

THE METROPOLITAN DISTRICT

**FEDERAL SINGLE AUDIT REPORT
(REVISED MARCH 30, 2012)**

DECEMBER 31, 2010

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TABLE OF CONTENTS

Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program, on Internal Control over Compliance in Accordance with OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards	1-2
Schedule of Expenditures of Federal Awards	3
Notes to Schedule of Expenditures of Federal Awards	4-6
Independent Auditors' Report 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>	7-8
Schedule of Findings and Questioned Costs	9-10

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Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program, on Internal Control over Compliance in Accordance with OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards

To the Members of the Board of Finance
The Metropolitan District
Hartford, Connecticut

Compliance

We have audited compliance of The Metropolitan District (the District) 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 District's major federal programs for the year ended December 31, 2010. The District'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 each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District'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. 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 District'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 District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010.

Internal Control over Compliance

Management of the District 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 District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the 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 District'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.

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 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.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the District as of and for the year ended December 31, 2010 and have issued our report thereon dated June 24, 2011. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. 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 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. As requested by the Office of Inspector General of the United States Environmental Protection Agency in their correspondence dated March 19, 2012, Note 5 has been added to provide pass-through agency award identification information.

This report is intended solely for the information and use of management, the Board of Finance, the Board of Commissioners, others within the organization, 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.

Blum, Shapiro & Company, P.C.

June 24, 2011

**THE METROPOLITAN DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

<u>Federal Grantor/Pass-Through Agency/Program Title</u>	<u>CFDA Number</u>	<u>Expenditures</u>
Environmental Protection Agency		
<i>Direct:</i>		
Congressionally Mandated Projects	66.202	\$ <u>382,300</u>
<i>Passed Through the State of Connecticut:</i>		
Capitalization Grants for Clean Water State Revolving Funds	66.458	46,766,979
ARRA - Capitalization Grants for Clean Water State Revolving Funds	66.458	<u>4,184,842</u> <u>50,951,821</u>
ARRA - Capitalization Grants for Drinking Water State Revolving Funds	66.468	<u>7,357,812</u>
Total Federal Awards Expended		\$ <u><u>58,691,933</u></u>

**THE METROPOLITAN DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of The Metropolitan District (the District) conform to accounting principles generally accepted in the United States of America as applicable to government entities. The following is a summary of the more significant policies relating to the aforementioned grant programs.

Basis of Accounting - Clean and Drinking Water grants are recognized as revenue as qualifying expenditures are made. Clean and Drinking Water loans in governmental funds are recognized as debt proceeds and loans in proprietary funds are recognized as debt as qualifying expenditures are made. The recognition of grants and loans in the accompanying schedule of expenditures of federal awards is consistent with recognition for financial reporting purposes.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

NOTE 2 - FEDERAL AND STATE ASSISTANCE

The federal awards reported in the schedule of expenditures of federal awards include both federal and state revolving funds, as the federal portion is not readily determinable because it is unclear whether non-ARRA federal clean and drinking water funds retain their federal character once they become part of the state revolving fund.

NOTE 3 - GRANT AND LOAN RECONCILIATION

The following is a reconciliation of grants and loans with amounts reported in the schedule of expenditures of federal awards:

Grant expenditures	\$ 22,333,902
New loan proceeds received (Note 4)	25,755,620
Loan proceeds receivable	<u>10,602,411</u>
Total Federal Awards Reported	\$ <u><u>58,691,933</u></u>

NOTE 4 - LOAN PROGRAMS

The following is a summary of the various loan program activity for the year ended December 31, 2010:

Project #	Issue Date	Interest Rate	Original Amount	Balance, January 1, 2010	Issued	Retired	Balance December 31, 2010
CWF Interim							
CWF619D		2%	\$ -	\$ 6,563,494	\$ 1,300,865	\$ -	\$ 7,864,359
CWF578CD1		2%	-	1,308,237	1,250,496	-	2,558,733
CSL166C		2%	-	7,643,872	7,455,542	-	15,099,414
CWF626C		2%	-	3,890,239	8,055,767	-	11,946,006
CWF633C		2%	-	-	4,650,172	-	4,650,172
CWF Permanent							
105P	12/15/92	2%	369,903	46,238	-	18,495	27,743
142	9/4/08	2%	6,200,000	5,631,667	-	310,000	5,321,667
149C	3/31/09	2%	12,710,000	11,915,625	-	635,500	11,280,125
160C	12/27/07	2%	1,888,557	1,652,487	-	94,428	1,558,059
267C	3/19/03	2%	5,213,046	3,184,498	-	260,652	2,923,846
270C	2/28/97	2%	6,690,902	2,341,816	-	334,545	2,007,271
274C	12/15/96	2%	8,915,228	2,600,276	-	445,761	2,154,515
285C	11/30/96	2%	15,322,113	4,468,948	-	766,106	3,702,842
285D	7/30/93	2%	875,983	164,246	-	43,799	120,447
319C	6/30/99	2%	1,691,005	760,952	-	84,550	676,402
361C	12/30/00	2%	2,635,079	1,317,539	-	131,754	1,185,785
383C	12/30/99	2%	4,241,327	1,811,393	-	190,673	1,620,720
405C	6/30/02	2%	8,163,200	4,897,922	-	408,159	4,489,763
451C	12/17/04	2%	3,987,010	2,886,632	-	200,228	2,686,404
494C	6/27/03	2%	2,029,367	1,319,090	-	101,468	1,217,622
508C	4/30/08	2%	1,232,078	1,098,603	-	61,604	1,036,999
520C	3/31/09	2%	4,547,580	4,263,356	-	227,379	4,035,977
521C	9/30/08	2%	4,240,340	3,869,310	-	212,017	3,657,293
578C	12/19/08	2%	2,042,741	1,835,706	-	104,898	1,730,808
DWF Interim							
2010-8008		2%	-	-	2,514,032	-	2,514,032
2010-8009		2%	-	-	528,746	-	528,746
DWF Permanent							
9704-D/C	6/30/01	2%	860,842	473,464	-	43,042	430,422
9709C	2/28/01	2%	206,898	110,345	-	10,345	100,000
9710C	12/20/01	2%	861,980	495,637	-	43,099	452,538
9704-D/C	12/30/03	2.6%	2,225,346	1,439,932	-	130,904	1,309,028
9709D/C	12/30/03	2.6%	956,990	612,475	-	57,419	555,056
200105C	12/11/03	2.1%	2,343,735	1,591,786	-	117,186	1,474,600
Total					25,755,620		
Less conversion to permanent					-		
New Loan Proceeds					<u>\$ 25,755,620</u>		

NOTE 5 – PASS-THROUGH ENTITY GRANT IDENTIFICATION

The following provides a summary of federal awards passed through the State of Connecticut, by State project number, which represents the state identifying number:

<u>State Project Number</u>	<u>CFDA Number</u>	<u>Loan Proceeds</u>	<u>Grant Expenditures</u>	<u>Expenditures</u>
Capitalization Grants for Clean Water State Revolving Funds:				
CWF619D	66.458	\$ 1,300,865	\$ 1,840,778	\$ 3,141,643
CSF578CDI	66.458	1,250,496	679,124	1,929,620
CSL166C	66.458	7,455,542	-	7,455,542
CWF626C	66.458	6,638,395	8,022,084	14,660,479
CWF633C	66.458	4,067,412	1,162,543	5,229,955
CWF639C	66.458	10,291,589	4,058,151	14,349,740
				<u>46,766,979</u>
ARRA Capitalization Grants for Clean Water State Revolving Funds:				
CWF626C	66.458	1,728,196	1,728,196	3,456,392
CWF633C	66.458	582,760	145,690	728,450
				<u>4,184,842</u>
Total Clean Water State Revolving Funds				<u>\$ 50,951,821</u>
ARRA Capitalization Grants for Drinking Water State Revolving Funds:				
DWSRF#2010-8008	66.468	\$ 2,514,032	\$ 3,332,523	\$ 5,846,555
DWSRF#2010-8009	66.468	528,746	982,511	1,511,257
Total Drinking Water State Revolving Funds				<u>\$ 7,357,812</u>

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Independent Auditors' 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*

To the Members of the Board of Finance
The Metropolitan District
Hartford, Connecticut

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of The Metropolitan District (the District) as of and for the year ended December 31, 2010, which collectively comprise the District's basic financial statements, and have issued our report thereon dated June 24, 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.

Internal Control over Financial Reporting

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

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 District'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*.

We noted certain matters that we reported to management of the District in a separate letter dated June 24, 2011.

This report is intended solely for the information and use of management, the Board of Finance, the Board of Commissioners, others within the organization, 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.

Blum, Shapiro & Company, P.C.

June 24, 2011

**THE METROPOLITAN DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

I. 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? _____ yes X none reported
- Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified? _____ 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 Circular A-133?

_____ yes X no

Identification of major programs:

CFDA #	Name of Federal Program or Cluster
66.458	Capitalization Grants for Clean Water State Revolving Funds
66.468	ARRA - Capitalization Grants for Drinking Water State Revolving Funds

Dollar threshold used to distinguish between type A and type B programs: \$1,760,758

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

II. FINANCIAL STATEMENT FINDINGS

No matters were reported.

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

IV. STATUS OF PRIOR YEAR FINDINGS

Prior Audit Findings Resolved:

<u>Finding Number</u>	<u>Description</u>
2009-01	Reconciliation of Clearing Accounts

Prior Audit Findings Not Resolved:

None.