



MASSACHUSETTS WATER RESOURCES AUTHORITY

Auditors' Reports as Required by Office of
Management and Budget (OMB) Circular A-133 and
Government Auditing Standards and Related Information

Year ended June 30, 2009

MASSACHUSETTS WATER RESOURCES AUTHORITY

Auditors' Reports as Required by Office of
Management and Budget (OMB) Circular A-133 and
Government Auditing Standards and Related Information

Year ended June 30, 2009

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Exhibit I

**Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control over Compliance
and the Schedule of Expenditures of Federal Awards in
Accordance with OMB Circular A-133**

The Board of Directors
Massachusetts Water Resources Authority:

Compliance

We have audited the compliance of the Massachusetts Water Resources Authority (the Authority) 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 Authority's major federal programs are identified in the summary of auditors' 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 program is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority'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; 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 Authority'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 Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2009.

Internal Control over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with the 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 Authority's internal control over compliance.



Exhibit I

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 the entity's 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 Authority as of and for the year ended June 30, 2009, and have issued our report thereon dated August 31, 2009. The Authority, in fiscal 2009, implemented Governmental Accounting Standards Board (GASB) Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. Our report was modified to include a reference to other auditors. 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 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.

This report is intended for the information of the Authority's Board of Directors, and management, the United States Environmental Protection Agency, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

August 31, 2009

MASSACHUSETTS WATER RESOURCES AUTHORITY

Schedule of Expenditures of Federal Awards

Year ended June 30, 2009

Federal grantor/pass-through grantor/program title	CFDA number	Expenditures
Environmental Protection Agency:		
Passed-through Massachusetts Water Pollution Abatement Trust:		
Capitalization Grants for Clean Water State Revolving Funds (note 3)	66.458	\$ —
Capitalization Grants for Drinking Water State Revolving Funds (note 3)	66.468	929,757
Department of Homeland Security:		
Passed-through Massachusetts Executive Office of Public Safety State Homeland Security Grant Program	97.067	<u>236,534</u>
Total expenditures of federal awards		<u>\$ 1,166,291</u>

See accompanying notes to schedule of expenditures of federal awards.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

(1) Reporting Entity

The accompanying schedule of expenditures of federal awards presents the activity of all federal award programs subject to OMB Circular A-133 of the Authority for the Year ended June 30, 2009.

(2) Basis of Presentation

The accompanying schedule of expenditures of federal awards is presented using the cash basis of accounting.

(3) Federal Reimbursements

The Authority has and continues to incur expenses for which federal participation is unknown. Those expenses are not considered federal expenses until such time the Authority is notified that they are federal expenses.

For the year ended June 30, 2009, the Authority received reimbursements from the Massachusetts Water Pollution Abatement Trust (the Trust) for expenses incurred in the fiscal years ending June 30, 2003 through June 30, 2009 that were deemed to include federal participation. The following represents a reconciliation of expenses included on the Schedule of Expenditures of Federal Awards to reimbursements received in 2009 that were deemed to include federal participation:

	<u>CWSRF*</u>	<u>DWSRF^</u>	<u>Total</u>
Federal Reimbursements received in 2009	\$ 22,179,485	15,050,970	37,230,455
Expenses incurred in 2009 and reported on the Schedule of Expenditures of Federal Awards	<u>—</u>	<u>929,757</u>	<u>929,757</u>
Expenses incurred in 2008 and prior not reported on the Schedule of Expenditures of Federal Awards	<u>\$ 22,179,485</u>	<u>14,121,213</u>	<u>36,300,698</u>

* = Clean Water State Revolving Fund (CFDA # 66.458)

^ = Drinking Water State Revolving Fund (CFDA # 66.468)

The 2008 and prior federal expenses were not, at that time, identified as federal expenses and were not considered federal expenses for OMB Circular A-133 purposes in those years. In 2009, the Authority received notification from the Trust identifying federal reimbursements for those 2008 and prior expenses. However, in the 2009 OMB Circular A-133 Audit of the Authority, the 2008 and prior expenses noted in the above table were subject to the same procedures applied to the 2009 expenses. Any findings required to be reported under OMB Circular A-133 for the 2008 and prior expenses would be reported in the current year schedule of findings and questioned costs.

MASSACHUSETTS WATER RESOURCES AUTHORITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

(1) Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes x no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ yes x none reported

Noncompliance material to the financial statements noted? _____ yes x no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes x no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ yes x none reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? _____ yes x no

Identification of Major Programs:

Name of federal program or cluster	CFDA #
Capitalization Grants for the Clean Water State Revolving Fund	66.458
Capitalization Grants for the Drinking Water State Revolving Fund	66.468

Dollar threshold used to distinguish between type A and type B programs, as those terms are defined in OMB Circular A-133: \$300,000

Auditee qualified as low-risk auditee? x yes _____ no

MASSACHUSETTS WATER RESOURCES AUTHORITY

Schedule of Findings and Questioned Costs

Year ended June 30, 2009

(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

None.

(3) Findings and Questioned Cost Related to Federal Awards

None.



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Exhibit IV

**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***

Board of Directors
Massachusetts Water Resources Authority:

We have audited the financial statements of the Massachusetts Water Resources Authority (the Authority) as of and for the year ended June 30, 2009, and have issued our report thereon dated August 31, 2009. The Authority, in fiscal 2009, implemented Governmental Accounting Standards Board (GASB) Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. Our report was modified to include a reference to other auditors. 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, 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 financial statements, 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, 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 the Authority's Board of Directors and management, the United States Environmental Protection Agency, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

August 31, 2009