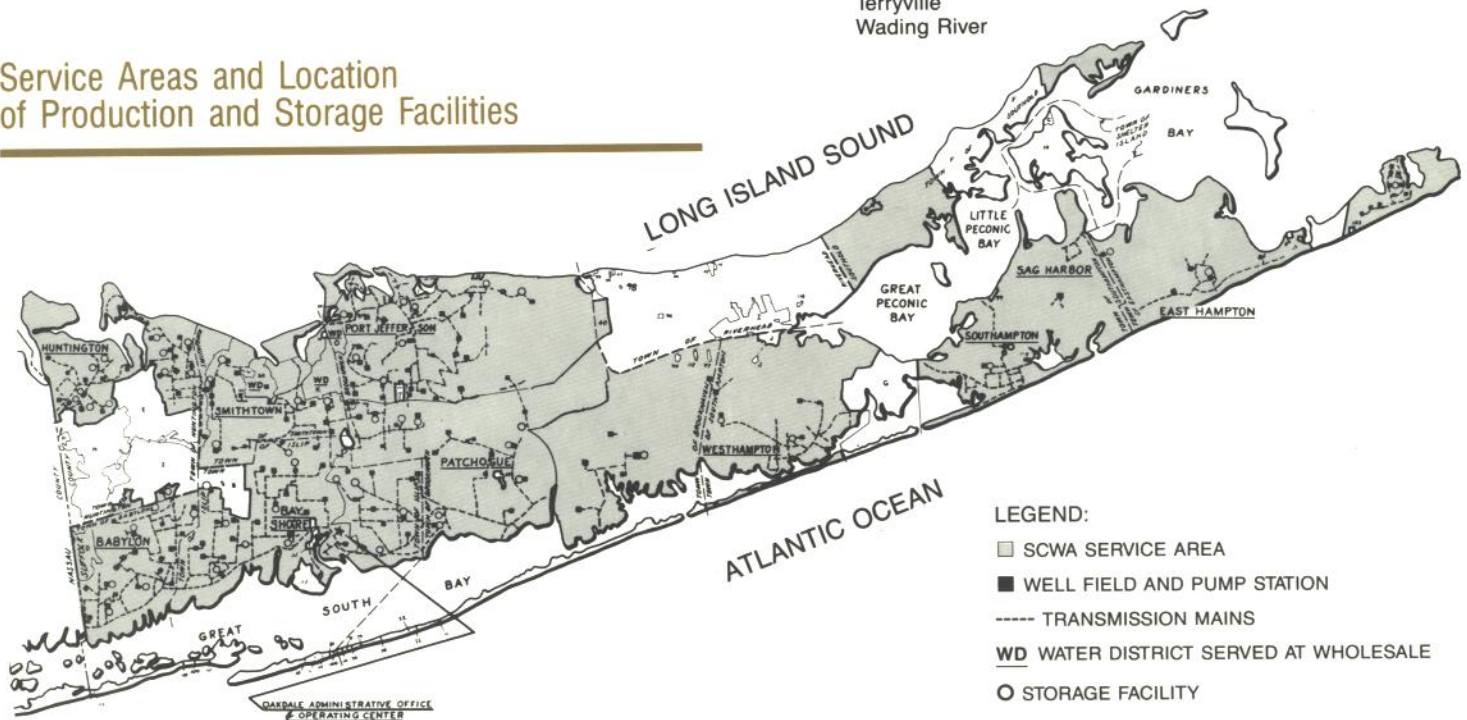
Belle Terre
Centereach
Coram
East Setauket
Lake Grove
Lake Panomoka
Middle Island
Miller Place
Mount Sinai
North Centereach
North Selden
Poquott
Port Jefferson
Port Jefferson Station
Ridge
Rocky Point
Setauket
Shoreham
South Setauket
Sound Beach
South Stony Brook
Stony Brook
Terryville
Wading River

WESTHAMPTON BEACH OFFICE

MANAGER
William T. Stone
1098 Old Riverhead Rd.
Westhampton Beach, NY 11978

Center Moriches
East Moriches
Eastport
East Quogue
East Yaphank
Manorville
Mastic
Mastic Beach
Mattituck
Middle Island**
Moriches
North Shirley
Oakville
Quogue
Quogue
Remsenburg
Shirley
Southold
South Ridge
Speonk
Westhampton
Westhampton Beach

Service Areas and Location of Production and Storage Facilities



WESTERN REGIONAL OFFICE

MANAGERS
Arlene Calabria
Timothy Cassidy
Clifford Foy
260 Motor Parkway
Hauppauge, NY 11788

Amity Harbor
Amityville
Asharoken
Babylon
Bay Shore
Brentwood
Brightwaters
Centerport

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

Fort Salonga
Great River
Halesite
Hauppauge
Head of the Harbor
Huntington
Huntington Bay
Huntington Station
Islandia
Islip
Islip Manor
Islip Terrace
Kings Park
Lindenhurst
Lloyd Harbor

Nesconset
Nissequogue**
North Amityville
North Babylon
North Bay Shore
North Great River
North Lindenhurst
Northport
Oakdale
Pinelawn
St. James*
San Remo*
Smithtown
South Hauppauge
Village of the Branch

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

*Included in Wholesale Water District

**Serves portion of area



Suffolk County Water Authority

Oakdale, Long Island, N.Y. 11769