

**MARYLAND WATER QUALITY
FINANCING ADMINISTRATION**

**A-133 Supplementary Financial Report
Together with Report of Independent Public Accountants**

For the Year Ended June 30, 2011



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JUNE 30, 2011

CONTENTS

Report of Independent Public Accountants	1
Report of Independent Public Accountants on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	3
Report of Independent Public Accountants on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	5
Schedule of Expenditures of Federal Awards	7
Notes to the Schedule of Expenditures of Federal Awards	8
Schedule of Findings and Questioned Costs	9
Summary Schedule of Prior Year Audit Findings	11



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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Director of
Maryland Water Quality Financing Administration

We have audited the accompanying financial statements of net assets of Maryland Water Quality Financing Administration (the Administration) as of June 30, 2011 and 2010, and the related statements of revenue, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Administration's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above presents fairly, in all material respects, the financial position of the Administration as of June 30, 2011 and 2010, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2011, on our consideration of the Administration'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.



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Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of the Administration taken as a whole. The Schedule of Expenditures of Federal Awards listed on page 7 is presented for the purpose of additional analysis as required by the *U.S. Office of Management and Budget OMB Circular A-133 Audits of States, Local Governments and Not-for-Profit Organizations* and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting records used to prepare the financial statements. The information has been subjected to the auditing principles applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting records used to prepare the financial statements, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole

SB & Company, LLC

Hunt Valley, Maryland
September 23, 2011



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**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS
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 Director of
Maryland Water Quality Financing Administration

We have audited the financial statements of Maryland Water Quality Financing Administration (the Administration) as of and for the year ended June 30, 2011, and have issued our report thereon dated September 23, 2011. 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 of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Administration's internal controls over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Administration's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Administration's internal control over financial reporting.

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.

Our consideration of the 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.



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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Administration's financial statements are free of 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 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 management, others within the Maryland Department of the Environment, Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Hunt Valley, Maryland
September 23, 2011

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**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS
ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND
MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Director of
Maryland Water Quality Financing Administration

Compliance

We have audited Maryland Water Quality Financing Administration (the Administration) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Administration's major Federal programs for the year ended June 30, 2011. The Administration's major Federal programs are identified in the summary of independent public accountants' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of the Administration's management. Our responsibility is to express an opinion on the Administration's compliance based on our audit.

We conducted our audit of compliance 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 of America; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the Administration's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Administration's compliance with those requirements.

In our opinion, the Administration complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2011.



Internal Control Over Compliance

The management of the Administration is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered the Administration's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Administration's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. A material weakness in internal control over compliance is a significant deficiency, or combination of significant deficiencies, in internal control, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, others within the Maryland Department of the Environment, Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Hunt Valley, Maryland
September 23, 2011

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MARYLAND WATER QUALITY FINANCING ADMINISTRATION

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011**

<u>Federal Grantor/ Pass- Through Grantor/Program or</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Award Amount</u>	<u>Amount Remaining</u>	<u>Current Year Federal Expenditures</u>
U.S. Environmental Protection Agency					
Capitalization Grants for Clean Water State Revolving Fund	66.458	CS-240001-07	\$ 25,885,926	\$ 5,462,400	\$ 8,591,127
		CS-240001-08	16,458,057	12,820,075	3,085,076
	ARRA	2W-240002-09*	94,784,600	19,541,592	56,390,539
			<u>137,128,583</u>	<u>37,824,067</u>	<u>68,066,742</u>
Capitalization Grants for Drinking Water State Revolving Fund	66.468	FS-993648-08	14,226,969	483,850	3,551,123
		FS-993648-09	11,209,000	2,908,629	7,427,902
		FS-993648-10	21,059,000	20,937,817	121,183
	ARRA	2F-093648-09*	26,832,000	4,562,578	17,447,732
		<u>73,326,969</u>	<u>28,892,874</u>	<u>28,547,940</u>	
Total			<u>\$ 210,455,552</u>	<u>\$ 66,716,941</u>	<u>\$ 96,614,682</u>

*These grants are ARRA funded grants.

The accompanying notes are an integral part of this schedule.

MARYLAND WATER QUALITY FINANCING ADMINISTRATION

**Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011**

1. SCOPE OF AUDIT PURSUANT TO OMB CIRCULAR A-133

All Federal grant operations of Maryland Water Quality Financing Administration (the Administration) are included in the scope of Office of Management and Budget (OMB) Circular A-133 audit (the Single Audit). The Single Audit was performed in accordance with the provisions of the OMB Circular A-133, Compliance Supplement (the Compliance Supplement). Compliance testing of all requirements, as described in the Compliance Supplement, was performed for the grant programs noted below. These programs represent all Federal award programs and other grants with fiscal year 2011 cash and non-cash expenditures in excess of \$2,898,440, to ensure coverage of at least 25% of Federally granted funds. Actual coverage is 100% of total cash and non-cash Federal award program expenditures.

<u>Major Program</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
Capitalization Grants for Clean Water- State Revolving Fund	66.458	\$ 68,066,742
Capitalization Grants for Drinking Water- State Revolving Fund	66.468	28,547,940

2. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes all Federal grants to the Administration that had activity during the fiscal year ended June 30, 2011. This schedule has been prepared on the accrual basis of accounting.

3. LOANS

The Administration has loans outstanding of \$727,753,671 and \$122,363,142 as of June 30, 2011, in the Clear Water and Drinking Water Revolving Funds, respectively, which were made with Federal funds and the 20% state match and other sources of funding.

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Fiscal Year 2011 Loan Disbursements</u>
State Revolving Funds:		
Capitalization Grants for Clean Water	66.458	\$ 37,709,636
Capitalization Grants for Drinking Water	66.468	16,947,224
Total		<u>\$ 54,656,860</u>

MARYLAND WATER QUALITY FINANCING ADMINISTRATION

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2011**

Section I –Summary of Independent Public Accountants’ Results

Financial Statements

Type of Independent Public Accountants’ report issued Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? None Reported
- Noncompliance material to financial statements? No

Federal Awards

Type of Independent Public Accountants’ report issued on compliance for major programs: Unqualified

Internal control over major programs:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? None Reported
- Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? No

Identification of Major Program:

<u>Major Federal Program</u>	<u>CFDA Number</u>	<u>Program Expenditures</u>
Capitalization Grants for Clean Water State Revolving Fund	66.458	\$ 68,066,742
Capitalization Grants for Drinking Water State Revolving Fund	66.468	28,547,940
Dollar threshold used to determine Type A programs:		\$ 2,898,440
Did the Administration qualify as a low risk auditee?		Yes

MARYLAND WATER QUALITY FINANCING ADMINISTRATION

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2011**

Section II –Financial Statement Findings

No findings were reported.

Section III –Federal Award Findings

No findings were reported.

MARYLAND WATER QUALITY FINANCING ADMINISTRATION

**Summary Schedule of Prior Year Audit Findings
For the Year Ended June 30, 2011**

There were no audit findings that must be reported in accordance with OMB Circular A-133 for the year ended June 30, 2010.