



SUFFOLK COUNTY WATER AUTHORITY

Schedule of Investments

May 31, 2012

(With Independent Auditors' Report Thereon)

SUFFOLK COUNTY WATER AUTHORITY

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Independent Auditors' Report

The Members
Suffolk County Water Authority:

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the Suffolk County Water Authority (the Authority) as of and for the year ended May 31, 2012, and have issued our report thereon dated August 28, 2012. We have also audited the accompanying schedule of investments of the Authority as of May 31, 2012. 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 of America 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. An audit includes 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, as well as 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, 2012, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 28, 2012, 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.

KPMG LLP

August 28, 2012



KPMG LLP
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1305 Walt Whitman Road
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**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***

The Members
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, 2012, and have issued our report thereon dated August 28, 2012. We have also audited the Schedule of Investments as of May 31, 2012. 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*, issued by the Comptroller General of the United States; and 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.

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 deficiency in internal control over financial reporting 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 over financial reporting, 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

KPMG LLP

August 28, 2012

SUFFOLK COUNTY WATER AUTHORITY

Schedule of Investments

May 31, 2012

(In thousands)

Unrestricted:		
Operating, general, and revenue funds	\$	87,110
Restricted:		
Debt service reserve and bond funds		80,059
Construction fund		<u>30,657</u>
Total restricted funds		<u>110,716</u>
Total investments	\$	<u><u>197,826</u></u>

See accompanying notes to schedule of investments.

SUFFOLK COUNTY WATER AUTHORITY

Notes to Schedule of Investments

May 31, 2012

(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**

(a) *Investments*

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 securities.

(c) *Investments Held for Construction*

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

SUFFOLK COUNTY WATER AUTHORITY

Notes to Schedule of Investments

May 31, 2012

(3) Investments

Investments consist of the following at May 31, 2012:

	Fair value, 2012	Investment maturities at May 31, 2012 (in years)		
		Less than 1	1 to 5	Greater than 5
		(In thousands)		
U.S. Treasury notes (1)	\$ 2,865	501	1,511	853
U.S. Treasury bonds (1)	3,541	—	—	3,541
FNMA's (1)	46,640	—	33,615	13,025
FHLB notes (1)	96,024	18,017	70,602	7,405
FHLMC notes	11,047	—	11,047	—
FDIC-insured notes	5,004	5,004	—	—
FFCB notes	3,496	—	3,496	—
Money market (1)	28,554	28,554	—	—
Guaranteed investment contracts (1)	655	655	—	—
Total investments	\$ 197,826	52,731	120,271	24,824

(1) Includes approximately \$82.2 million of investments held by Fiscal Agent in the Authority's name at May 31, 2012 and 2011.

	2012
	(In thousands)
Investment breakdown:	
Restricted for:	
Debt service	\$ 80,059
Construction	30,657
Unrestricted	87,110
Total investments	\$ 197,826

Accrued interest on investments is included in interest and other receivables on the Authority's balance sheets. Investments bear interest rates that range from 0.10% to 4.60%.

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.

SUFFOLK COUNTY WATER AUTHORITY

Notes to Schedule of Investments

May 31, 2012

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, 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.

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 in the table above. The New York CLASS program was closed and liquidated in June 2011.

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.

Custodial 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. Towards 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, 2012, the Authority's investments in Federal National Mortgage Association, Federal Home Loan Bank, FDIC Guaranteed Bonds, Federal Farm Credit Bank Notes, and the Federal Home Loan Mortgage Corporation were rated AAA by Moody's Investors Service and AAA by Standard & Poor's and Fitch Ratings. There were no investments in obligations of any state of the United States of America or any political subdivision.

Concentration of Credit Risk: The Authority places no limit on the amount the Authority may invest in anyone issuer. More than 5% of the Authority's investments are in Federal National Mortgage Association, Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, and Money Market Accounts. These investments are 24%: \$(46.6 million), 49%: \$(96.0 million), 6.0%: \$(11.0 million), and 14% \$(28.6 million), respectively, of the Authority's total investments.