

SCHEDULE OF INVESTMENTS

Suffolk County Water Authority

May 31, 2008

With Report of Independent Auditors

Suffolk County Water Authority

Schedule of Investments

May 31, 2008

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Report of Independent Auditors

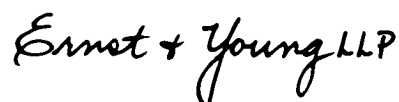
To the Members of
Suffolk County Water Authority

We have audited, in accordance with auditing standards generally accepted in the United States, the financial statements of the Suffolk County Water Authority (the “Authority”) for the year ended May 31, 2008, and have issued our report thereon dated September 8, 2008. We also have audited the accompanying Schedule of Investments of the Authority as of May 31, 2008. This Schedule is the responsibility of the Authority’s management. 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule of Investments is free of material misstatement. We were not engaged to perform an audit of the Authority’s internal control over financial reporting. Our audit included consideration of internal control over financial reporting 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 Authority’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Schedule referred to above presents fairly, in all material respects, the Schedule of Investments of the Authority at May 31, 2008, in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2008 on our consideration of the Authority’s internal control over financial reporting 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 financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



September 8, 2008

Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit
of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Members of
Suffolk County Water Authority

We have audited the financial statements of the Suffolk County Water Authority (the “Authority”), as of and for the year ended May 31, 2008, and have issued our report thereon dated September 8, 2008. We have also audited the Schedule of Investments as of May 31, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the standards for financial and compliance audits contained in the Investment Guidelines for Public Authorities, issued by the Office of the State Comptroller of the State of New York; and the investment guidelines established by the Authority.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority’s internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority’s internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity’s financial statements that is more than inconsequential will not be prevented or detected by the entity’s internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity’s internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and investment guidelines, noncompliance with which could have a direct and material effect on the determination of financial statement 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*.

This report is intended solely for the information and use of the Audit Committee, management and the Office of the State Comptroller of the State of New York, and is not intended to be and should not be used by anyone other than these specified parties.

Ernst & Young LLP

September 8, 2008

Suffolk County Water Authority

Schedule of Investments

May 31, 2008

(In Thousands of Dollars)

Operating, general, and revenue funds		\$ 129,767
Construction fund	\$ 64,663	
Debt service reserve and bond funds	36,694	
Total restricted funds	<u> </u>	<u>101,357</u>
		<u>\$ 231,124</u>

The accompanying notes are an integral part of this Schedule.

Suffolk County Water Authority

Notes to Statement of Investments

May 31, 2008

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

2. Summary of Significant Accounting Policies for Investments

Cash and Cash Equivalents

Investments with original maturity dates of 90 days or less are considered cash equivalents.

Investments

All investments with maturities 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.

Investments Held for Debt Service

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

Investments held for debt service 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 bond fund are invested in U.S. Treasury Notes and U.S. government securities.

Suffolk County Water Authority

Notes to Statement of Investments (continued)

2. Summary of Significant Accounting Policies for Investments (continued)

Investments Held for Construction

In accordance with the Resolution, monies held for construction are internally designated for the costs of acquiring, constructing and replacing the water system.

3. Cash and Cash Equivalents and Investments

Cash and Cash Equivalents

Cash consists of insured (FDIC) or collateralized deposits which have carrying values of approximately \$2,501,000 and \$3,662,000 and bank balances of approximately \$4,159,000 and \$5,821,000 at May 31, 2008 and 2007, respectively. Collateral for deposits is held by the bank in the name of the Authority.

Investments

Investments consist of the following:

	Fair Value		Investment Maturities at May 31, 2008 in Years		
	2008	2007	Less than 1	1 to 5	Greater than 5
	<i>(In Thousands of Dollars)</i>				
Certificates of deposit	\$ 75,600	\$ 13,400	\$ 75,600	\$ —	\$ —
U.S. Treasury bills ^(a)	177	477	177	—	—
U.S. Treasury notes	2,035	2,980	1,520	515	—
U.S. Treasury bonds ^(a)	8,794	8,794	—	—	8,794
FNMA ^(a)	34,380	56,239	29,880	4,500	—
FHLB notes ^(a)	39,579	51,454	26,059	13,520	—
FHLMC notes	10,060	4,890	4,045	6,015	—
FRMC notes	—	3,974	—	—	—
FFCB notes	3,053	6,461	1,003	2,050	—
Money market ^(a)	424	224	424	—	—
Guaranteed investment contracts ^(a)	500	569	500	—	—
Repurchase agreements	56,522	24,223	56,522	—	—
Total investments	\$ 231,124	\$173,685	\$195,730	\$ 26,600	\$ 8,794

Suffolk County Water Authority

Notes to Statement of Investments (continued)

3. Cash and Cash Equivalents and Investments (continued)

	<u>2008</u>	<u>2007</u>
	<i>(In Thousands of Dollars)</i>	
Investment breakdown:		
Restricted for:		
Debt service	\$ 36,694	\$ 33,923
Construction	64,663	34,976
Unrestricted	129,767	104,786
Total investments	<u>\$ 231,124</u>	<u>\$ 173,685</u>

- (a) Includes approximately \$54,394,000 and \$53,742,000 of investments held by Fiscal Agent at May 31, 2008 and 2007, respectively.

Accrued interest on investments is included in interest and other receivables on the Authority's balance sheets. Investments bear interest rates that range from 2.29% to 5.50%.

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.

Investments include U.S. Treasury obligations, its agencies, certificates of deposit, guaranteed investment contracts and repurchase agreements backed by such obligations. Investments are reported at fair value.

In addition, the Authority invests in an external investment pool called New York CLASS. The pool invests in obligations permissible under the Authority's investment policies. The fair value of the position of the pool is equal to the value of the pool shares. The value of this investment is reported as repurchase agreements.

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

Suffolk County Water Authority

Notes to Statement of Investments (continued)

3. Cash and Cash Equivalents and Investments (continued)

Credit Risk: It is the Authority's policy to limit its investments in debt securities to those rated in the highest rating category by at least two nationally recognized bond rating agencies. As of May 31, 2008, the Authority's investments in Federal National Mortgage Association, Federal Home Loan Bank and the Federal Home Loan Mortgage Corporation were rated Aaa by Moody's Investors Service and AAA by Standard & Poor's and Fitch Ratings.

Concentration of Credit Risk: The Authority places a limit of 75% of its funds on the amount the Authority may invest in any one issuer. More than 5% of the Authority's investments are in Federal National Mortgage Association and Federal Home Loan Bank. These investments are 15% (\$34,380,000) and 17% (\$39,579,000), respectively, of the Authority's total investments.