

**MARYLAND WATER QUALITY
FINANCING ADMINISTRATION**

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

For the Year Ended June 30, 2009



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June 30, 2009

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Trustees of
Maryland Water Quality Financing Administration

We have audited the statements of net assets of Maryland Water Quality Financing Administration (the Administration) as of June 30, 2009 and 2008, and the related statements of revenue, expenses, and changes in net assets and cash flows for the years 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 the 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 present fairly, in all material respects, the financial position of the Administration as of June 30, 2009 and 2008, and the changes in its financial position and 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 25, 2009, on our consideration of the Administration's internal control over financial reporting and 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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The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and we express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the basic financial statements of the Administration taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes 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 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Hunt Valley, Maryland
September 25, 2009

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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 Board of Trustees 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, 2009, and have issued our report thereon dated September 25, 2009. 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 control 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 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 over financial reporting.

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 Administration's internal control.



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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.

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, the Board of Trustees, others within the Administration, 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 25, 2009

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

To the Board of Trustees of
Maryland Water Quality Financing Administration

Compliance

We have audited the compliance of Maryland Water Quality Financing Administration (the Administration) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major Federal programs for the year ended June 30, 2009. The Administration's major Federal programs are identified in the accompanying 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 its major Federal programs are 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 generally accepted auditing standards 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 are applicable to each of its major Federal programs for the year ended June 30, 2009.



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, 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 control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a Federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program 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 material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance 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 compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the Administration as of and for the year ended June 30, 2009, and have issued our report thereon dated September 25, 2009. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects, in relation to the financial statements taken as a whole.



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This report is intended solely for the information and use of management, the Board of Trustees, others within the Administration, 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 25, 2009

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MARYLAND WATER QUALITY FINANCING ADMINISTRATION

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2009**

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Grant Number	Award Amount	Amount Remaining	Federal Expenditures
U.S. Environmental Protection Agency					
Capitalization Grants for Clean Water-State Revolving Fund	66.458	CS-24001-06	\$ 21,179,467	\$ -	\$ 2,631,182
		CS-24001-07	25,885,926	18,839,813	7,046,113
			<u>47,065,393</u>	<u>18,839,813</u>	<u>9,677,295</u>
Capitalization Grants for Drinking Water- State Revolving Fund	66.468	FS-993648-05	9,627,008	-	2,613,527
		FS-993648-06	10,864,106	-	2,939,713
		FS-993648-07	11,323,919	1,719,448	3,049,406
		FS-993648-08	14,216,480	10,641,806	3,574,674
			<u>46,031,513</u>	<u>12,361,254</u>	<u>12,177,320</u>
Total			\$ 93,096,906	\$ 31,201,067	\$ 21,854,615

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, 2009**

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 2009 cash and non-cash expenditures in excess of \$655,638 to ensure coverage of at least 25% of Federally granted funds. Actual coverage is 44% of total cash and non-cash Federal award program expenditures.

Major Federal Award Program Description	CFDA Number	Federal Expenditures
Capitalization Grants for Clean Water- State Revolving Fund	66.458	\$ 9,677,295*

*This amount excludes \$48,893,237 funded for new loans included in this program during the year.

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, 2009. This schedule has been prepared on the accrual basis of accounting.

3. LOANS

The Administration has loans outstanding of \$758,941,853 and \$104,775,870 as of June 30, 2009, in the Clear Water and Drinking Water Revolving Funds, respectively, which were made with Federal funds and the 20% state match.

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number⁷	New Loans Disbursed
State Revolving Fund		
Capitalization Grants for Clean Water	66.458	\$ 48,893,237
Capitalization Grants for Drinking Water	66.468	18,344,798
Total		<u>\$ 67,238,035</u>

MARYLAND WATER QUALITY FINANCING ADMINISTRATION

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2009**

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 that are not considered to be material weakness(es)? 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 that are not considered to be material weaknesses? 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	\$ 9,677,295
Dollar threshold used to determine Type A programs:		655,638
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, 2009**

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, 2009**

There were no audit findings that must be reported in accordance with OMB Circular A-133 for the year ended June 30, 2008.