

**MARYLAND WATER QUALITY
FINANCING ADMINISTRATION**

**Single Audit Together with
Report of Independent Public Accountants**

For the Year Ended June 30, 2015



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JUNE 30, 2015

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Director of
Maryland Water Quality Financing Administration

Report on the Financial Statements

We have audited the accompanying statement of net position of the Maryland Water Quality Financing Administration (the Administration), an enterprise fund of the State of Maryland, as of June 30, 2015, and the related statements of revenue, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Administration's basic financial statements.

Management's Responsibility for the Financial Statements

The Administration's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, 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 financial statements 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 entity'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 financial statements.



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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Administration as of June 30, 2015, and its changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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 Governmental 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Administration's basic financial statements. The supplemental information as listed in the table of contents and the Schedule of Expenditures of Federal Awards, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplemental information and the Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial



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statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information and the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2015, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Administration's internal control over financial reporting and compliance.

Hunt Valley, Maryland
September 18, 2015



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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

Report on the Financial Statements

We have audited the basic financial statements of the Maryland Water Quality Financing Administration (the Administration), an enterprise fund of the State of Maryland, as of and for the year ended June 30, 2015, and have issued our report thereon dated September 18, 2015. 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.

Internal Control over Financial Reporting

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



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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Administration's financial statements are 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 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*.

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 Administration'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 Administration's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hunt Valley, Maryland
September 18, 2015

A handwritten signature in black ink that reads "SB & Company, LLC". The signature is written in a cursive, flowing style.



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**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON COMPLIANCE
FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Director of
Maryland Water Quality Financing Administration

Report on Compliance for Each Major Federal Program

We have audited Maryland Water Quality Financing Administration's (the Administration) compliance with the types of compliance requirements described in the 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, 2015. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Administration's major Federal programs based on our audit of the types of compliance requirements referred to above. 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; 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 on compliance for each major Federal program. However, our audit does not provide a legal determination of the Administration's compliance.



Opinion on Each Major Federal Program

In our opinion, the Administration complied, in all material respects, with the types of compliance 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, 2015.

Report on Internal Control Over Compliance

Management of the Administration is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Administration's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program 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 deficiency, or combination of deficiencies, in internal control over compliance, 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



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Purpose of this Report

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

Hunt Valley, Maryland
September 18, 2015

A handwritten signature in black ink that reads "SB & Company, LLC". The signature is written in a cursive, flowing style.

MARYLAND WATER QUALITY FINANCING ADMINISTRATION

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015**

Federal Grantor/ Pass- Through Grantor/Program or Cluster Title	Federal CFDA Number	Grant Number	Award Amount	Amount Remaining	Current Year Federal Expenditures
U.S. Environmental Protection Agency					
Capitalization Grants for Clean Water State Revolving Fund	66.458	CS-240001-12	\$ 34,183,000	\$ -	\$ 566,849
		CS-240001-13	32,291,000	242,427	32,048,573
		CS-240001-14	33,910,000	33,910,000	-
			<u>185,377,000</u>	<u>34,152,427</u>	<u>32,615,422</u>
Capitalization Grants for Drinking Water State Revolving Fund	66.468	FS-993648-12	13,926,000	-	2,270,879
		FS-993648-13	13,066,000	1,550,673	11,480,915
		FS-993648-14	15,012,000	15,012,000	-
			<u>57,252,906</u>	<u>16,562,673</u>	<u>13,751,794</u>
Total			<u>\$ 242,629,906</u>	<u>\$ 50,715,100</u>	<u>\$ 46,367,216</u>

The accompanying notes are an integral part of this schedule.

MARYLAND WATER QUALITY FINANCING ADMINISTRATION

**Notes to the Schedule of Expenditures of Federal Awards
June 30, 2015**

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 the 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 program noted below to ensure coverage of at least 25% of Federally granted funds. Actual coverage is 70% 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	\$ 32,615,422

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, 2015. This schedule has been prepared on the accrual basis of accounting.

3. LOANS

The Administration has loans outstanding of \$919,967,716 and \$154,642,460 as of June 30, 2015, in the Clean Water and Drinking Water Revolving Funds, respectively, which were made with Federal funds and the 20% state match and other sources of funding. Loans made with Federal funds during the fiscal year ended June 30, 2015 are listed below

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Fiscal Year 2015 Loan Disbursements</u>
State Revolving Funds:		
Capitalization Grants for Clean Water	66.458	\$ 31,105,403
Capitalization Grants for Drinking Water	66.468	6,206,183
Total		\$ 37,311,586

MARYLAND WATER QUALITY FINANCING ADMINISTRATION

**Notes to the Schedule of Expenditures of Federal Awards
June 30, 2015**

4. FEDERAL EXPENDITURES

Listed below are the Federal programs for the year ended June 30, 2015, by Grant listing the administrative set-a-side cost and pass through expenditures.

Federal Grantor/ Pass- Through Grantor/Program or Cluster Title	Federal CFDA Number	Grant Number	Administrative/ Set-a-Side Cost	Pass-through Expenditures	Current Year Federal Expenditures
U.S. Environmental Protection Agency					
Capitlization Grants for Clean Water State Revolving Fund	66.458	CS-240001-12	\$ -	\$ 566,849	\$ 566,849
		CS-240001-13	1,049,213	30,999,360	32,048,573
		CS-240001-14	-	-	-
			<u>1,049,213</u>	<u>31,566,209</u>	<u>32,615,422</u>
Capitalization Grants for Drinking Water State Revolving Fund	66.468	FS-993648-12	2,270,879	-	2,270,879
		FS-993648-13	2,465,375	9,015,540	11,480,915
		FS-993648-14	-	-	-
			<u>4,736,254</u>	<u>9,015,540</u>	<u>13,751,794</u>
Total			<u>\$ 5,785,467</u>	<u>\$ 40,581,749</u>	<u>\$ 46,367,216</u>

MARYLAND WATER QUALITY FINANCING ADMINISTRATION

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2015**

Section I –Summary of Independent Public Accountants’ Results

Financial Statements

Type of Independent Public Accountants’ report issued Unmodified

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: Unmodified

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:

Major Federal Program	CFDA Number	Program Expenditures
Capitalization Grants for Clean Water-State Revolving Fund	66.458	\$ 32,615,422

Dollar threshold used to determine Type A programs: 1,391,016

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, 2015**

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 2015**

There were no audit findings that must be reported in accordance with OMB Circular A-133 for the year ended June 30, 2014.