

## **Audit Committee Meeting**

Suffolk County Water Authority

June 25, 2025, at 2:30 PM

4060 Sunrise Hwy, Oakdale

### **Agenda**

- 1. Approve Audit Committee Meeting Minutes- January 23, 2025**
- 2. KPMG- Audit Approach and Timeline for the FY25 Audit**
- 3. Internal Audit Reports**

**AUDIT COMMITTEE MEETING**

DATE: January 23, 2025

LOCATION: 4060 Sunrise Highway, Oakdale

ATTENDANCE: Charles Lefkowitz, Chairman  
Elizabeth Mercado, Member  
John Rose, Member  
Jeffrey W. Szabo, CEO  
Chris Cecchetto, Chief Financial Officer  
Joseph Pokorny, Deputy CEO for Operations  
Alicia Simson, Internal Audit Manager  
Milton Turcios, Internal Auditor  
John Milazzo, Chief Legal Officer

EXCUSED ABSENCE: NONE

The meeting was called to order by Mr. Szabo at 2:10 p.m. upon Members of the Committee being present.

On motion made by Mr. Rose, duly seconded by Ms. Mercado, and unanimously carried, it was

RESOLVED, To approve the Audit Committee Meeting Minutes from the December 19, 2024 Meeting

Mr. Szabo introduced Ms. Alicia Simson, Internal Audit Manager who presented the 2025 Audit Committee Update Audit Plan to the Board

Mr. Szabo asked if any members of the Committee or staff members in attendance any questions had, none were received.

On motion made by Ms. Mercado, duly seconded by Mr. Rose, and unanimously carried, the meeting of the Audit Committee was adjourned at 2:30 p.m.

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Timothy Bishop, Secretary



# **Suffolk County Water Authority Discussion with those charged with Governance**

**Audit plan and strategy for the fiscal year ending May 31, 2025**

June 25, 2025

# Engagement management to fit your team

KPMG and Suffolk County Water Authority have a joint interest in driving quality and eliminating peaks in workload, particularly in the post year end period to reduce surprises. That's why we're:



**Accelerating work and aligning on key expectations** to drive quality and an exceptional client experience



**Actively listening to your feedback** to inform our audit strategy and deliver value in the moments that matter



**Proactively communicating and coordinating** with all levels of management and those charged with governance, including updates on key milestones

# KPMG LLP (US) Client service team



Team members in dark blue represent continuity



# Required communications to those charged with governance





# Audit plan required communications & other matters

Our audits of the financial statements of Suffolk County Water Authority (the Authority) as of and for the years ended May 31, 2025 and 2024, will be performed in accordance with auditing standards generally accepted in the United States of America and in accordance with the standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Also see slide 10 for additional information related to the federal Uniform Guidance audit, if applicable.

Performing an audit of financial statements includes consideration of internal control over financial reporting (ICFR) as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's ICFR.

We are also engaged to perform an examination of the Authority's compliance with Section 201.3 of Title Two of the *Official Compilation of Codes, Rules and Regulations* of the State of New York for the period June 1, 2024 to May 31, 2025 and will perform in accordance with attestation standards established by the American Institute of Certified Public Accountants

Matters to communicate		Response
Role and identity of engagement partner	✓	Lead audit engagement partner is: Jason Spiegel
Significant findings or issues discussed with management	X	
Client service team	✓	Page 3
Materiality in the context of an audit	✓	Page 6
Our timeline	✓	Page 7
Risk assessment: Significant risks	✓	Page 8
Risk assessment: Additional risks identified	✓	Pages 9-10
Involvement of others	✓	Page 11
Newly effective accounting standards	✓	Page 12
Independence	✓	Page 13
Responsibilities	✓	Page 14
Inquiries	✓	Page 15

✓ = Matters to report    X = No matters to report

# Materiality in the context of an audit

We will apply materiality in the context of the preparation and fair presentation of the financial statements, considering the following factors:

Misstatements, including omissions, are considered to be material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Judgments about materiality are made in light of surrounding circumstances and are affected by the size or nature of a misstatement, or a combination of both.

Judgments about materiality involve both qualitative and quantitative considerations.

Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered.

Determining materiality is a matter of professional judgment and is affected by the auditor's perception of the financial information needs of users of the financial statements.

Judgments about the size of misstatements that will be considered material provide a basis for

- Determining the nature and extent of risk assessment procedures;
- Identifying and assessing the risks of material misstatement; and
- Determining the nature, timing, and extent of further audit procedures.



# Our timeline

## April - May

### Planning and risk assessment

- Planning and initial risk assessment procedures, including:
  - Involvement of others
  - Identification and assessment of risks of misstatements and planned audit response for certain processes
- Obtain and update an understanding of the Authority and its environment
- Inquire of those charged with governance, management and others within the Authority about risks of material misstatement
- Coordinate with Internal Audit
- Evaluate design and implementation (D&I) of entity level controls and process level controls for certain processes
- Perform process walkthroughs and identification of process risk points for certain processes

## May – June

### Interim

- Ongoing risk assessment procedures, including:
  - Identification and assessment of risks of misstatements and planned audit response for remaining processes
- Communicate audit plan
- Identify IT applications and environments
- Perform tests of operating effectiveness (TOE) of relevant entity level and process level controls
- Perform process walkthroughs and identification of process risk points for remaining processes
- Evaluate D&I of process level controls for remaining processes
- Perform interim substantive audit procedures

## July – August

### Year-end

- Finalize risk assessment procedures and documentation for remaining process level controls, where applicable
- Perform remaining substantive audit procedures
- Evaluate results of audit procedures, including control deficiencies and audit misstatements identified
- Review financial statement disclosures
- Present audit results to those charged with governance and perform required communications
- Issue final deliverables related to financial statement audit (see page 9 for single audit timeline)

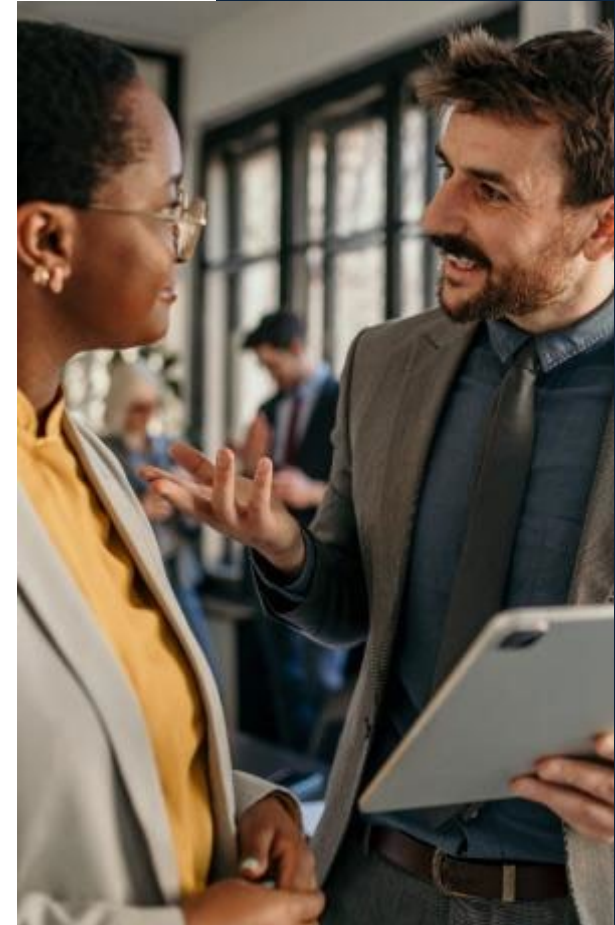
**Filing date: Issue audit reports on financial statements on or before August 31, 2025. Uniform Guidance report due 9 months after year-end, if applicable**

# Risk assessment: Significant risks

Significant risk	Susceptibility to:	
	Error	Fraud
<b>Management override of controls</b>  Management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk nevertheless is present in all entities.		Yes

## Approach to fraud risk

- Perform risk assessment procedures to identify fraud risks, both at the financial statement level and at the assertion level
- Discuss among the audit team the susceptibility to fraud
- Inquire of management, audit committee, and others
- Evaluate broad programs/controls that prevent, deter, and detect fraud
- Address revenue recognition and risk of management override of controls
- Perform specific substantive audit procedures (incorporate elements of unpredictability)
- Perform a rollforward of the journal entry population for the entire fiscal year to ensure completeness of the general ledger
- Review and select a sample of high risk journal entries throughout the year as well as entries and adjustments at the end of the reporting period



# Risk assessment: Additional risks identified

Other significant audit matters	Relevant factors affecting our risk assessment
<b>Estimates:</b> <ul style="list-style-type: none"><li>- Valuation of investments</li><li>- Valuation of pension liabilities (NYSLRS actuarial assumptions)</li><li>- Valuation of OPEB liabilities (Nyhart actuarial assumptions)</li><li>- Valuation of right-to-use lease and SBITA assets and lease and SBITA liabilities (selection of discount rate)</li></ul>	KPMG considered the relevant qualitative and quantitative factors affecting our risk assessment including, but not limited to, size, complexity, exposure to losses, measurement uncertainty, significant contingent liabilities and related party transactions.
<b>Significant audit areas include the following:</b> <ul style="list-style-type: none"><li>- Cash and investments</li><li>- Revenue and accounts receivable</li><li>- Payroll and related expenditures</li><li>- Other than personal service costs</li><li>- Debt, including interest expense and deferred amounts</li><li>- Fixed assets, including depreciation</li><li>- Leases and SBITAs</li><li>- Pension related amounts</li><li>- OPEB related amounts</li><li>- Net position</li></ul>	

# Risk assessment: Additional risks identified – Single audit

- We will perform a single audit for the year ended May 31, 2025 under the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance)
- The single audit is focused on compliance and internal control over compliance for programs that are federally funded.
- “Major programs” are subject to audit and are determined based on defined federal guidelines utilizing quantitative and qualitative risk considerations. Larger programs (Type A programs) must be audited at least once every three years.
- Finalization of major program determination is dependent upon the final schedule of expenditures of federal awards and risk assessment procedures as well as guidance from Federal OMB on higher risk programs.
- Work is completed with emphasis on testing compliance and internal control over compliance with respect to each major program.
- Professional judgment is used to determine which compliance requirements are “direct and material” and to evaluate whether noncompliance with the applicable requirement would have a significant impact on the major program.
- For each compliance requirement that was deemed direct and material, we performed various detail tests of the University’s compliance, including testing of relevant controls over compliance.
- An audit opinion is issued for each major program.
- Major programs identified (preliminary): Award Listing Number (ALN) 66.202 EPA Congressionally Mandated Projects
- Issuance/ filing deadline: Single audit reporting package submission due to the Federal Audit Clearinghouse 9-months after year-end (February 28, 2026)



# Involvement of others

Audit of financial statements	Extent of planned involvement
Internal Audit	<p>Significant Accounts &amp; Related Disclosures: Revenue &amp; Fixed Assets</p> <p>Description of Work: Fixed Asset addition testwork, water service revenue bill recalculation testwork, inventory pricing and inventory count procedures</p>
KPMG Actuarial Specialist NYSLRS Nyhart	<p>Significant Accounts &amp; Related Disclosures: Pension &amp; OPEB obligations and related deferred amounts and expenses</p> <p>Description of Work: Engaged to evaluate the reasonableness of the underlying methods and assumptions used in the valuation of the Authority's pension (GASB 68) and OPEB (GASB 75) obligations, expenses, and related deferred amounts</p>
KPMG Tax Professional	<p>Description of Work: Engaged to perform a tax review of the Authority's tax status for FY 2025</p>
KPMG National Pricing Desk	<p>Significant Accounts &amp; Related Disclosures: Investments</p> <p>Description of Work: Utilized to perform investment pricing procedures over the Authority's investment portfolio as of May 31, 2025</p>
KPMG Global Delivery Center Private Limited (India)	<p>Description of Work: Provide administrative and procedural support services to the engagement team.</p>



# Newly effective accounting standards

## Effective for year ended May 31, 2025

GASB Statement No. 99 – *Omnibus 2022 (Financial Guarantees and Derivative classification)\*\**

GASB Statement No. 100 – *Accounting Changes and Error Corrections – an amendment to GASB Statement No. 62\*\**

GASB Statement No. 101 – *Compensated Absences*

## Effective for year ended May 31, 2026

GASB issued Statement No. 102, *Certain Risk Disclosures (GASB 102)\*\**

## Effective for year ended May 31, 2027

GASB issued Statement No. 103, *Financial Reporting Model Improvements (GASB 103)*

GASB issued Statement No. 104, *Disclosure of Certain Capital Assets (GASB 104)*

\*\* - The adoption of these standards are not expected to have a material impact on the Authority's financial statements, if applicable

# Shared responsibilities: Independence

Auditor independence is a shared responsibility and most effective when management, those charged with governance and audit firms work together in considering compliance with the independence rules. In order for KPMG to fulfill its professional responsibility to maintain and monitor independence, management, those charged with governance, and KPMG each play an important role.

## System of Independence Quality Control

The firm maintains a system of quality control over compliance with independence rules and firm policies. Timely information regarding upcoming transactions or other business changes is necessary to effectively maintain the firm's independence in relation to:

- New affiliates (which may include subsidiaries, equity method investees/investments, sister companies, and other entities that meet the definition of an affiliate under AICPA independence rules)
- New officers or directors with the ability to affect decision-making, individuals who are beneficial owners with significant influence over the Company, and persons in key positions with respect to the preparation or oversight of the financial statements

## Certain relationships with KPMG

Independence rules prohibit:

- Certain employment relationships involving directors, officers, or others in an accounting or financial reporting oversight role and KPMG and KPMG covered persons.
- The Company or its directors, officers, from having certain types of business relationships with KPMG or KPMG professionals.

# Responsibilities



## Management responsibilities and Those Charged with Governance responsibilities

- Management is responsible for adopting sound accounting policies and fairly presenting the financial statements, including disclosures, in conformity with generally accepted accounting principles (GAAP)
- Management is also responsible for establishing and maintaining effective internal controls over financial reporting (ICFR), including internal controls to prevent, deter and detect fraud, as well as identifying and confirming that the Authority complies with laws and regulations applicable to its activities
- During the audit, management is responsible for making all financial records and related information available to the auditor, providing unrestricted access to personnel within the entity from whom the auditor determines it necessary to obtain audit evidence, adjusting the financial statements to correct material misstatements, and providing a letter confirming certain representations made during the audit
- Those charged with governance are responsible for overseeing the financial reporting process established by management.



## KPMG responsibilities – objectives

- Communicating clearly with those charged with governance the responsibilities of the auditor regarding the financial statement audit and an overview of the planned scope and timing of the audit.
- Obtaining from those charged with governance information relevant to the audit.
- Providing those charged with governance with timely observations arising from the audit that are significant and relevant to their responsibility to oversee the financial reporting process.
- Promoting effective two-way communication between the auditor and those charged with governance.
- Communicating effectively with management and third parties.



## KPMG responsibilities – other

- If we conclude that no reasonable justification for a change of the terms of the audit engagement exists and we are not permitted by management to continue the original audit engagement, we should:
  - Withdraw from the audit engagement when possible under applicable law or regulation;
  - Communicate the circumstances to those charged with governance, and
  - Determine whether any obligation, either legal contractual, or otherwise, exists to report the circumstances to other parties, such as owners, or regulators.
- Forming and expressing an opinion about whether the financial statements that have been prepared by management, with the oversight of those charged with governance, are prepared, in all material respects, in accordance with the applicable financial reporting framework.
- Establishing the overall audit strategy and the audit plan, including the nature, timing, and extent of procedures necessary to obtain sufficient appropriate audit evidence.
- Communicating any procedures performed relating to other information, and the results of those procedures.

# Required inquiries

- What are your views about fraud risks, including management override of controls, at the entity and whether you have taken any actions to respond to these risks?
- Are you aware of, or have you identified, any instances of actual, suspected, or alleged fraud, including misconduct or unethical behavior related to financial reporting or misappropriation of assets?  
If so, have the instances been appropriately addressed and how have they been addressed?
- Are you aware of or have you received tips or complaints regarding the entity's financial reporting (including those received through the internal whistleblower program, if such program exists) and, if so, what was your response to such tips and complaints?
- How do you exercise oversight over management's assessment of fraud risk and the establishment of controls to address/mitigate fraud risks?
- Has the entity entered into any significant unusual transactions?
- **Are you aware of any matters relevant to the audit, including, but not limited to,** any instances of actual or possible violations of laws and regulations, including illegal acts (irrespective of materiality threshold)?
- Has the entity complied with all covenants during the financial statement period and before the date of the auditor's report?  
Have there been any events of default during the financial statement period and before the dates of the auditor's report?
- What is the audit committee's understanding of the entity's relationships and transactions with related parties that are significant to the entity?
- Does any member of the audit committee have concerns regarding relationships or transactions with related parties and, if so, what are the substance of those concerns?



# FY 2025 audit fees

Fees are quoted based upon our proposal dated October 3, 2024

Auditor’s report on the financial statements of Suffolk County Water Authority Independent auditor’s report on internal control over financial reporting and on compliance and other matters based on an audit of the financial statements performed in accordance with <i>Government Auditing Standards</i> Report on compliance with requirements of Section 201.3 of Title Two of the <i>Official Compilation of Codes, Rules and Regulations</i> of the State of New York (Investment Examination Report) *-includes out-of-pocket expenses not to exceed \$5,000.	\$ 220,000*
<b>Total base fees and out-of-pocket expenses for 2025</b>	<b>\$ 220,000</b>
Auditor’s report on federal awards in accordance with the Uniform Guidance (Single Audit) **- Fee includes one major program required to be audited per annum. Each additional major program audited in any given year shall range between \$10,000 - \$20,000 per program	\$ 30,000**
<b>Total fees with Single Audit for 2025</b>	<b>\$ 250,000</b>
One time fee – GASB Statement No. 101 adoption (only if significant audit effort is incurred)	Fees based upon hours incurred and 2025 hourly rates included in proposal
Debt inclusion letter (per offering), if applicable  (Should SCWA require a comfort letter in connection with an offering, we expect fees would range between \$25,000 and \$30,000 in addition to the fees for the inclusion letter listed above).	\$30,000







# Questions?

For additional information and audit committee resources, including National Audit Committee Peer Exchange series, a Quarterly webcast, and suggested publications, visit the KPMG Audit Committee Institute (ACI) at <https://boardleadership.kpmg.us/audit-committee.html>

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# Appendix I – Draft Engagement Letters

**(Firm Letterhead)**

Date

Suffolk County Water Authority  
4050 Sunrise Highway  
Oakdale, New York 17769

Attention: Mr. Chris Cecchetto, Chief Financial Officer

This letter (Engagement Letter) confirms our understanding of our engagement to provide professional services to Suffolk County Water Authority (the Authority).

**Objectives and Limitations of Services**

*Financial Statement Audit Services*

You have requested that we audit the Authority's financial statements as set forth in Appendix I.

We have the responsibility to conduct and will conduct the audit of the financial statements in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*), with the objectives of obtaining reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to error or fraud, and issuing an auditors' report that includes our opinion as to whether the presentation of the financial statements conforms with U.S. generally accepted accounting principles.

Reasonable assurance is a high level of assurance but it is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

As part of an audit in accordance with GAAS and *Government Auditing Standards*, we exercise professional judgment and maintain professional skepticism throughout the audit. We also will:

- Identify and assess the risks of material misstatement of the financial statements, whether due to error or fraud, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion on the financial statements.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall financial statement presentation, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Conclude, based on the audit evidence obtained, whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We will obtain an understanding of the Authority's internal control relevant to the audit in order to determine the nature, timing, and extent of our audit procedures for the purpose of expressing an opinion on the

financial statements but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control.

The objective of our audit of the financial statements is not to report on the Authority's internal control and we are not obligated to search for material weaknesses or significant deficiencies as part of our audit of the financial statements. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the Authority's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, our objective is not to provide an opinion on compliance with such provisions.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements, fraud, and noncompliance with laws and regulations may exist and not be detected by an audit of financial statements even though the audit is properly planned and performed in accordance with GAAS and *Government Auditing Standards*. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Also, an audit is not designed to detect matters that are immaterial to the financial statements.

We will also perform certain limited procedures to the required supplementary information as required by GAAS. However, we will not express an opinion or provide any assurance on the information. Our report relating to the financial statements will include our consideration of required supplementary information.

We also understand that the financial statements will include a schedule of expenditures of federal awards (SEFA) which is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information will be subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with GAAS with the objective of expressing an opinion as to whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Subject to the remainder of this paragraph, we will issue a written report upon completion of our audit of the Authority's financial statements addressed to the audit committee of the Authority. Circumstances may arise in which our report may differ from its expected form and content based on the results of our audit. Depending on the nature of these circumstances, it may be necessary for us to modify our opinion, add an emphasis-of-matter paragraph or other-matter paragraph to our auditors' report, or if necessary, withdraw from the engagement. If, during the performance of our audit procedures, such circumstances arise, we will communicate to the audit committee our reasons for modification or withdrawal.

In accordance with *Government Auditing Standards*, we will prepare a written report, *Independent Auditors' Report on Internal Control Over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards* (GAGAS report), on our consideration of internal control over financial reporting and tests of compliance made as part of our

audit of the financial statements. This report will include any material weaknesses and significant deficiencies identified during the audit. This report will also include any of the following that we identify or suspect:

- Instances of noncompliance with provisions of laws, regulations, contracts, or grant agreements that have a material effect on the financial statements or other financial data significant to the audit objectives; or
- Instances of fraud that are material, either qualitatively or quantitatively, to the financial statements or other financial data significant to the audit objectives.

The report will describe its purpose and will state that it is not suitable for any other purpose.

In accordance with *Government Auditing Standards*, we will also communicate in writing when:

- Identified or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements comes to our attention during the course of our audit that has an effect on the financial statements or other financial data significant to the audit objectives that is less than material but warrants the attention of those charged with governance, or
- We obtained evidence of identified or suspected instances of fraud that have an effect on the financial statements or other financial data significant to the audit objectives that are less than material but warrant the attention of those charged with governance.

In accordance with *Government Auditing Standards*, we are also required in certain circumstances to report identified or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or instances of fraud directly to parties outside the auditee.

#### *Uniform Guidance Audit Services*

You have requested that we audit the Authority's major federal programs in accordance with Title 2 U.S. Code of Federal Regulations Part 200 (2 CFR 200), *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("the Uniform Guidance"). The Uniform Guidance includes specific audit requirements, mainly in the areas of internal control and compliance with federal statutes, regulations, and the terms and conditions of federal awards that may have a direct and material effect on each of the Authority's major federal programs.

We have the responsibility to conduct and will conduct the audit of the major programs in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance with the objectives of obtaining reasonable assurance about whether material noncompliance with the compliance requirements occurred, whether due to fraud or error, and expressing an opinion on the Authority's compliance based on the audit. Reasonable assurance is a high level of assurance, but it is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect noncompliance when it exists.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material noncompliance, fraud, and noncompliance with laws and regulations may exist and not be detected by an audit even though the audit is properly planned and performed in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance. The risk of not detecting material noncompliance resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal



control. Noncompliance with compliance requirements is considered material if there is a substantial likelihood that, individually or in the aggregate, it could reasonably be expected to influence the judgment made by a reasonable user of the report on compliance about the Authority's compliance with the requirements of the federal programs as whole.

As part of an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we exercise professional judgment and maintain professional skepticism throughout the audit. We also will:

- Identify and assess the risks of material noncompliance, whether due to error or fraud, design and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions on the major programs.
- Obtain an understanding of the Authority's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over compliance.

We will perform tests of the Authority's compliance with federal statutes, regulations, and the terms and conditions of federal awards we determine to be necessary based on the *OMB Compliance Supplement*. The procedures outlined in the *OMB Compliance Supplement* are those suggested by each federal agency and do not cover all areas of regulations governing each program. Program reviews by federal agencies may identify additional instances of noncompliance.

We will prepare a written report (single audit report) which 1) provides our opinion on the Authority's compliance with compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of its major federal programs and 2) communicates our consideration of internal control over major federal programs. The single audit report will describe its purpose and will state that it is not suitable for any other purpose.

#### *Offering Documents*

In the event the Authority requests our involvement with a future exempt filing that will include or incorporate by reference these financial statements and our audit report(s) thereon, professional standards require us to be separately engaged. The specific terms of our future services with respect to future exempt offerings will be determined at the time the services are to be performed and will be subject to the negotiation, agreement, and execution of a specific engagement letter or contract.

In the event the Authority does not engage us to be involved with the offering document, the Authority agrees to include the following language in the offering document:

"KPMG LLP, our independent auditor, has not been engaged to perform and has not performed, since the date of its report, included herein, any procedures on the financial statements addressed in that report. KPMG LLP also has not performed any procedures relating to this official statement."

#### **Our Responsibility to Communicate with the Audit Committee**

We will communicate our planned scope and timing for our audits with the audit committee, including significant risks identified in planning our audit of the financial statements.

We will report to the audit committee the following matters:

- Material, corrected misstatements that were brought to the attention of management as a result of audit procedures.
- Uncorrected misstatements accumulated by us during the audit and the effect that they, individually or in the aggregate, may have on our opinion in the auditors' report, the effect of uncorrected misstatements related to prior periods, and that uncorrected misstatements or matters underlying those uncorrected misstatements could potentially cause future-period financial statements to be materially misstated, even if the auditor has concluded that the uncorrected misstatements are immaterial to the financial statements under audit.
- Our views about qualitative aspects of the Authority's significant accounting practices, including accounting policies, accounting estimates, and financial statement disclosures.
- Significant unusual transactions, if any.
- Significant difficulties, if any, encountered during our audits.
- Disagreements with management, if any.
- Circumstances that affect the form and content of our auditors' report, if any.
- Matters that are difficult or contentious for which the auditor consulted outside the engagement team and that are, in the auditors' judgment, significant and relevant to those charged with governance regarding their responsibility to oversee the financial reporting process.
- Other matters required to be communicated by GAAS and *Government Auditing Standards*.
- Any significant deficiencies and material weaknesses in internal control over compliance that the auditor identified during the compliance audit.

We will also read minutes, if any, of relevant committee meetings for consistency with our understanding of the communications made to the audit committee and determine that the audit committee has received copies of all material written communications between ourselves and management. We will also determine that the audit committee has been informed of i) the initial selection of, or the reasons for any change in, significant accounting policies or their application during the period under audit, ii) the methods used by management to account for significant unusual transactions, and iii) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

To the extent that they come to our attention, we will inform the appropriate level of management about any instances of noncompliance or suspected noncompliance with laws and regulations, unless they are clearly inconsequential, material errors in the financial statements and any instances of fraud. Further, to the extent they come to our attention, we also will communicate directly to the audit committee any instances of noncompliance or suspected noncompliance with laws and regulations, unless they are clearly inconsequential, material errors in the financial statements, and any instances of fraud that involve senior management or that, in our judgment, cause a material misstatement of the financial statements.

### Management Responsibilities

The management of the Authority acknowledges and understands that they have responsibility for the preparation and fair presentation, in accordance with U.S. generally accepted accounting principles, of the financial statements and all representations contained therein. Management also is responsible for:

- a. Identifying and ensuring that the Authority complies with laws, regulations, contracts, and grant agreements applicable to its activities, and for informing us of any known instances of noncompliance or suspected noncompliance with laws, regulations and provisions of contracts and grant agreements;
- b. Providing us with written responses and any planned corrective actions, in accordance with *Government Auditing Standards* to the findings included in the GAGAS or single audit report within 10 days of being provided with draft findings. If such information is not provided on a timely basis prior to release of the report(s), the report(s) will indicate management did not provide written responses;
- c. Distributing the reports issued by KPMG LLP (KPMG).

Management also is responsible for the design, implementation, and maintenance of programs and controls to prevent, deter, and detect fraud, for adopting sound accounting policies, and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statements and to provide reasonable assurance against the possibility of misstatements that are material to the financial statements whether due to error or fraud. Management is also responsible for informing us, of which it has knowledge, of all material weaknesses and significant deficiencies in the design or operation of such controls. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

The management of the Authority also acknowledges and understands that they have responsibility for the preparation of the SEFA in accordance with the applicable criteria. Management is also responsible for providing us written representations regarding the supplementary information. Management is also responsible for including our report on the supplementary information in any document that contains and indicates that we have reported on the supplementary information, and for including the audited financial statements with any presentation of the supplementary information that includes our report thereon or making the audited financial statements readily available to intended users of the supplementary information no later than the date the supplementary information is issued with our report thereon.

Management of the Authority also acknowledges and understands that it is their responsibility to provide us with: i) access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements and the compliance requirements applicable to its federal programs such as records, documentation, and other matters; ii) additional information that we may request from management for purposes of the audits; and iii) unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence. As required by GAAS, we will make specific inquiries of management about the representations embodied in the financial statements and the effectiveness of internal control, and obtain a representation letter from management about these matters. The responses to our inquiries, the written representations, and the results of audit tests, among other things, comprise the evidential matter we will rely upon in forming an opinion on the financial statements.

Management is responsible for adjusting the financial statements to correct material misstatements and for affirming to us in the representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements being reported upon, taken as a whole.

Because of the importance of management's representations to the effective performance of our services, the Authority will release KPMG and its personnel from any claims, liabilities, costs and expenses relating to our services under this Engagement Letter attributable to any misrepresentations in the representation letter referred to above. The provisions of this paragraph shall apply regardless of the form of action, damage, claim, liability, cost, expense, or loss asserted, whether in contract, statute, tort (including but not limited to negligence) or otherwise.

In relation to compliance with the program requirements applicable to its federal awards, management acknowledges and understands its responsibility for:

- Identifying the Authority's federal awards and understanding and complying with the compliance requirements.
- Designing, implementing and maintaining effective controls that provide reasonable assurance that the Authority administers federal awards in compliance with the compliance requirements.
- Complying with federal laws, statutes, regulations, rules, and provisions of contracts or grant agreements of federal awards.
- Evaluating and monitoring the Authority's compliance with the compliance requirements.
- Taking corrective action when instances of noncompliance are identified, including corrective action on audit findings of the compliance audit.

In addition to the Uniform Guidance requirements to maintain internal control and comply with the compliance requirements applicable to federal programs as discussed above, the Uniform Guidance also requires the Authority to prepare a:

- Schedule of expenditures of federal awards;
- Summary schedule of prior audit findings;
- Corrective action plan; and
- Data collection form (auditee sections).

While we may be separately engaged to assist you in the preparation of these items, preparation is the responsibility of the Authority. Management is also responsible for submitting the reporting package and data collection form.

Certain provisions of the Uniform Guidance allow a granting agency to request that a specific program be selected as a major program provided that the federal granting agency is willing to pay the incremental audit cost arising from such selection. The Authority agrees to notify KPMG of any such request by a granting agency and to work with KPMG to modify the terms of this Engagement Letter as necessary to accommodate such a request.

To facilitate our audit planning, in accordance with *Government Auditing Standards*, management agrees to identify and provide copies of reports, if applicable, of previous audits, attestation engagements, or other studies that directly relate to the objectives of the audit, including whether findings have been addressed and related recommendations have been implemented, prior to June 1 each year.

#### *Use of Internal Audit*

Management acknowledges and understands that internal auditors providing direct assistance to us will be allowed to follow our instructions and that personnel of the Authority will not intervene in the work the internal auditor performs for us. Further, management acknowledges and understands that if, in our sole judgment, we believe the objectivity of internal auditors providing direct assistance to us has been impaired, we will be unable to use the work performed or planned to be performed.

*Government Auditing Standards* require external and internal auditors to meet minimum Continuing Professional Education (CPE) hours. Therefore, management is responsible for monitoring and documenting the compliance with the Government Auditing Standards CPE hours of those internal auditors assigned to the audit in direct assistance roles.

#### **Non-audit service – Certain Assistance Relating to Preparing Financial Statements (including the SEFA)**

##### *Word Processing and Reproduction Assistance*

We will assist management by providing word processing and reproduction assistance for the Authority's financial statements and related notes.

##### *Assistance in Preparing Financial Statements*

We will assist management in preparing the financial statements and related notes in accordance with U.S. generally accepted accounting principles.

We will use information from the trial balance and/or other source documents provided by management to assist management in preparing the financial statements and related notes. We may also provide advice and recommendations to assist management of the Authority in performing its responsibilities.

We will not assume management responsibilities on behalf of the Authority.

The Authority agrees to:

- Assume all management responsibilities, including determining the accuracy and completeness of the financial statements and notes.
- Assign a suitable employee with appropriate skills, knowledge and/or experience to oversee the financial statement preparation assistance and evaluate the adequacy and results of the services.
- Accept responsibility for the results of the financial statement preparation assistance.

#### **Dispute Resolution**

Any dispute or claim between the parties shall be submitted to non-binding mediation prior to commencing litigation in New York court of competent jurisdiction.

Either party may seek to enforce any written agreement reached by the parties during mediation, in any court of competent jurisdiction, provided that any party moving to enforce, confirm or vacate any such agreement or award, as the case may be, will file such motion under seal unless prohibited under applicable court rules. Notwithstanding the agreement to such procedures, either party may seek equitable relief to enforce its rights in any court of competent jurisdiction.



### **Other Matters**

In the event that any term or provision of this Engagement Letter shall be held to be invalid, void or unenforceable, then the remainder of the Engagement Letter shall not be affected, and each such term and provision shall be valid and enforceable to the fullest extent permitted by law.

In an effort to facilitate efficient communication between KPMG and the Authority related to the audit and to track engagement progress during the course of the engagement, KPMG may provide the Authority with access to certain service coordination tools (e.g. KPMG Clara). If such access is provided to the Authority, the provisions set forth in Appendix II shall apply to such access.

The Authority agrees that KPMG may reference the Authority as a client in its marketing materials, including KPMG websites and social media, indicating the general services rendered (e.g. "Suffolk County Water Authority" is an Audit client of KPMG LLP"). In addition, the Authority gives KPMG the right to use its logos solely for presentations or reports to the Authority or for internal KPMG presentations and intranet sites.

The Authority and KPMG acknowledge and agree that each shall comply with all applicable United States export control laws and regulations in the performance of each party's respective responsibilities under the Engagement Letter and in the use of any KPMG Technology or KPMG Clara made accessible to the Authority hereunder. Unless requested by KPMG to allow it to complete its audit, the Authority will not provide KPMG, or grant KPMG access to, (a) information (including technical data or technology), verbally, electronically, or in hardcopy, (b) software or (c) hardware, that is controlled for export by the United States government under the Arms Export Control Act of 1976, Export Control Reform Act of 2018, the International Traffic in Arms Regulations ("ITAR"), Export Administration Regulations ("EAR"), Department of Energy Part 810 Regulations or Nuclear Regulatory Commission Part 110 Regulations, except information, software or hardware that is classified as EAR99 under the EAR ("Export Controlled Information"). If KPMG requests Export Controlled Information from the Authority, the Authority shall provide KPMG with notice of provision of Export Controlled Information at least 48 hours prior to providing such Export Controlled Information to KPMG.

Each party represents to the other that neither it nor the KPMG Parties (with regard to KPMG) nor the Authority Parties (with regard to the Authority) are (i) organized, incorporated or resident in jurisdictions sanctioned by the United States (by way of example, Cuba, Iran, North Korea, Syria or the Crimea, separatist-held Donetsk, and Luhansk regions of the Ukraine); (ii) listed in any economic, financial, or trade sanctions related list of designated parties maintained by the Office of Foreign Assets Control of the U.S. Department of the Treasury, the U.S. Department of State, U.S. Department of Commerce, Public Safety Canada, Global Affairs Canada, the United Kingdom Office of Financial Sanctions, the United Nations Security Council, the European Union or any European Union member state; or (iii) owned 50% or more or controlled by parties described in (i) or (ii). Further, the Authority is not engaging KPMG to provide services directly or indirectly to the jurisdictions in (i) or to any party in (ii) or (iii). As used herein, "The Authority Parties" shall mean the Authority and its parent company and their affiliates, and their respective directors, officers, employees, and agents.

KPMG is a limited liability partnership comprising both certified public accountants and certain principals who are not licensed as certified public accountants. Such principals may participate in the engagements to provide the services described in this Engagement Letter.

The audit documentation for this engagement is the property of KPMG. If KPMG receives a subpoena; other validly issued administrative, judicial, government or investigative regulatory demand or request; or other legal process requiring it to disclose the Authority's confidential information ("Legal Demand"), KPMG

shall, unless prohibited by law or such Legal Demand, provide prompt written notice to the Authority of such Legal Demand in order to permit it to seek a protective order. So long as KPMG gives notice as provided herein, KPMG shall be entitled to comply with such Legal Demand to the extent required by law, subject to any protective order or the like that may have been entered in the matter. In the event KPMG is requested or authorized by the Authority, or is required by law, rule, regulation or Legal Demand in a proceeding or investigation to which KPMG is not a named party or respondent, to produce KPMG's documents or personnel as witnesses or for interviews, or otherwise to make information relating to the service under the Engagement Letter available to a third party, or the Authority, the Authority shall reimburse KPMG for its professional time and expense as determined when such circumstances arise.

Pursuant to *Government Auditing Standards*, and subject to applicable provisions of laws and regulations, we are required to make appropriate individuals and certain audit documentation available in a timely manner to others, including Regulators, upon request. In addition, we may also be requested to make certain audit documentation available to Regulators pursuant to authority provided by law or regulation. If so requested, access to such audit documentation will be provided. Furthermore, Regulators may obtain copies of selected audit documentation. Such regulators may intend, or decide, to distribute the copies or information contained therein to others, including other government agencies.

The Federal Audit Clearinghouse requires the single audit reporting package, which includes the audited financial statements, to be submitted in a PDF format which is text searchable, unencrypted, and unlocked. This Engagement Letter serves as the Authority's authorization for the submission of the reporting package in this format.

KPMG, as an accounting firm, has an obligation to comply with applicable professional standards. Certain professional standards, including AICPA Code of Professional Conduct Section 1.700, "Confidential The Authority Information Rule," adopted by the American Institute of Certified Public Accountants and similar rules adopted by the boards of accountancy of many states, prohibit the disclosure of the Authority confidential information without the Authority consent, except in limited circumstances. KPMG represents to the Authority that KPMG will treat the Authority's confidential information in accordance with applicable professional standards.

KPMG may work with and use the services of other members of the international KPMG network of independent firms and entities controlled by, or under common control with, one or more KPMG member firms (together with KPMG, the "KPMG Firms") to provide services to the Authority. The KPMG Firms, together with the entities comprising KPMG International, shall be referred to herein as the "KPMG Parties." In connection with the performance of services under this Engagement Letter, the KPMG Firms may, in their discretion, utilize the services of third party service providers within or outside of the United States to complete the services under this Engagement Letter. KPMG Parties and such third parties may have access to your confidential information from offshore locations. In addition, KPMG uses third party service providers within and outside of the United States to provide, at its direction, back-office administrative and clerical, or analytical services to KPMG and these third party service providers may in the performance of such services have access to your confidential information. In particular, KPMG's audit technologies, software productivity tools and certain technology infrastructure and, necessarily, your confidential information, may be hosted in cloud environments operated by KPMG Parties or such third party service providers.

In addition, for purposes of fulfilling our professional responsibilities, such as maintaining independence and performing conflict checks, the Authority will be listed as a client in internal KPMG Parties' systems accessible on a need to know basis to KPMG Parties. KPMG represents that it has technical, legal and/or other safeguards, measures and controls in place to protect your confidential information from

unauthorized disclosure or use; and KPMG shall remain responsible to you for maintaining the confidentiality of your confidential information. KPMG shall remain responsible to the Authority for the performance of such services by any KPMG Parties or other third parties, including obligations of confidentiality, to the same extent KPMG is obligated under the terms of this Engagement Letter.

You also understand and agree that the KPMG Parties, with the assistance of third parties as outlined above, may use all the Authority's information to (i) analyze trends, perform comparative analysis, and develop and improve benchmarks; (ii) develop and improve technology and services; and (iii) improve other services to the Authority and to provide insights to the Authority about its business. Such information will not be disclosed to third parties other than third parties as outlined above assisting KPMG Parties with these uses unless such information is in an aggregated or anonymized format that does not identify the Authority.

It may be necessary or convenient for the Authority to use KPMG-owned or licensed software, software agents, scripts, technologies, tools or applications (collectively "KPMG Technology") designed to extract data from the Authority's electronic books and records systems or other systems (collectively, "Systems"), in connection with the audit, or to otherwise facilitate KPMG's services hereunder. The Authority understands and agrees that it is solely responsible for following appropriate change management policies, processes and controls relating to use of such technology (including without limitation appropriate backup of the Authority's information and Systems) (collectively, "Change Management Processes") before any such KPMG Technology is utilized to extract data from the Systems. In the event the Authority fails to use such Change Management Processes or if such Change Management Processes prove to be inadequate, the Authority acknowledges that the Systems and/or KPMG Technology may not function as intended. In consideration of the foregoing, KPMG hereby grants the Authority the right to use KPMG Technology solely to facilitate the Authority's necessary or convenient provision of information to KPMG in connection with the audit, or to otherwise facilitate KPMG's services hereunder, and this grant does not extend to any other purposes or use by third parties outside of your organization without our prior written approval, provided that third party contractors of the Authority having a need to know in order to perform their services to the Authority are permitted to use KPMG Technology to the extent necessary for such parties to perform such services, so long as the Authority exercises the same level of care to protect such KPMG Technology and KPMG confidential information as it uses to protect its own confidential information, but in no event less than reasonable care. Other than as expressly permitted hereby, the Authority agrees to keep KPMG Technology confidential, using no less than a reasonable standard of care to protect it from unauthorized disclosure or use, and to notify KPMG of any legal compulsions to disclose it, in accordance with the provisions governing legal demand of confidential information which appear in this engagement letter with respect to which KPMG Technology is being used, *mutatis mutandis*. KPMG Technology is not intended to be used as a system of record, repository, or hosting service, and the Authority acknowledges that its access to KPMG Technology and/or information contained therein may be removed within a reasonable period of time (no less frequently than annually) following the conclusion of the services to which such provision of access to KPMG Technology relates. the Authority may not redistribute, reproduce (except as necessary to run), modify, commercialize, allow third parties to access (except as permitted above or as otherwise authorized by KPMG in writing), or reverse engineer or decompile (except where such rights cannot be limited by applicable law) KPMG Technology. KPMG Technology is provided on an "as is", "as available" basis. If KPMG Technology is subject to any third party license terms and conditions, then before being provided to the Authority, the Authority may be required to accept such terms and conditions before using KPMG Technology, in which case KPMG will provide such license terms and conditions to the Authority in writing before the Authority elects to use KPMG Technology.

Except as otherwise provided for in this Engagement Letter, neither party may assign, transfer or delegate any of its rights, obligations, claims or proceeds from claims arising under or relating to this Engagement

Letter (including by operation of law, in which case the assigning party will, to the extent legally permissible, give as much advance written notice as is reasonably practicable thereof) without the prior written consent of the other party, such consent not to be unreasonably withheld. Any assignment in violation hereof shall be null and void.

As required by *Government Auditing Standards*, we have attached a copy of KPMG's most recent peer review report.

For the purpose of complying with the AICPA Code of Professional Conduct, the Authority agrees to provide to KPMG, at least annually, a complete and accurate listing of all of the Authority's affiliates as defined by AICPA Code of Professional Conduct interpretation ET 1.224 *Affiliates, Including State and Local Government Affiliates*, as applicable, and agrees to timely provide information to KPMG about events that may result in a change in the Authority's affiliates. The Authority further agrees to provide a listing of the Authority's officers, directors, individuals who have a beneficial ownership interest (known through reasonable inquiry) that gives the individual significant influence over the Authority, and individuals in key positions with respect to the preparation or oversight of the financial statements.

#### *Reports, Services and Associated Fees*

Appendix I to this Engagement Letter lists the reports we will issue and the services we will provide as part of this engagement and our fees for professional services to be performed under this Engagement Letter.

In addition, fees for any special audit-related projects, such as research and/or consultation on special business or financial issues, will be billed separately from the audit fees for professional services set forth in Appendix I and may be subject to written arrangements supplemental to those in this Engagement Letter.

\* \* \* \* \*

Our engagement herein is for the provision of annual audit services for the financial statements and the Uniform Guidance for the periods described in Appendix I, and it is understood that such services are provided as a single annual engagement. Pursuant to our arrangement as reflected in this Engagement Letter we will provide the services set forth in Appendix I as a single engagement for each of the Authority's subsequent fiscal years until either those charged with governance or we terminate this agreement, or mutually agree to the modification of its terms. The fees for each subsequent year will be annually subject to negotiation and approval by those charged with governance.

This Engagement Letter and any exhibits, attachments and appendices hereto, and amendments thereto agreed in writing by the parties, shall constitute the entire agreement between KPMG and the Authority with respect to the subject matter hereof and thereof, and supersede all other previous oral and written representations, understandings or agreements relating to the subject matter of this agreement.

Suffolk County Water Authority  
Date  
Page 13 of 17

We shall be pleased to discuss this Engagement Letter with you at any time. For your convenience in confirming these arrangements, we enclose a copy of this Engagement Letter. Please sign and return it to us to indicate your acknowledgement of, and agreement with, the arrangements for our audit of the financial statements including our respective responsibilities.

Very truly yours,

KPMG LLP

Jason E. Spiegel  
*Partner*

Enclosure

ACCEPTED

Suffolk County Water Authority

\_\_\_\_\_  
Chris Cecchetto

\_\_\_\_\_  
Title

\_\_\_\_\_  
Date



## APPENDIX I

### Reports, Services and Associated Fees

Based upon our discussions with and representations of management, our fees for services we will perform are estimated as follows:

Audit of financial statements and related notes to the financial statements of the Authority as of and for the years ended May 31, 2025 and 2024	\$215,000
Single audit for the year ended May 31, 2024	\$30,000**
Debt inclusion letter (per offering), if applicable	\$30,000*

#### Other Reports:

The other reports that we will issue as part of and upon completion of this engagement are as follows:

Report	Fee
Report on Internal Control Over Financial Reporting and Compliance and Other Matters based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	Included
Report on Investment Compliance	Included

### Fees and Expenses

\* In addition, the fees noted above related to the issuance of inclusion letters "(consent letter)" is for the inclusion letter only and do not include the issuance of a comfort letter (AU-C 920 Example Q). The scope of procedures necessary to issue a comfort letter is typically dependent upon the amount of unaudited interim information included in the offering document. Should SCWA require a comfort letter in connection with an offering, we expect fees would range between \$25,000 and \$30,000 in addition to the fees for the inclusion letter listed above.

\*\* Fees include one major program required to be audited per annum. Fees for additional major programs required to be audited in any given year shall range between \$10,000 – \$20,000 per program.

The above estimates are based on the level of experience of the individuals who will perform the services. In addition, expenses are billed for reimbursement as incurred. Expenses for items such as travel, telephone and postage are estimated at \$5,000. Circumstances encountered during the performance of these services that warrant additional time or expense could cause us to be unable to deliver them within the above estimates. We will endeavor to notify you of any such circumstances as they are assessed.

Professional standards prohibit us from performing services for audit clients where the fee for such services is contingent, or has the appearance of being contingent, upon the results of such services.

Professional standards also indicate that independence may be impaired if fees for professional services are outstanding for an extended period of time; therefore, it is important that our fees be paid promptly when billed. If a situation arises in which it may appear that our independence would be questioned

because of past due unpaid fees, we may be prohibited from issuing our audit report and associated consent.

Where KPMG is reimbursed for expenses, KPMG will bill the Authority for the amount it paid and will not add any markup to the expense. After such expenses are incurred, KPMG may receive rebates or incentive payments based on its aggregate purchases, which may include expenses reimbursed by the Authority in addition to other clients. Such rebates are not credited back to the Authority but are used to reduce KPMG's overhead.

## APPENDIX II

### KPMG CLARA TERMS OF USE

As used herein, "KPMG Clara" shall refer to those service coordination tools made available to Suffolk County Water Authority (the Authority) by KPMG that allow a group of users to access a virtual repository for the purposes of sharing information, engaging in online discussions, and accessing certain content. These terms of use (the "Terms") are between the Authority and KPMG and shall govern the Authority's use of KPMG Clara, including content posted to KPMG Clara by KPMG and/or its licensors. If the Authority is comprised of multiple legal entities, the Authority agrees that (a) it has the authority to bind all such entities, and (b) these Terms shall govern such entities' use of KPMG Clara. In the event of any conflict or inconsistency between these Terms and the contract(s) between KPMG and the Authority to which these Terms or KPMG Clara relates, these Terms shall govern with respect to the Authority's use of KPMG Clara only.

1. The Authority and its Authorized Users (as defined below) may access and use KPMG Clara solely in furtherance of KPMG's engagement(s) with the Authority. KPMG Clara is not intended for use as a document retention system and should not be regarded as a system of record. The Authority should retain or download any information from KPMG Clara it wishes to retain for its files. Access to information within KPMG Clara may be removed or become unavailable within a reasonable time once the corresponding engagement is completed. "Authorized User" means the Authority's employees and other personnel authorized by the Authority and approved by KPMG to access and use KPMG Clara. The Authority shall ensure that all Authorized Users who access and use KPMG Clara comply with these Terms. The Authority shall promptly notify KPMG about any Authorized User who should no longer have access to KPMG Clara or improper access to the password of an Authorized User.
2. The Authority may not: (a) copy, translate, modify, adapt or create derivative works from KPMG Clara; (b) rent, lease, lend, pledge, or directly or indirectly transfer or distribute KPMG Clara to any third party; or (c) use KPMG Clara to upload, store, post, email, transmit or otherwise make available any content that is unlawful and/or infringes any intellectual property rights or data protection, privacy or other rights of any other party. The Authority is responsible for the information its users may upload to such tools and compliance with all laws and regulations applicable to use or access by the Authority's users outside the U.S. (e.g. export control and data privacy laws and regulations). Except for the license granted herein to the Authority, the Authority acquires no right or interest of any kind in or to KPMG Clara.
3. Technical factors such as bandwidth, network configurations, and browser settings can affect KPMG Clara's speed and accessibility. KPMG does not guarantee the continuous, uninterrupted or error-free operability of KPMG Clara, or compatibility with the Authority's computer browser or any other part of its computing systems. Access to KPMG Clara may be suspended or limited at any time, and content may be unavailable. KPMG is not responsible for the content of any third-party websites, or hyperlinks which may be featured on KPMG Clara.
4. If KPMG's relationship with the Authority terminates for any reason, all further access to and use of KPMG Clara by the Authority and its Authorized Users must immediately cease and KPMG may deactivate or delete related user accounts, unless otherwise required by applicable law or professional standards to maintain such accounts. KPMG reserves the right to terminate the Authority's access to KPMG Clara for any reason.

5. EXCEPT AS EXPRESSLY STATED IN THESE TERMS, KPMG CLARA IS MADE AVAILABLE ON AN "AS-IS", "AS AVAILABLE" BASIS WITHOUT REPRESENTATIONS OR WARRANTIES OF ANY KIND, WHETHER EXPRESS OR IMPLIED.
6. Refer to KPMG's Privacy Statement (<https://home.kpmg/us/en/home/misc/privacy.html>) for information about how KPMG collects, uses, and protects personal data.

DRAFT

**(Firm Letterhead)**

Date

Suffolk County Water Authority  
4050 Sunrise Highway  
Oakdale, New York 17769

Attention: Mr. Chris Cecchetto, Chief Financial Officer

PRIVATE

This engagement letter (Engagement Letter) confirms our understanding of the terms of our engagement to report upon our examination of management of Suffolk County Water Authority's (the Authority) assertion that the Authority complied with Section 201.3 of Title Two of the *Official Compilation of Codes, Rules and Regulations of the State of New York* during the period June 1, 2024 to May 31, 2025. The Authority's management is responsible for its assertion. Management is responsible for selecting the criteria, and determining that such criteria are suitable, will be available to the intended users, and are appropriate for the purpose of the engagement. Our responsibility is to express an opinion on management's assertion based on our examination. The following paragraphs describe the objectives of our engagement and the nature and limitations of the services KPMG LLP (KPMG) will provide.

We will conduct the examination in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*) with the objective of expressing an opinion in a written independent accountants' examination report as to whether the assertion that the Authority complied with Section 201.3 of Title Two of the *Official Compilation of Codes, Rules and Regulations of the State of New York* during the period June 1, 2024 to May 31, 2025. The Authority is responsible for its compliance with Section 201.3 of Title Two of the *Official Compilation of Codes, Rules and Regulations of the State of New York* during the period June 1, 2024 to May 31, 2025 in accordance with the criteria in all material respects. An examination is designed to obtain reasonable assurance about whether the assertion as measured or evaluated against the criteria is free from material misstatement. Accordingly, we will perform such procedures as we consider necessary in the circumstances to provide a reasonable basis for our opinion about whether the Authority complied with Section 201.3 of Title Two of the *Official Compilation of Codes, Rules and Regulations of the State of New York* during the period June 1, 2024 to May 31, 2025, in accordance with the criteria in all material respects. Because of the inherent limitations of an examination engagement together with the inherent limitations of internal control, an unavoidable risk exists that some material misstatements may not be detected even though the examination is properly planned and performed in accordance with the attestation standards established by the American Institute of Certified Public Accountants and *Government Auditing Standards*.

To the extent they come to our attention, we will communicate to the Authority any known or suspected fraud, noncompliance with laws or regulations, and uncorrected misstatements.



Our report will be addressed to Members of the Authority. We cannot provide assurance that we will render an unmodified opinion. Circumstances may arise in which it is necessary for us to modify our report or withdraw from the engagement. In such circumstances, we will communicate our findings or reasons for modification or withdrawal to those charged with governance.

In accordance with *Government Auditing Standards*, we will:

- a. include in our report all internal control deficiencies, even those communicated early, that we consider to be material weaknesses or significant deficiencies that we identify based on the engagement work performed,
- b. include in our report the relevant information about noncompliance and fraud when we, based on sufficient, appropriate evidence, identify or suspect:
  - 1. noncompliance with provisions of laws, regulations, contracts, or grant agreements that has a material effect on the subject matter or an assertion about the subject matter, or
  - 2. fraud that is material, either quantitatively or qualitatively, to the subject matter or an assertion about the subject matter that is significant to the engagement objectives.
- c. communicate, in writing, when we identify or suspect noncompliance with provisions of laws, regulations, contracts or grant agreements, or instances of fraud that have an effect on the subject matter or an assertion about the subject matter that are less than material but warrant the attention of those charged with governance, and
- d. in certain circumstances, report identified or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or instances of fraud directly to parties outside the Authority.

In accordance with *Government Auditing Standards*, management is responsible for:

- a. providing us with written responses to the findings included in our report within 10 days of being provided with draft findings. If such information is not provided on a timely basis prior to release of the report, the report will indicate management did not provide written responses, and
- b. distributing the reports issued by KPMG LLP.

The Authority agrees to provide us with a written assertion about the measurement or evaluation of the subject matter against the criteria. In addition, the Authority agrees to provide us with access to i) all information, such as records, documentation, service level agreements, and internal audit or other reports, of which management is aware that is relevant to the subject matter underlying its assertion; ii) additional information that we may request from management for the purpose of our examination; and iii) unrestricted access to personnel within the organization from whom we determine it is necessary to obtain evidence relevant to this engagement.

At the conclusion of the engagement, the Authority agrees to supply us with a representation letter that will include:

- a. its assertion about the subject matter based on the criteria,
- b. a statement that all relevant matters are reflected in the measurement or evaluation of the assertion or subject matter,

- c. a statement that all known matters contradicting the assertion or subject matter and any communication from regulatory agencies or others affecting the assertion or subject matter have been disclosed to us, including communications received between the end of the period addressed in the written assertion and the date of our report,
- d. acknowledgment of its responsibility for the assertion and the subject matter, selecting the criteria, when applicable, and determining that such criteria are suitable and will be available to the intended users, and are appropriate for the purpose of the engagement,
- e. a statement that any known events subsequent to the period (or point in time) of the subject matter being reported on that would have a material effect on the assertion or subject matter have been disclosed to us,
- f. a statement that it has provided us with all relevant information and access,
- g. if applicable, a statement that it believes the effects of uncorrected misstatements are immaterial, individually and in the aggregate, to the subject matter,
- h. if applicable, a statement that significant assumptions used in making any material estimates are reasonable, and
- i. a statement that it has disclosed to us
  - i all deficiencies in internal control relevant to the engagement of which it is aware;
  - ii its knowledge of any actual, suspected, or alleged fraud or noncompliance with laws or regulations affecting the subject matter; and
  - iii other matters as we may deem appropriate.

If the written assertion and a representation letter are not provided, it may be necessary for us to withdraw from the engagement.

The liability of KPMG and its personnel and agents to the Authority and its directors, officers, personnel and agents on account of any actions, damages, claims, liabilities, costs, expenses or losses in any way arising out of or relating to the services performed under this Engagement Letter shall be limited to the amount of fees paid or owing to KPMG under this Engagement Letter. In no event shall KPMG or any of its personnel or agents be liable for consequential, special, indirect, incidental, punitive or exemplary damages, costs, expenses, or losses (including, without limitation, lost profits and opportunity costs). In addition to the above, because of the importance of management's representations to the effective performance of our services, the Authority hereby releases KPMG and its personnel from and against any and all claims, liabilities, costs, and expenses relating to our services under this Engagement Letter attributable to any misrepresentations in the representation letter referred to above. The provisions of this paragraph shall apply regardless of the form of action, damage, claim, liability, cost, expense, or loss asserted, whether in contract, statute, tort (including but not limited to negligence) or otherwise.

The Authority will indemnify, defend, and hold KPMG and its personnel harmless from and against any and all claims, liabilities, costs, and expenses asserted against KPMG by any third party to the extent resulting from or attributable to (i) that party's use or possession of, or reliance upon, KPMG's report or reference to KPMG's services hereunder as a result of the Authority's disclosure of such report or reference or (ii) any misrepresentations in the representation letter referred to above. The foregoing indemnification obligation shall

apply regardless of whether the third party claim alleges a breach of contract, violation of statute or tort (including without limitation negligence) by KPMG.

We understand that our report will not be used, included, or incorporated by reference, nor will we be referred to as auditors or attestors of the assertion or subject matter, in any document offering securities for sale or that is filed or furnished with the Securities and Exchange Commission.

If our examination report on the subject matter or assertion is to be included in a document that includes the subject matter or assertion and other information, the Authority agrees to provide us with a draft of such document and understands that the attestation standards require us to read the other information to identify material inconsistencies with the subject matter, assertion or our independent accountants' report. Our attestation engagement does not include the performance of procedures to corroborate such other information.

To facilitate our examination planning, in accordance with *Government Auditing Standards*, management agrees to identify and provide copies of reports, if applicable, of previous audits, attestation engagements, or other studies that directly relate to the subject matter or an assertion about the subject matter of the examination being undertaken, including whether related recommendations have been implemented, prior to June 1 each year.

### **Dispute Resolution**

Any dispute or claim between the parties shall be submitted first to non-binding mediation and if mediation is not successful within 90 days after the issuance by one of the parties of a request for mediation then to binding arbitration in accordance with the Rules for Non-Administered Arbitration of the International Institute for Conflict Prevention and Resolution ("IICPR"). Any issue concerning the extent to which any dispute is subject to arbitration, or any dispute concerning the applicability, interpretation, or enforceability of these dispute resolution procedures, including any contention that all or part of these procedures is invalid or unenforceable, shall be governed by the Federal Arbitration Act and resolved by the arbitrators. By operation of this provision, the parties agree to forgo litigation over such disputes in any court of competent jurisdiction.

Mediation shall take place at a location to be designated by the parties using Mediation Procedures of the IICPR, with the exception of paragraph 2 (Selecting the Mediator). Arbitration shall take place in New York, New York and shall be governed by the Federal Arbitration Act, 9 U.S.C. §§ 1, et seq. Party-selected arbitrators shall be selected from the lists of neutrals maintained by either the IICPR or by JAMS, Inc., but the chair of the arbitration panel does not have to be selected from those specific lists. The arbitration panel shall have no power to award non-monetary or equitable relief of any sort except as provided in IICPR Rule 13 (Interim Measures of Protection). Damages that are inconsistent with any applicable agreement between the parties, that are punitive in nature, or that are not measured by the prevailing party's actual damages shall be unavailable in arbitration or any other forum. In no event, even if any other portion of these provisions is held to be invalid or unenforceable, shall the arbitration panel have power to make an award or impose a remedy that could not be made or imposed by a court deciding the matter in the same jurisdiction.

Either party may seek to enforce any written agreement reached by the parties during mediation, or to confirm, enforce or vacate any final award entered in arbitration, in any court of competent jurisdiction, provided that any party moving to enforce, confirm or vacate any such agreement or award, as the case may be, will file such motion under seal unless prohibited under applicable court rules. Notwithstanding the agreement to such procedures, either party may seek equitable relief to enforce its rights in any court of competent jurisdiction.

### **Other Matters**

All disputes between the parties (whether based in contract, tort, statute, regulation, or otherwise and whether pending in court or in an arbitral forum) shall be governed by and construed in accordance with the substantive and procedural laws of the State of New York, including without limitation, its statutes of limitations, without regard to the conflict of laws provisions of New York or any other state or jurisdiction. In the event that any term or provision of this Engagement Letter shall be held to be invalid, void or unenforceable, then the remainder of the Engagement Letter shall not be affected, and each such term and provision shall be valid and enforceable to the fullest extent permitted by law.

The Authority and KPMG acknowledge and agree that each shall comply with all applicable United States export control laws and regulations in the performance of each party's respective responsibilities under the Engagement Letter. Unless requested by KPMG to allow it to complete its attest engagement, the Authority will not provide KPMG, or grant KPMG access to, (a) information (including technical data or technology), verbally, electronically, or in hardcopy, (b) software or (c) hardware, that is controlled for export by the United States government under the Arms Export Control Act of 1976, Export Control Reform Act of 2018, the International Traffic in Arms Regulations ("ITAR"), Export Administration Regulations ("EAR"), Department of Energy Part 810 Regulations or Nuclear Regulatory Commission Part 110 Regulations, except information, software or hardware that is classified as EAR99 under the EAR ("Export Controlled Information"). If KPMG requests Export Controlled Information from the Authority, the Authority shall provide KPMG with notice of provision of Export Controlled Information at least 48 hours prior to providing such Export Controlled Information to KPMG.

KPMG is a limited liability partnership comprising both certified public accountants and certain principals who are not licensed as certified public accountants. Such principals may participate in the engagements to provide the services described in this Engagement Letter.

The documentation for this engagement is the property of KPMG. If KPMG receives a subpoena; other validly issued administrative, judicial, government or investigative regulatory demand or request; or other legal process requiring it to disclose the Authority's confidential information ("Legal Demand"), KPMG shall, unless prohibited by law or such Legal Demand, provide prompt written notice to the Authority of such Legal Demand in order to permit it to seek a protective order. So long as KPMG gives notice as provided herein, KPMG shall be entitled to comply with such Legal Demand to the extent required by law, subject to any protective order or the like that may have been entered in the matter. In the event KPMG is requested or authorized by the Authority, or is required by law, rule, regulation or Legal Demand in a proceeding or investigation to which KPMG is not a named party or respondent, to produce KPMG's documents or personnel as witnesses or for interviews, or otherwise to make information relating to the service under the Engagement Letter available to a third party, or the Authority, the Authority shall reimburse KPMG for its professional time, at its then-current standard hourly rates, and expenses, including reasonable attorneys' fees and expenses, incurred in producing documents or personnel or providing information pursuant to such requests, authorizations or requirements.

Pursuant to *Government Auditing Standards*, and subject to applicable provisions of laws and regulations, we are required to make appropriate individuals and certain attest documentation available in a timely manner to other auditors or reviewers upon request.

KPMG, as an accounting firm, has an obligation to comply with applicable professional standards. Certain professional standards, including AICPA Code of Professional Conduct Section 1.700, "Confidential Client Information Rule," adopted by the American Institute of Certified Public Accountants and similar rules adopted by the boards of accountancy of many states, prohibit the disclosure of client confidential information without

client consent, except in limited circumstances. KPMG represents to the Authority that KPMG will treat the Authority's confidential information in accordance with applicable professional standards.

KPMG may work with and use the services of other members of the international KPMG network of independent firms and entities controlled by, or under common control with, one or more KPMG member firms (together with KPMG, the "KPMG Firms") to provide services to the Authority. The KPMG Firms, together with the entities comprising KPMG International, shall be referred to herein as the "KPMG Parties." In connection with the performance of services under this Engagement Letter, the KPMG Firms may, in their discretion, utilize the services of third party service providers within or outside of the United States to complete the services under this Engagement Letter. KPMG Parties and such third parties may have access to your confidential information from offshore locations. In addition, KPMG uses third party service providers within and outside of the United States to provide, at its direction, back-office administrative and clerical, or analytical services to KPMG and these third party service providers may in the performance of such services have access to your confidential information. In particular, KPMG's technologies, software productivity tools and certain technology infrastructure and, necessarily, your confidential information, may be hosted in cloud environments operated by KPMG Parties or such third party service providers. In addition, KPMG Parties may have access to certain of your information in respect to engagement acceptance and other professional responsibilities such as maintaining independence and performing conflict checks. KPMG represents that it has technical, legal and/or other safeguards, measures and controls in place to protect your confidential information from unauthorized disclosure or use; and KPMG shall remain responsible to you for maintaining the confidentiality of your confidential information. KPMG shall remain responsible to the Authority for the performance of such services by any KPMG Parties or other third parties, including obligations of confidentiality, to the same extent KPMG is obligated under the terms of this Engagement Letter. As such, the Authority agrees it shall not bring any claim relating to this Engagement Letter against any KPMG Parties, other than KPMG.

You also understand and agree that the KPMG Parties, with the assistance of third parties as outlined above, may use all the Authority's information to (i) analyze trends, perform comparative analysis, and develop and improve benchmarks; (ii) develop and improve technology and services; and (iii) improve other services to the Authority and to provide insights to the Authority about its business. Such information will not be disclosed to third parties other than third parties as outlined above assisting KPMG Parties with these uses unless such information is in an aggregated or anonymized format that does not identify the Authority.

Except as otherwise provided for in this Engagement Letter, neither party may assign, transfer or delegate any of its rights, obligations, claims or proceeds from claims arising under or relating to this Engagement Letter (including by operation of law, in which case the assigning party will, to the extent legally permissible, give as much advance written notice as is reasonably practicable thereof) without the prior written consent of the other party, such consent not to be unreasonably withheld. Any assignment in violation hereof shall be null and void.

As required by *Government Auditing Standards*, we have attached a copy of KPMG's most recent peer review report.

\* \* \* \* \*

This Engagement Letter and any exhibits, attachments and appendices hereto, and amendments thereto agreed in writing by the parties, shall constitute the entire agreement between KPMG and the Authority with respect to the subject matter hereof and thereof, and supersede all other previous oral and written representations, understandings or agreements relating to the subject matter of this agreement.

Based upon our discussions with and representations of management, we estimated all engagement fees in aggregate and communicated such fees in the audit engagement letter. This estimate is based on the level of experience of the individuals who will perform the services. In addition, expenses are billed for reimbursement as incurred. Circumstances encountered during the performance of these services that warrant additional time or expense could cause us to be unable to deliver the services within the above estimates. We will endeavor to notify you of any such circumstances as they are assessed.

Our fees and expenses will be billed every two weeks as charges are incurred. All invoices shall be paid within 30 days after the date thereof. In the event any invoice is not timely paid as set forth herein, then upon five days prior written notice to you, KPMG may terminate its performance hereunder and will not be responsible for any loss, costs, or expense thereby resulting. It is understood that neither our fees nor the payment thereof will be contingent upon the results of our engagement.

Professional standards prohibit us from performing services for attest clients where the fee for such services is contingent, or has the appearance of being contingent, upon the results of such services.

Professional standards also indicate that independence may be impaired if fees for professional services are outstanding for an extended period of time; therefore, it is important that our fees be paid promptly when billed. If a situation arises in which it may appear that our independence would be questioned because of past due unpaid fees, we may be prohibited from issuing our report.

Where KPMG is reimbursed for expenses, KPMG will bill the Authority for the amount it paid and will not add any markup to the expense. After such expenses are incurred, KPMG may receive rebates or incentive payments based on its aggregate purchases, which may include expenses reimbursed by NYPR in addition to other clients. Such rebates are not credited back to the Authority but are used to reduce KPMG's overhead.

All fees, charges and other amounts payable to KPMG under the Engagement Letter do not include any sales, use, excise, value added, income or other applicable taxes, tariffs or duties, payment of which shall be the Authority's sole responsibility, excluding any applicable taxes based on KPMG's net income or taxes arising from the employment or independent contractor relationship between KPMG and its personnel.

We shall be pleased to discuss this Engagement Letter with you at any time. For your convenience in confirming these arrangements, we enclose a copy of this Engagement Letter. Please sign and return it to us.

Suffolk County Water Authority  
Date  
Page 8 of 8

Very truly yours,  
  
KPMG LLP

Jason E. Spiegel  
*Partner*

Enclosure

ACCEPTED

Suffolk County Water Authority

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Chris Cecchetto

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Title

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Date



# US Audit Quality, Transparency and Impact reports



- Interactive dashboard highlights key quality metrics
- Details KPMG's investment in our audit approach, people, technology, quality management system and the future of audit

## Audit Quality Report



- Provides more granular detail on our commitment to continually enhance audit quality
- Outlines KPMG LLP's System of Quality Control
- Discusses how the firm aligns with the requirements and intent of applicable professional standards including our System of Quality Control Statement of Effectiveness

## Transparency Report



- Provides annual update on our progress on meeting goals aligned to People, Planet, Prosperity, and Governance
- Our goals reflect a materiality assessment and our aspiration to be an employer of choice

## KPMG Impact Plan

Reports and supplements available at: <https://kpmg.com/us/en/articles/audit-quality-report.html>

Beginning with the fiscal year 2024, a separate NYSE supplement is not provided as the relevant information has been incorporated into the transparency report.