



**THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA**

Single Audit Reports

Year ended June 30, 2010

**THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA**

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**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***

The Board of Directors
The Metropolitan Water District of Southern California:

We have audited the financial statements of The Metropolitan Water District of Southern California (Metropolitan) as of and for the year ended June 30, 2010, and have issued our report thereon dated October 18, 2010. Our report referred to Metropolitan's adoption of Governmental Accounting Standards Board Statement No. 53, *Accounting and Financial Reporting for Derivatives Instruments*. 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 Metropolitan'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 Metropolitan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Metropolitan'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 Metropolitan'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, Metropolitan's board of directors, others within the entity, 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.

KPMG LLP

October 18, 2010



KPMG LLP
Suite 2000
355 South Grand Avenue
Los Angeles, CA 90071-1568

Report on Compliance with Requirements That Could Have a Direct and Material Effect on the Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

The Board of Directors
The Metropolitan Water District of Southern California:

Compliance

We have audited The Metropolitan Water District of Southern California (Metropolitan) 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 Metropolitan's major federal programs for the year ended June 30, 2010. Metropolitan's major federal program is identified in the summary of auditor's 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 Metropolitan's management. Our responsibility is to express an opinion on Metropolitan'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 Metropolitan'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 Metropolitan's compliance with those requirements.

In our opinion, The Metropolitan Water District of Southern California complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2010.

Internal Control over Compliance

The management of Metropolitan 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 Metropolitan'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 Metropolitan'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 Metropolitan as of and for the year ended June 30, 2010, and have issued our report thereon dated October 18, 2010, our report referred to Metropolitan's adoption of Governmental Accounting Standards Board Statement No. 53, *Accounting and Financial Reporting for Derivatives Instruments*. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Metropolitan'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.

This report is intended solely for the information and use of management, Metropolitan's board of directors, others within the entity, 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.

KPMG LLP

March 18, 2011, except as to
the schedule of expenditures
of federal awards, which is
as of October 18, 2010.

**THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA**

Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

<u>Federal grantor/pass-through grantor/program title</u>	<u>Catalog of federal and domestic assistance number</u>	<u>Contract number</u>	<u>Federal expenditures</u>
Research and Development Cluster:			
U.S. Environmental Protection Agency:			
Surveys, Studies, Investigations, and Special Purpose Grants	66.606	XP-97951101	\$ 287,310
Congressionally Mandated Projects: Biological Treatment for Perchlorate Removal from Groundwater	66.202	XP-96992301	59,695
Science to Achieve Results Program: Detecting Pathogens in Water by Ultrafiltration and Microarray Analysis	66.509	RD-83300401	<u>114,537</u>
Total U.S. Environmental Protection Agency			<u>461,542</u>
Passed through Water Research Foundation:			
Research and Development Consolidated Research/Training	66.511	3105	<u>17,081</u>
Total Water Research Foundation			<u>17,081</u>
Total Research and Development Cluster			<u>478,623</u>
U.S. Bureau of Reclamation:			
Water Conservation Field Services Program	15.530	06FC350206	<u>99,512</u>
Total U.S. Bureau of Reclamation			<u>99,512</u>
Federal Emergency Management Agency (FEMA):			
Passed through California Emergency Management Agency (CalEMA):			
California Winds and Wildfires November 2008	97.036	DR1810	<u>36,200</u>
Total Public Assistance Grant			<u>36,200</u>
Total federal expenditures			\$ <u>614,335</u>

See accompanying notes to schedule of expenditures of federal awards and report on compliance with requirements that could have a direct and material effect on the major program and on internal controls over compliance with OMB A-133.

**THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA**

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

(1) General

The accompanying schedule of expenditures of federal awards (SEFA) presents all of the activity of federal financial assistance programs of The Metropolitan Water District of Southern California (Metropolitan) for the year ended June 30, 2010.

(2) Basis of Accounting

The accompanying SEFA is presented using the accrual basis of accounting, whereby grant revenues are recognized when they are earned and expenses are recognized when they are incurred.

(3) Grant Expenses

There are no indirect costs (i.e., overhead) included in grant expenses on the accompanying SEFA for the year ended June 30, 2010.

(4) Subrecipients

Of the federal expenditures presented on the SEFA, Metropolitan provided federal awards to various subrecipients in the amounts of \$287,310 under the Surveys, Studies, Investigations, and Special Purpose Grants (CFDA No. 66.606), \$59,695 under the Congressionally Mandated Projects: Biological Treatment for Perchlorate Removal from Groundwater (CFDA No. 66.202), and \$17,081 under the Research and Development Consolidated Research Training Program (CFDA No. 66.511).

**THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA**

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

(1) Summary of Auditors' Results

(a) Financial Statements

Type of auditors' report issued on the financial statements:

Unqualified opinion.

Internal control over financial reporting:

- Material weaknesses identified? yes no
- Significant deficiencies identified that are not considered to be material weaknesses? yes none reported

Noncompliance that is material to the financial statements noted?

yes no

(b) Federal Awards

Internal control over major program:

- Material weaknesses identified? yes no
- Significant deficiencies that are not considered to be material weaknesses? yes none reported

Type of auditors' report issued on compliance for major program:

Unqualified opinion.

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?

yes no

Identification of major program:

CFDA numbers	Name of federal program or cluster
Various	Research and Development Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133?

yes no

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OF SOUTHERN CALIFORNIA**

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

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

None noted.

(3) Findings and Questioned Costs Relating to Federal Awards

None noted.