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Report on Compliance and On Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed In Accordance With Government Auditing Standards

Board of Directors
Metropolitan Sewerage District
of Buncombe County, North Carolina
Asheville, North Carolina

We have audited the basic financial statements of Metropolitan Sewerage District of Buncombe County, North Carolina, as of and for the year ended June 30, 2003, and have issued our report thereon dated October 23, 2003. 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.

Compliance

As part of obtaining reasonable assurance about whether Metropolitan Sewerage District of Buncombe County, North Carolina's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Metropolitan Sewerage District of Buncombe County, North Carolina's internal control over basic financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. We noted other matters involving the internal control over financial reporting that we have reported to management of Metropolitan Sewerage District of Buncombe County, North Carolina in a separate letter dated October 23, 2003.

This report is intended solely for the information and use of the audit committee, management, members of the Board, and State awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Gould Killian CPA Group, P.A.
Asheville, North Carolina
October 23, 2003

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Report on Compliance with Requirements Applicable to its major Federal and State Program and Internal Control over Compliance in Accordance with OMB Circular A-133 and the State Single Audit Implementation Act

Board of Directors
Metropolitan Sewerage District
of Buncombe County, North Carolina
Asheville, North Carolina

Compliance

We have audited the compliance of Metropolitan Sewerage District of Buncombe County, North Carolina with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement and the *Audit Manual for Governmental Auditors in North Carolina* issued by the Local Government Commission, that are applicable to its major federal and State programs for the year ended June 30, 2003. The Metropolitan Sewerage District of Buncombe County, North Carolina's major federal and State programs are 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 and state programs are the responsibility of the Metropolitan Sewerage District of Buncombe County, North Carolina's management. Our responsibility is to express an opinion on Metropolitan Sewerage District of Buncombe County, North Carolina'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*, and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act 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 major federal and state programs occurred. An audit includes examining, on a test basis, evidence about the Metropolitan Sewerage District of Buncombe County, North Carolina'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 on the Metropolitan Sewerage District of Buncombe County, North Carolina's compliance with those requirements.

In our opinion, Metropolitan Sewerage District of Buncombe County, North Carolina complied, in all material respects, with the requirements referred to above that are applicable to its major federal and state programs for the year ended June 30, 2003.

Board of Directors
Metropolitan Sewerage District of Buncombe County

Internal Control Over Compliance

The management of the Metropolitan Sewerage District of Buncombe County, North Carolina is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to its federal and State programs. In planning and performing our audit, we considered Metropolitan Sewerage District of Buncombe County, North Carolina's internal control over compliance with requirements that could have a direct and material effect on major federal and State programs in order to determine our 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 and the State Single Audit Implementation Act.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to major federal and state programs being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, members of the Board of Directors, and federal and State awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

David Killian CPA Group, P.A.

Asheville, North Carolina
October 23, 2003

**Schedule of Expenditures of Federal and State Awards
For The Year Ended June 30, 2003**

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State Grantor's Number</u>	<u>Federal</u>	<u>State</u>
Federal Award				
<u>U.S. Environmental Protection Agency</u>				
Special Appropriation Water				
Infrastructure Grant	66.606	XP974089-00-0	\$ 1,267,542	\$ -
 State Award				
<u>NC Department of Environment and Natural</u>				
<u>Resources, Division of Water Quality</u>				
NC High Unit Cost Grant	-	E-SRG-T-99-0066	-	<u>152,358</u>
Total expenditures of federal and state awards			<u>\$ 1,267,542</u>	<u>\$ 152,358</u>

Note to the Schedule of Expenditures of federal and State Financial Award:

- I. The accompanying schedule of expenditures of federal and State awards includes the federal and state grant activity of the Metropolitan Sewerage District of Buncombe County, North Carolina and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

**Schedule of Findings and Questioned Costs
For The Year Ended June 30, 2003**

I. Summary of Auditor's Results

- A. An unqualified opinion was issued on the basic financial statements of Metropolitan Sewerage District of Buncombe County, North Carolina.
- B. Our audit of the basic financial statements disclosed no instances of noncompliance with laws, regulations and the provisions of contracts and grant agreements that is material to the basic financial statements.
- C. We noted no matters involving the internal controls over financial reporting and its operations that we considered to be a reportable condition.
- D. Our audit of compliance with the types of compliance requirements applicable to the District's major programs disclosed no reportable condition in internal control over major programs.
- E. An unqualified opinion was issued on Metropolitan Sewerage District of Buncombe County, North Carolina's compliance with the types of compliance requirements applicable to its major federal and State programs.
- F. Our audit disclosed no findings which related to the federal and state awards.
- G. There was one major federal program for Metropolitan Sewerage District of Buncombe County, North Carolina for the fiscal year ended June 30, 2003; the Special Appropriation Water Infrastructure Grant, CFDA # 66.606.
- H. There was one major State program for Metropolitan Sewerage District of Buncombe County, North Carolina for the fiscal year ended June 30, 2003; the North Carolina High Unit Cost Grant.
- I. The threshold for determining Type A programs was \$300,000.

II. Audit Findings Required to be Reported in Accordance with *Government Auditing Standards*

There were no findings related to the financial statements for the year ended June 30, 2003.

III. Audit Findings Required to be Reported in Accordance with **OMB Circular A-133**

There were no findings or questioned costs related to the State award for the year ended June 30, 2003.

**Summary Schedule of Prior Year Audit Findings
For The Year Ended June 30, 2003**

There were no findings or questioned costs related to the Federal and State award in the prior year.