



SUFFOLK COUNTY WATER AUTHORITY

Schedule of Investments

May 31, 2017

(With Independent Auditors' Reports Thereon)

SUFFOLK COUNTY WATER AUTHORITY

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KPMG LLP
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Independent Auditors' Report

The Members
Suffolk County Water Authority:

Report on the Schedule of Investments

We have audited the accompanying schedule of investments (the Schedule) of the Suffolk County Water Authority (the Authority) as of May 31, 2017 and the related notes to the Schedule.

Management's Responsibility for the Schedule

Management is responsible for the preparation and fair presentation of the Schedule in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Schedule that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on this Schedule based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* and the requirements of the Investment Guidelines for Public Authorities, issued by the Office of the State Comptroller of the State of New York. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Schedule. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the Schedule, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Schedule in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Schedule.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Schedule referred to above presents fairly, in all material respects, the investments of the Authority as of May 31, 2017 in accordance with U.S. generally accepted accounting principles.

Other Matter

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, the financial statements of the Suffolk County Water Authority as of and for the year ended May 31, 2017 and our report thereon, dated August 31, 2017, expressed an unmodified opinion on those financial statements.



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August XX, 2017, on our consideration of the Authority's internal control over reporting of the schedule of investments and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over reporting of the schedule of investments and compliance and the results of that testing, and not to provide an opinion on internal control over reporting of the schedule of investments or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over reporting of the schedule of investments and compliance.

KPMG LLP

August 31, 2017

SUFFOLK COUNTY WATER AUTHORITY

Schedule of Investments

May 31, 2017

(In thousands)

Unrestricted:		
Operating, general, and revenue funds	\$	30,458
Restricted:		
Debt service		92,848
Construction		<u>58,246</u>
Total restricted funds		<u>151,094</u>
Total investments	\$	<u><u>181,552</u></u>

See accompanying notes to schedule of investments.

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Notes to Schedule of Investments

May 31, 2017

(1) Organization and Functions of the Authority

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

(2) Summary of Significant Accounting Policies for Investments

(a) Investments

Funds held by the Authority are administered in accordance with the Authority's investment guidelines pursuant to Section 2925 of the New York State Public Authorities Law. These guidelines comply with the New York State Comptroller's investment guidelines for public authorities. Certain investments and cash and cash equivalents have been designated by the Authority's board of trustees to be used for specific purposes, including rate stabilization, debt service, and capital expenditures.

All investments with original maturities of longer than 90 days are reported as investments and are carried at fair value, except for investment agreements and certificates of deposit. Investment agreements, which can take the form of open-time deposits or fixed repurchase agreements, are reported at an amount equal to principal and accrued interest. Certificates of deposit are valued at cost, which approximates fair value.

(b) Investments Held for Debt Service

In accordance with the 1988 General Bond Resolution, as amended (the Resolution), the Authority maintains a debt service reserve. The reserve is held by a Fiscal Agent.

Investments held for debt service reserve and bond funds are used solely for the purpose of paying the principal and interest on the bonds, and for retiring the bonds prior to maturity. Amounts in the debt service and bond funds are invested in U.S. Treasury Notes and U.S. government and U.S. government sponsored entity securities.

(c) Investments Held for Construction

In accordance with the Resolution, investments held for the construction fund are for the costs of acquiring, constructing, and replacing the water system. Amounts in the investments held for construction are invested in money market accounts.

(d) Fair Value Measurement

Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the financial statement measurement date. The fair value hierarchy categories the inputs to valuation techniques used to measure fair value into three levels as follows:

- Level 1 – unadjusted quoted prices for identical assets or liability in active markets that a government can access at the measurement date

SUFFOLK COUNTY WATER AUTHORITY

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May 31, 2017

- Level 2 – quoted prices other than those included within Level 1 and other inputs that are observable for an asset or liability, either directly or indirectly
- Level 3 – unobservable inputs for an asset or liability

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3. When the fair value of an asset or a liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level that is significant to the entire measurement.

(3) Investments

Investments, including restricted investments, consist of the following at May 31, 2017:

	2017 Fair value	Investment maturities (In years)		
		Less than 1	1 to 5	Greater than 5
		(In thousands)		
U.S. Treasury notes (1)	\$ 3,311	747	1,302	1,262
U.S. Treasury bonds (1)	976	—	129	847
FNMA notes (1)	1,989	—	1,989	—
FHLB notes (1)	71,058	45,738	25,320	—
FHLMC notes (1)	37,938	2,999	34,939	—
FFCB notes (1)	7,491	7,491	—	—
NYS municipal bonds	501	—	—	501
Money market	58,246	58,246	—	—
Guaranteed investment contracts (1)	42	42	—	—
Total investments	\$ <u>181,552</u>	<u>115,263</u>	<u>63,679</u>	<u>2,610</u>

(1) Includes approximately \$92.8 million of investments held by a Fiscal Agent in the Authority's name at May 31, 2017.

The Authority's investment policy states that securities underlying repurchase agreements must have a market value at least equal to the cost of the investment. All investments are either insured or registered and held by the Authority or its agent in the Authority's name.

Money markets, U.S. Treasury notes and bonds are considered Level 1 in the fair value hierarchy. All other investments are considered Level 2 in the fair value hierarchy due to the fair value being determined through matrix pricing or quoted prices for identical securities in markets not considered active.

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May 31, 2017

Interest Rate Risk: The Authority's investment policy does not include limits on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk: It is part of the Authority's investment policy to safeguard the principal of its investments while obtaining the highest interest rate possible that is consistent with this and other components of its policy. Toward that end, permitted investments include but are not limited to federally backed securities or obligations of any state of the United States of America or any political subdivision rated by at least two nationally recognized bond-rating agencies. As of May 31, 2017, the Authority's investments in Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank Notes, and the Federal Home Loan Mortgage Corporation were rated AAA by Moody's Investors Service and AA+ by Standard & Poor's Ratings Services and Fitch Ratings.

Concentration of Credit Risk: The Authority places no limit on the amount the Authority may invest in any one issuer. More than 5% of the Authority's investments are in Federal Home Loan Bank (\$71.1 million or 39.1% of investments), Federal Farm Credit Bank (\$7.5 million or 4.1% of investments), Federal National Mortgage Association (\$1.9 million or 1.1% of investments), and Federal Home Loan Mortgage Corp. (\$37.9 million or 20.9% of investments) at May 31, 2017.



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Report on Internal Control Over Reporting of the Schedule of Investments and on Compliance and Other Matters Based on an Audit of the Schedule of Investments Performed in Accordance with *Government Auditing Standards*

The Members
Suffolk County Water Authority:

We have audited the Schedule of Investments (the Schedule) as of May 31, 2017 and the related notes to the Schedule, and have issued our report thereon dated August 31, 2017. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the requirements of the Investment Guidelines for Public Authorities, issued by the Office of the State Comptroller of the State of New York.

Internal Control Over Financial Reporting

In planning and performing our audit of the Schedule, we considered the Suffolk County Water Authority's (the Authority) internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Schedule, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Schedule is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and the requirements of the Investment Guidelines for Public Authorities, issued by the Office of the State Comptroller of the State of New York.



Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

August 31, 2017