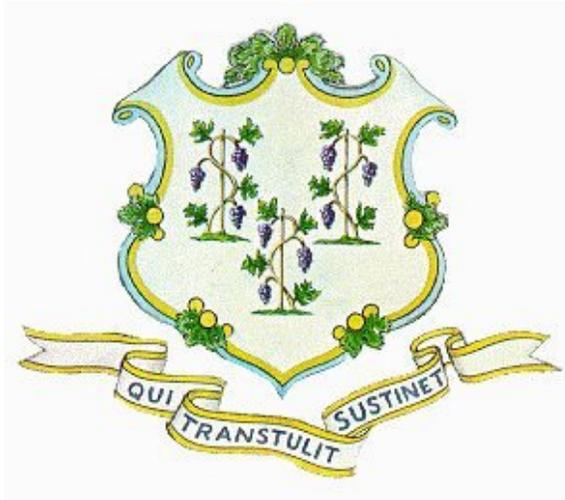


# STATE OF CONNECTICUT



**State Revolving Fund Programs:**

## **DRINKING WATER FUND**

*Supporting the Planning, Design, and Construction of Water Quality Projects*

## **2009 ANNUAL REPORT**

**State of Connecticut**  
**DRINKING WATER FUND**



J. Robert Galvin, M.D., M.P.H., M.B.A.  
Commissioner  
Department of Public Health



Denise L. Nappier  
State Treasurer



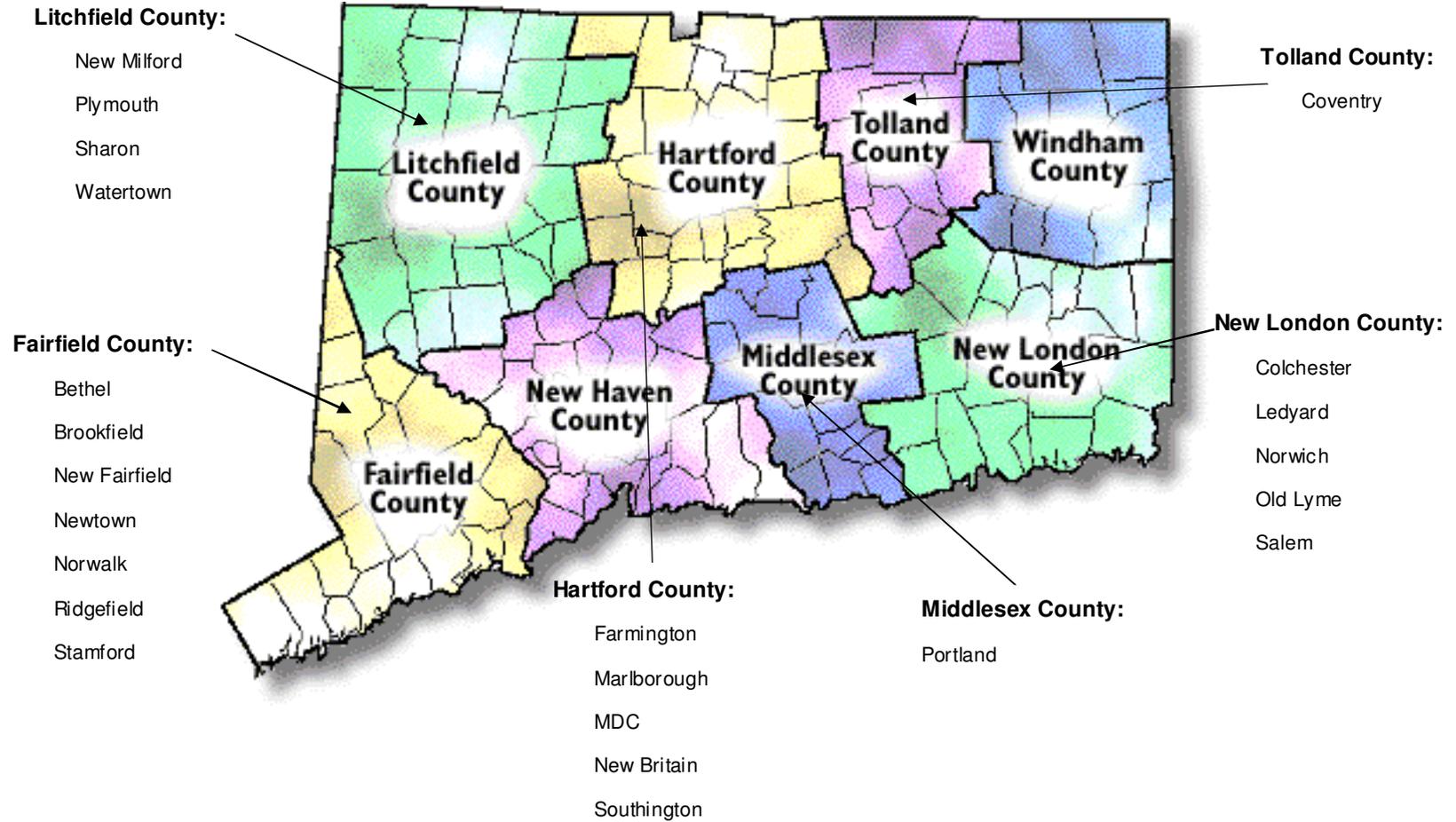
Amey Marrella  
Commissioner  
Department of Environmental  
Protection



Kevin DelGobbo  
Chairperson  
Department of Public  
Utility Control

# PARTICIPANTS IN THE DRINKING WATER FUND PROGRAM

As of June 30, 2009





# TABLE OF CONTENTS

<b>PARTICIPANTS IN THE DRINKING WATER FUND PROGRAM.....</b>	<b>4</b>
<b>REPORT INTRODUCTION.....</b>	<b>6</b>
<b>EXECUTIVE SUMMARY.....</b>	<b>7</b>
<b>SUMMARY OF ACTIVITIES AND ACCOMPLISHMENTS IN 2009.....</b>	<b>8</b>
<b>2009 ACTIVITIES IN EACH PROGRAM AREA.....</b>	<b>9</b>
PROJECTS AND ADMINISTRATIVE SET-ASIDE	9
COORDINATED TRAINING INITIATIVES: ATCAVE 2009 – CROMWELL, CT	12
SMALL SYSTEMS TECHNICAL ASSISTANCE	13
PROGRAM MANAGEMENT	14
COORDINATED TRAINING INITIATIVES: 3RD ANNUAL CAREERS FORUM – CROMWELL, CT.....	15
<b>PROJECT FINANCING.....</b>	<b>16</b>
BACKGROUND	16
AVAILABLE FINANCING	17
NEEDS SURVEY	17
PROJECT PRIORITY LIST	18
BORROWERS	19
PORTFOLIO CREDIT QUALITY	19
2009 PROJECTS	20
PENDING PROJECTS	22
<b>PROGRAM FUNDING.....</b>	<b>22</b>
FEDERAL CAPITALIZATION GRANTS	23
SET-ASIDES	23
STATE AUTHORIZATIONS – PROJECTS AND STATE MATCH	23
REVENUE BONDING PROGRAM	24
RATINGS	24
<b>PROGRAM MANAGEMENT.....</b>	<b>25</b>
<b>2010 PROGRAM ACTIVITIES AND INITIATIVES.....</b>	<b>25</b>
<b>LONG TERM PROJECTIONS.....</b>	<b>32</b>
<b>CONDITION OF THE FUND.....</b>	<b>33</b>
<b>APPENDICES.....</b>	<b>34</b>
<b>APPENDIX I: STATE MATCH FOR FEDERAL CAPITALIZATION GRANTS.....</b>	<b>35</b>
<b>APPENDIX II: FEDERAL CAPITALIZATION GRANTS.....</b>	<b>36</b>
<b>APPENDIX III: SET-ASIDE MANAGEMENT.....</b>	<b>37</b>
<b>APPENDIX IV: DRINKING WATER SRF CLOSED LOANS—FISCAL YEAR 2009.....</b>	<b>41</b>
<b>APPENDIX V: PENDING PROJECTS.....</b>	<b>42</b>
<b>APPENDIX VI: FINANCIAL ASSISTANCE BY BOND RATING.....</b>	<b>43</b>
<b>APPENDIX VII: PRIORITY LIST OF PROJECTS FOR 2008/2009.....</b>	<b>44</b>
<b>(THIS LIST OF THE BASE DWSRF IS IN EFFECT UNTIL THE FFY 2009 LIST IS DRAFTED). .....</b>	<b>44</b>
<b>APPENDIX VIII: PROGRAM MANAGEMENT.....</b>	<b>46</b>
DEPARTMENT OF PUBLIC HEALTH	46
DEPARTMENT OF ENVIRONMENTAL PROTECTION	46

**APPENDIX IX: PROGRAM MANAGEMENT BY THE OFFICE OF THE STATE TREASURER ..... 47**

    FINANCING PROGRAM ADMINISTRATION ..... 49

    PROGRAM BOND RESOLUTIONS ..... 50

    REVENUE BOND SWAP INFORMATION ..... 51

    INVESTMENTS AND RESERVE ACCOUNT INFORMATION ..... 51

**APPENDIX X: APPLICATION PROCESS ..... 52**

**APPENDIX XI: SUMMARY OF PROJECT FUNDING AGREEMENTS ..... 53**

**APPENDIX XII: CUMULATIVE PROJECTS ..... 55**

**INDEPENDENT AUDITORS’ REPORT ..... - 1 -**

**1 - NATURE OF ORGANIZATION ..... - 13 -**

**2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES ..... - 13 -**

**3 - CASH DEPOSITS AND INVESTMENTS ..... - 18 -**

**4 - LOANS RECEIVABLE ..... - 20 -**

**5 - FEDERAL LETTER OF CREDIT ..... - 20 -**

**6 - RESTRICTED ASSETS ..... - 21 -**

**7 - RELATED PARTY TRANSACTIONS ..... - 21 -**

**8 - BONDS PAYABLE ..... - 22 -**

**9 - FUND NET ASSETS ..... - 25 -**

**10 - OPERATING TRANSFERS ..... - 26 -**

**11 - LOAN FUNDING COMMITMENTS ..... - 26 -**

**12 - RISK MANAGEMENT ..... - 27 -**

**A - ACCOUNTING BASIS ..... - 34 -**

**B - MUNICIPAL LOAN BALANCES ..... - 34 -**

**FINANCIAL STATEMENTS ..... - 35 -**

## REPORT INTRODUCTION

The Connecticut Clean Water Fund includes the Drinking Water State Revolving Fund (Drinking Water SRF or DWSRF) program that provides financing for projects that have been identified by the Department of Public Health (DPH) as part of the agency’s responsibility for ensuring the quality and adequacy of Connecticut’s public drinking water sources.

This report for the fiscal year ending June 30, 2009, is the eleventh Annual Report to the Governor on the Drinking Water SRF. It has been prepared jointly by the DPH Drinking Water Section and the Office of the State Treasurer’s Debt Management Division.

Included in this report are the history of the Drinking Water SRF, a review of the program during fiscal year 2009, descriptions of the revenue bond program, and projections of future

project funding and the management initiatives for fiscal year 2010. As a major recipient of federal financial assistance, the State must provide audited statements and comply with the federal Single Audit Act of 1984. The audited statements for fiscal year ended June 30, 2009, provided in this report, have been prepared by a firm of independent certified public accountants.

This report includes some references to the Connecticut Clean Water Fund and the Clean Water State Revolving Fund (Clean Water SRF). Information on the Clean Water programs is available in a separate annual report. Copies of this and previous annual reports since 2001 are available on the State Treasurer's website at [www.state.ct.us/ott](http://www.state.ct.us/ott).

## **CONNECTICUT DRINKING WATER FUND**

### **Annual Report 2009**

#### **EXECUTIVE SUMMARY**

Within Connecticut's borders there are approximately 450,000 acres of wetlands, 6,000 miles of streams and rivers, over 2,000 lakes and reservoirs, and 600 square miles of estuarine water in Long Island Sound. Managing these resources for today and tomorrow is a critical goal of the State of Connecticut and the primary purpose for the creation of the Connecticut Clean Water Fund (CWF) and its programs. The Connecticut Drinking Water State Revolving Fund (Drinking Water SRF or DWSRF) Program is one of the programs in the CWF. The Drinking Water SRF is a designated federal state revolving fund.

The Drinking Water SRF is managed by the Department of Public Health (DPH). The DPH Drinking Water Section which is responsible for the administration of all state and federal drinking water regulations is comprised of the following units: Certification, Compliance, Programs, and the Source Water Protection Unit. The Section focuses on compliance with state and federal drinking water regulations, and the maintenance and improvement of water quality through sustainable public water systems. The Drinking Water Section also continues to promote asset management and using various tools, has moved to the forefront in assisting small public water systems.

The DPH Drinking Water Section provides financing as well as technical assistance, education, and regulatory enforcement to over 2,600 public drinking water systems which provide drinking water to approximately 2.7 million persons on a daily basis. Under Drinking Water Section's management, the Drinking Water SRF program can provide low-interest loans to approximately 600 eligible public water systems for drinking water infrastructure improvements as well as funding for program set-asides used for activities related to the maintenance and improvement of drinking water quality and capacity in the state. The primary sources of funding for the Drinking Water SRF financing program are revenue bonds and state contributions as managed by the Office of the State Treasurer, and federal capitalization grants through the Drinking Water Act, from the US

Environmental Protection Agency (EPA). The Drinking Water SRF also received federal economic stimulus funding under the 2009 American Recovery and Reinvestment Act (ARRA).

There is significant coordination of efforts both within DPH and among the agencies of the State with Drinking Water SRF responsibilities. The Drinking Water Section conducts and coordinates the administrative and technical components of the program, working closely with the Department of Environmental Protection, the Office of the Treasurer, the Department of Public Utility Control, and the Office of Policy and Management. These agencies all of which provide administrative, technical, or financial assistance to the DPH, contribute to the success of Connecticut's Drinking Water SRF program.

This report discusses major accomplishments and activities for fiscal year 2009, and initiatives planned for fiscal year 2010. As of the end of fiscal year 2009, since inception the Drinking Water SRF financing program had made 31 loan commitments totaling more than \$92.9 million and has provided water infrastructure development in areas of Connecticut where more than 727,300 citizens reside. Two loans totaling \$1.25 million were executed during fiscal year 2009. One loan has already closed in the first quarter of fiscal year 2010, with six more to follow in the near future.

## **SUMMARY OF ACTIVITIES AND ACCOMPLISHMENTS IN 2009**

The DPH Drinking Water Section uses the Drinking Water SRF federal capitalization grants and available resources to assist public water system operators to meet critical needs, reduce public health risk, and maintain safe high quality water resources for the State's citizens. As more fully discussed in this report, major accomplishments during the 2009 fiscal year for the program include:

- Made two loans commitments totaling \$1.25 million during fiscal year 2009. As further described in the Program Area Accomplishment Section of this report, the projects included a water main extension and upgrading a water treatment plant. One of the projects was jointly funded under the Drinking Water State Revolving Fund Program as well as DEP's Clean Water Revolving Fund Program. This is the first time a project has been jointly funded under both SRF programs.
- Submitted application and was awarded the federal 2009 American Recovery and Reinvestment Act (ARRA) Capitalization Grant for the Drinking Water SRF in the amount of \$19.5 million. Funds will be used for drinking water infrastructure improvement projects and set-aside activities. Additional information on the State's use of ARRA under the Drinking Water SRF program can be found at [www.ct.gov/dph](http://www.ct.gov/dph) . The State was also awarded fiscal year 2007 and 2008 Drinking Water SRF Capitalization Grants in the amount of \$8,229,000 and \$8,146,000 respectively.
- Supported the passage of House Bill 6678, which allows for the lease of Class I water company land between existing water companies in order to efficiently improve impaired water conditions.
- Instituted a DPH Commissioner's Advisory Committee for the Water Utility Coordinating Committee (WUCC) to ensure consistency across the State regarding the coordinated and orderly development of public water supply in CT. The initial committee membership

consists of the respective WUCC Co-Chairs from all the four convened regional water management areas.

- Provided asset management and technical assistance to small public water systems targeting those small systems identified with weaknesses during sanitary surveys or compliance assessments. These efforts included promoting and providing on-site technical support for the new EPA Check Up Program for Small Systems (CUPPS) asset management software.
- The third Career Forum, geared toward high school students and their guidance counselors, was held in April 22, 2009. Attendance exceeded 250 and representatives of the drinking water industry as well as academic experts spoke about their careers.
- Provided training for water operators and local health officials at the Annual Technical Conference and Vendor Exposition (ATCAVE) 2009 on February 24, 2009, with the Connecticut Section of the American Water Works Association (CT AWWA). The event was well attended with over 550 attendees browsing the exposition and earning operator training contact hours and/or continuing education credits for food inspectors. Drinking Water Section staff also provided training during two full-day concurrent training tracks and also during CT AWWA's management track.
- The State Treasurer issued two series of bonds, Series 2008A and Series 2009A, in fiscal year 2009 and provided an additional \$30 million to fund current projects.

The Drinking Water SRF depends on the State's continued ability and willingness to commit financial resources to the Drinking Water Section. As exemplified in fiscal year 2009, the State continues to demonstrate its commitment to the Drinking Water Section and the SRF program with annual authorizations, consistent staffing levels, resources to meet existing and future needs, and support for the creation, development, and implementation of new program initiatives.

## **2009 ACTIVITIES IN EACH PROGRAM AREA**

The activities and accomplishments during the fiscal year 2009 in each of the program set aside areas within the Drinking Water SRF are described below.

### **Projects and Administrative Set-Aside**

- Drafted and was awarded ARRA Capitalization Grant in the amount of \$19.5 million.
- Solicited and reviewed applications for ARRA projects.
- Met with Drinking Water SRF and ARRA applicants on program application and project financing process.
- Participated in weekly conference calls regarding ARRA.
- Two project loans were executed during the fiscal year, which involved the review and processing of eligibility and full loan applications, and creating project loan agreements.
- Provided required progress reports to the Environmental Protection Agency (EPA).

## Local Assistance and Other State Set-Asides

### Source Water Assessment Program (SWAP)

The Drinking Water Section continued to develop a proactive approach toward source water protection. The Source Water Protection Unit completed the following items in 2009:

- Completed work on statute changes to enhance source water protection under Sections 16-232m, 25-32 and 25-32d of the Connecticut General Statutes.
- Supported the passage of House Bill 6678, which allows for the lease of Class I water company land from an existing water company to another large water company in order to improve conditions for the existing water company.
- Reviewed 61 and approved 39 new public water supply wells.
- Reviewed 22 and approved 16 water company land change of use applications.
- Reviewed 2 proposed surface water drinking water supply sources.
- Reviewed 19, renewed 10 and approved 7 new recreational permits.
- Oversaw 68 aquatic pesticide permits by the Department of Environmental Protection within SWAP areas.
- Received and reviewed nearly 300 sewage bypass reports.
- Reviewed 33 watershed sanitary surveys under the Public Health Code.
- Enhanced the watershed approach by development of drinking water quality management plans.
- Continued to work with multiple towns and state and federal agencies such as Departments of Transportation, Environmental Protection, Public Utility Control, Agriculture, and Economic and Community Development, as well as the Office of Policy and Management, Council on Environmental Quality, and the Environmental Review Team, to emphasize source water protection. Provided comments and recommendations on over 70 proposed projects. Initiated incorporation of water supply planning into source water group.

### Capacity Development

The positions funded under this set-aside are responsible for assessing compliance with state regulations and the Safe Drinking Water Act. As enforcement actions are initiated, staff assesses the cause or trigger of any violations and assists the public water systems to recognize corrective measures in order to comply with state regulations. Systems that do not correct existing violations through technical assistance are referred for formal enforcement actions including possible take-over proceedings. Consistent with the EPA approved capacity development strategy, activities in fiscal year 2009 included:

- Conducted 351 sanitary surveys, at public water systems by staff funded under this set-aside. Financial, managerial and technical capacity assessments are conducted during

each sanitary survey. Continued updating of standard operating procedures for sanitary survey inspections to promote consistency among field staff.

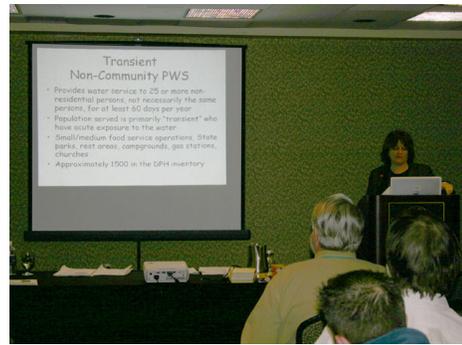
- Continued development of technical guidelines and information documents to educate operators and contractors on regulatory requirements and industry standards during the planning, design, and construction of infrastructure projects. Completed reviews of 350 projects submitted by public water systems for permit approval, including infrastructure projects and water company land use.
- Compiled information regarding safe water yield, available water, treatment restrictions, diversion permit restrictions, sale of excess water permits, and interconnections in a statewide database to provide the most accurate information to Drinking Water Section staff. Used database to track actual amount of water available for each of the 84 large public water systems, and each of the geographical Water Utility Coordinating Council (WUCC) regions of the State. Held 12 planning technical assistance meetings for public water systems that were scheduled to prepare and resubmit water supply plans. Also held 3 planning technical assistance meetings for large public water systems with long histories of violations or infrastructure deficiencies that could pose a risk to public health protection.
- Prepared and provided forms to applicants for new public water systems in Connecticut for submission to Exclusive Service Area (ESA) providers and WUCC area chairpersons.
- Formatted water supply plan reviews and provide tools for water supply plan preparers to ensure consistency and provide clients with critical information that is necessary for water supply plan approval.
- Initiated the integration of the water supply planning process into sanitary survey process. Continued work on forms to provide critical information to Regional Engineers prior to scheduled sanitary surveys for the 84 largest public water systems in Connecticut.
- Reinvigorated the Water Utility Coordinating Committee (WUCC) process for the coordinated and orderly development of public water supply in CT after a three year hiatus. Instituted a DPH Commissioner's Advisory Committee for the Water Utility Coordinating Committee (WUCC) process to ensure consistency across the state in regards to the coordinated and orderly development of public water supply in CT. The committee met twice and the initial committee membership consists of the respective WUCC Co-Chairs from all the four convened regional water management areas. Held five Water Utility Coordinating Committee (WUCC) meetings across the state. Prepared and provided forms to applicant for new public water systems for submission to Exclusive Service Are (ESA) providers and WUCC area chairpersons.
- Reinvigorated the requirement for a Sale of Excess Water (SEW) permit for public water systems that sell bulk water to neighboring public water systems. This requirement is a critical step in assuring the adequate capacity both of the public water system selling the water and the public water system purchasing the water. Reviewed and approved five SEW permits.

- Completed reviews of 28 Water Company Screening Applications to determine potential status as a public water system and applicability of the Certificate of Public Convenience and Necessity (CPCN) process.
- Entered into contract with New England Interstate Water Pollution Control Commission to deliver advanced asset management training to Connecticut public water systems.
- Participated as instructors on capacity-related topics during DPH water system operator classes.
- Made presentations on the Ground Water Rule to local health officials on food service establishments that are also public water systems.
- Technical assistance meetings were held for public water system infrastructure projects, including proposed new systems going through the Certificate of Public Convenience and Necessity process. Provided technical assistance to local health departments.
- Provided technical assistance at 8 meetings for public water systems facing sanctions at other State agencies.
- Provided technical assistance to public water systems on violations and deficiencies noted during assessments. Held compliance and technical assistance meetings for targeted small systems identified with weaknesses during sanitary surveys or compliance assessments.
- Provided technical assistance and enforcement referral to local health departments for maximum contaminant level violations, source water construction violations, and cross-connections identified at food service establishments.

### **Coordinated Training Initiatives: ATCAVE 2009 – Cromwell, CT**

Over 500 participants were in attendance for educational purposes or to meet with vendors on drinking water related products and services





Participants during ATCAVE 2009 sessions



Participants and exhibits - ATCAVE 2009

## **Small Systems Technical Assistance**

The Drinking Water Section uses this set-aside to provide assistance to small public water systems serving fewer than 10,000 people. In fiscal year 2009, emphasis was placed on asset management and Drinking Water SRF loan assistance to small systems. Some of the small system activities performed by the Drinking Water Section for the year are listed below:

- Provided asset management and technical assistance to small public water systems targeting those small systems identified with weaknesses during sanitary surveys or compliance assessments. These efforts included promoting and providing on-site

technical support for the new EPA Check Up Program for Small Systems (CUPPS) asset management software.

- Performed financial and managerial capacity evaluations for new non-community public water systems.
- Administered a consolidated Drinking Water SRF tracking database to more closely track small system progress with loan applications
- Participated in Drinking Water Section's training events focused on small system capacity development and Drinking Water SRF.
- Developed new Drinking Water SRF application forms and templates to make it easier for small systems to apply for loan assistance and comply with state and federal requirements.
- Developed ARRA application forms and templates to make it easier for small systems to apply for ARRA financial assistance and comply with state and federal requirements
- Organized and participated in an ARRA Open Forum to provide technical assistance to small systems that applied for ARRA financial assistance through the Drinking Water SRF loan program.
- Assisted in the development of an ARRA webpage to assist small systems in understanding the provisions of the ARRA.
- Reviewed, processed and provided technical assistance to small system applications for Drinking Water SRF loans and ARRA financial assistance.
- Participated in weekly conference calls regarding ARRA process.

## **Program Management**

The Program Management Activities in 2009 included:

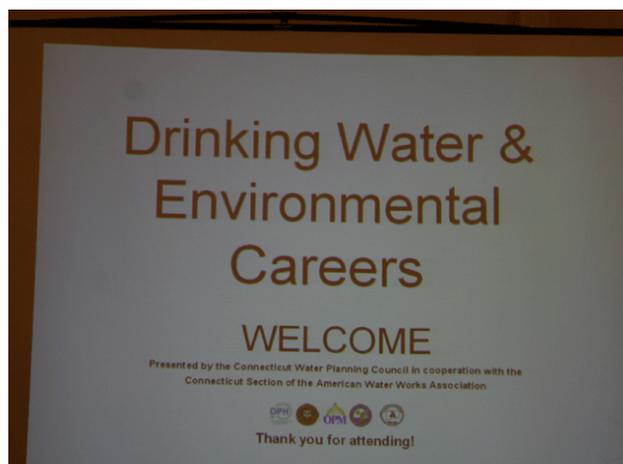
- Working with the Department of Information Technology and the DPH Information Technology unit, the Drinking Water Section Upgraded to the new version of the Safe Drinking Water System – State Version (SDWIS/State).
- Issued 110 formal enforcement actions to ensure compliance with state and federal regulations, and return public water systems to compliance.
- Coordinated staff activities to promote standardization of presentations and informational materials.
- Maintained a quality assurance system in cooperation with EPA, Region 1.
- Enhance security and emergency response initiatives;

- Submitted grant applications, associated work plans, and progress reports to the EPA.
- Prepared guidance documents, work plans and long-term strategies for Drinking Water SRF program management and EPA required program management reports, contracts related to technical assistance to public water systems to assist the Drinking Water Section in capacity development efforts.
- Participated in weekly conference calls regarding ARRA process.

### **Coordinated Training Initiatives: 3rd Annual Careers Forum – Cromwell, CT**

The Drinking Water Section along with member agencies of the Connecticut Water Planning Council and the Connecticut Section of the American Water Works Association hosted its third annual Careers Forum to increase the awareness of students, teachers, guidance counselors and other school officials about career opportunities in the drinking water and environmental fields. The forum, held on April 22, 2009, emphasized future career opportunities in the drinking water and environmental arenas. Over 250 attendees were made aware of the impending shortage of workers in the drinking water and environmental industries. There were also exhibitor areas where students learned about water utilities, the type of jobs available and the education needed to enter these fields.

Deputy Commissioner Gyle presented awards to three recipients. Tom Chaplik of the South Central Connecticut Regional Water Authority received an award for his outstanding service in the creation of the Connecticut Water/Wastewater Agency Response Network Deputy Commissioner Gyle also presented awards to two outstanding students, Taylor Kohnstam and Justin Rose, for receiving the highest scholastic averages in Portland High School's innovative "Water and People" class.





Dr. Norma D. Gyle, R.N., PH.D., Deputy Commissioner, State of Connecticut Department of Public Health, presenting awards



Participants at Careers Forum 2009

## PROJECT FINANCING

### **Background**

The State of Connecticut Clean Water Fund includes two state revolving funds (SRFs) that provide financial assistance to municipalities and private entities for the construction, rehabilitation, expansion or improvement of systems for the storage, treatment, recycling, and reclamation of water and waste water. These programs are administered in accordance with sections 22a-475 to 499 of the Connecticut General Statutes inclusive, which authorize the State to apply for and receive federal funds and to provide low-cost financing.

The State's SRFs are: (1) the waste water pollution control revolving fund program, or the Clean Water State Revolving Fund (Clean Water SRF), established by the State under the federal

Water Quality Act of 1987, and (2) the Drinking Water State Revolving Fund (Drinking Water SRF), established by the State under the 1996 amendments to the Federal Safe Drinking Water Act that authorize the U.S. Environmental Protection Agency (EPA) to offer state capitalization grants for the Drinking Water SRF. Nationwide, there have been federal authorizations of nearly \$1 billion annually for the Safe Drinking Water Act, and Connecticut has received annual appropriations of approximately \$8.2 million.

The DPH is responsible for compliance with federal and state drinking water mandates. The mission of the DPH Drinking Water Section is to “influence, through regulation and communication, the behavior of public water systems so that they take all necessary precautions to protect and preserve sources and systems of drinking water supply.” The Drinking Water Section is also responsible for the administration of the Drinking Water SRF.

In the course of a day, almost every Connecticut resident and each visitor to the State, comes in contact with the drinking water provided by a public water system. The State has worked diligently to recognize that water resources are not limitless and that responsible planning and conservation are essential elements to maintaining sufficient safe drinking water.

### **Available Financing**

The Drinking Water SRF provides financial assistance to privately owned, non-profit or publicly owned water systems. Within the parameters set by the EPA, the State exercises considerable flexibility in the type of planning, design, and construction projects that the Drinking Water SRF will fund. The major limitations on project funding are exclusions for increased capacity. Other limitations are further described in the Drinking Water SRF guidance documents available from the DPH and the EPA.

The Drinking Water SRF financial assistance consists of low interest rate loans at one-half of the market rate with up to 20-years to repay. The Drinking Water SRF also provides technical assistance and training with a portion of the federal grant.

All projects are selected for financial assistance based on a priority list system created and managed by the DPH. As described below, the priority ranking system reinforces long-term goals of the state and reflects the DPH’s philosophy of encouraging public health protection through the distribution of adequate and safe drinking water.

The Drinking Water SRF does not offer state funded grants. Once a project is deemed eligible for funding, the applicant’s capabilities are evaluated by the Drinking Water Section engineering staff and the Office of the State Treasurer to ascertain if the applicant’s system can support a Drinking Water SRF loan. A Department of Public Utilities Control approved economic viability model may also be used to evaluate water systems with more than 50 service connections.

### **Needs Survey**

The completed 2007 Drinking Water Infrastructure Needs Survey assessed the cost and types of drinking water needs throughout the nation for 2007 to 2027. The Survey is being used to determine the federal Drinking Water SRF allocation for fiscal years 2010 through 2013. Connecticut is one of the many states that receives the minimum 1% allocation (currently \$8.1 million) and because of the State’s needs, will continue to do so in the foreseeable future.

The results of the 2007 needs survey, which were released in February 2009 showed a nationwide need of \$334.8 billion. Of that, Connecticut's needs were \$1.3 billion in the following categories:

1) Transmission and Distribution	\$ 807.1 million
2) Treatment	\$ 280.6 million
3) Storage	\$ 151.6 million
4) Source	\$ 134.9 million
5) Other	\$ 19.7 million

Compared with the other five New England States' needs, Connecticut's 20-year needs were higher than New Hampshire (\$847.2 million), Rhode Island (\$428.4 million), Vermont (\$453.2 million) and Maine (\$539.8 million) but lower than Massachusetts (\$6.79 billion).

New Hampshire, Rhode Island, Vermont and Maine like Connecticut receive 1% of the total allocation, which is the minimum that a state can receive. One percent states can elect to opt-out of fully participating in the survey. Those states such as above that do opt-out would only collect data for water systems serving a population of over 100,000.

### **Project Priority List**

The priority list system is a key component of the management of the Drinking Water SRF. Management compiles the list to ensure that funding is available for projects that have the most pressing needs, while reserving funds for other projects. The ranking system also incorporates procedures for emergencies.

The Drinking Water Section develops a list of projects that will receive funding during the year and maintains a comprehensive priority list of eligible projects for funding in future years. Priority for the use of funds is designated to those projects that address one or more of the following:

- Water quality
- Water quantity
- Acquisitions and transfers
- Infrastructure upgrades
- Protective measures covering sources of supply and distribution systems
- Affordability

The ranking criteria is used to award points for situations in which water quality impairments, water quantity deficiencies, or water system imperfections may increase risk to public health or result in non-compliance. The resulting Project Priority List shows projects, the projected dollar amount of the project and the points awarded to the project. The highest points are assigned to projects that are designed to bring systems into compliance with quality and quantity regulations of the Connecticut Public Health Code. Points are also awarded for the acquisition of an existing public water system and upgrades to emphasize the importance of supporting projects that

achieve long-term solutions to existing water quality or quantity deficiencies. Affordability points are given to projects located in communities where the median household income is less than 80% of the State's average.

In each fiscal year, the DPH approves project loans to recipients on the Project Priority List to the extent of funds available. Each recipient may apply for and receive a project loan in an amount up to 100% of the eligible project cost. In some cases, based on readiness to proceed, a project may be bypassed on the Project Priority List. In these situations, the Drinking Water Section continues to provide support for a potential recipient so that eligible projects can proceed as soon as possible. The Drinking Water Section uses its computer-based application to track and continually update programmatic information on all Drinking Water SRF loan applications.

The DPH's Intended Use Plan (IUP) shows the proposed use of state and federal funding assistance programs for drinking water quality and quantity projects. A list of the eligible systems can be found on the Drinking Water Section's website and the 2008 Project Priority List is shown in Appendix VI. The Priority List of Projects for 2009 will be available in late summer of 2009 as the Department focused on the implementation of processes and procedures for the use of ARRA funds.

### **Borrowers**

All Connecticut public water systems are eligible to participate in the Drinking Water SRF. A public water system has 15 or more service connections or regularly serves at least 25 people, 60 or more days a year. In Connecticut, there are approximately 1,249 public water systems subdivided by regulation into two categories, community and non-community, and owned and operated by municipalities, private or non-profit entities. Community systems provide water to populations that reside in the same place for more than 60 days a year. Non-community systems provide water to schools and other locations where the population changes more frequently.

The DPH emphasizes the importance of reaching potential applicants. Each year outreach initiatives have included annual mailings, statewide informational meetings, and open forums. The Drinking Water Section staff also participates as presenters and instructors in conferences and workshops in several locations around the State.

### **Portfolio Credit Quality**

The overall financial condition of the State's municipal and privately owned public water systems reflects positively on the Drinking Water SRF. The analysis and review of borrowers and their financial condition prior to the approval of a project loan is essential to the long-term viability of the program.

Each borrower applying for financial assistance submits documentation to evidence its ability to repay debt and its technical and financial management capabilities. Required documents include financial statements, capital budgets, current operating budgets, projected budgets including the proposed debt, and economic data. Applicants must document their ability to charge rates for services and collect from their customers. Applicants may also be asked to provide information explaining the alternatives to the proposed project as well as the benefit of the project to customers. The project-specific review includes an engineering report or a feasibility study, a project capital cost repayment analysis including any projected need for increases in user fees, and a review of any management contracts. Further information about the application and loan documents can be found in Appendix X and Appendix XI.

The Drinking Water SRF loan portfolio is diverse, with almost all of the loans and commitments to municipalities rated "A" or higher by Moody's Investors Service as shown in Appendix III. Most of the private and non-profit borrowers do not have credit ratings. The program's loan administration includes separate loan servicing by the program's trustee bank. No defaults have occurred to date. There is no grace period for loan repayments although the agreements allow up to 30 days to cure other defaults. A policy is in place to implement collection procedures in the event of a delayed payment. An outline of the standard loan agreement has been provided in Appendix VIII.

## **2009 Projects**

During fiscal year 2009, the Drinking Water SRF made two loan commitments totaling \$1.25 million:

### **Connecticut Water Company (CWC) Shoreline Region – Point O' Woods**

The Connecticut Water Company Shoreline Region – Point O' Woods became the first project to use the combined funding for the Drinking and Clean Water Revolving Fund programs when it commenced a drinking water main and sewage line project. Point O' Woods ((POW) is a community of 420 homes served by a seasonal water system and antiquated onsite septic systems. The Connecticut Water Company's (CWC) existing seasonal water distribution system is undersized, The CWC, POW Water Pollution Control Authority met with the Departments of Public Health (DPH) and Environmental Protection (DEP) to discuss the construction of a new water distribution system for CWC. DPH agreed to fund the project through the Drinking Water SRF with CWC and POW as joint applicants but the debt payment would be the responsibility of POW for the water system installation costs. By doing this project at one construction contract (water and sewer), administrative costs are reduced and the water system construction cost kept low since much of the trenching and pavement restoration was covered under the CWSRF for the sewer project. The water component of the project has 18,162 linear feet of pipe. The sewer component of the project has 28,700 linear feet of pipe, 74 grinder pumps and 3 pump stations. Over \$7 million in funding is involved with the cost of this project with the Drinking Water SRF cost at \$800,000.

### **City Of Norwich / Norwich Public Utilities**

The City of Norwich entered into a loan agreement to repair, rehabilitate and retrofit the Norwich Business Park water storage tank. The loan was in the amount of \$450,000. The project was completed during this fiscal year.

Two projects were completed during the fiscal year South Norwalk Electric and Water Second Taxing District, and the City of Norwich mentioned above. The South Norwalk loan, in the amount of \$24.7 million, was for the upgrading of the water treatment plant. The treatment plant went from one utilizing conventional treatment to one utilizing immersed membrane filtration.



South Norwalk Electric and Water – Water Treatment Plant



South Norwalk Electric and Water – Water Treatment Plant

In accordance with section 22a-478(o) of the Connecticut General Statutes, this annual report includes the list of new project funding agreements in Appendix IV.

**Pending Projects**

The table in Appendix V shows a total of \$95.3 million in loans to (1) borrowers with outstanding loans or undrawn loan commitments through June, 30, 2009, and (2) those with new loan commitments expected to be executed through June 30, 2010.

**Program Funding**

The primary sources of funds for the Drinking Water SRF are:

- (1) Federal capitalization grants.
- (2) State contributions for the 20% match of the federal capitalization grants.
- (3) Proceeds of the revenue bonds.
- (4) Earnings on the assets of the Drinking Water SRF.

The Drinking Water Section can request up to 31% of the federal capitalization grant to administer the Drinking Water SRF, and provide managerial and technical assistance to public water systems. Although there are no state funded grant programs associated with the Drinking Water SRF one may be implemented in the future using principle forgiveness as subsidization similar to the ARRA.

To maintain flexibility within its programs, the State has created the following separate accounts within the Connecticut Clean Water Fund to accept federal capitalization grants and state matching funds for the Drinking Water SRF.

Fund	Name	Purpose/Requirements
21017	Drinking Water State Account	Initial state match
21018	Drinking Water Federal Account	The designated qualifying State Revolving Fund under Title VI of the federal Water Quality Act and the federal Safe Drinking Water Act

## **Federal Capitalization Grants**

The 1996 amendments to the Safe Drinking Water Act established State Drinking Water SRF, and the Safe Drinking Water Act both authorized the Drinking Water SRF and continues to place legal constraints on each state program. Federal regulations limit the uses of the Drinking Water SRF equity to loans, support for bonds issued to make loans, loan guarantees or insurance, refinancing of prior debt, or administrative expenses associated with qualified projects. The Clean Water SRF and the Drinking Water SRF have many similarities. However, one major difference is that, unlike the Clean Water SRF, the Drinking Water SRF can make loans to private entities that own and operate public water systems. The initial federal authorizations ended in 2003 and as of June 30, 2009, the Safe Drinking Water Act has not yet been reauthorized by Congress.

Each year Connecticut is allocated 1% of the federal funds available for federal capitalization grants to state Drinking Water SRF. The federal drinking water capitalization grant awards from 1997 through 2008 totaled \$108.7 million. The Drinking Water SRF has up to two years to apply for an allocated grant. Connecticut's allocated grant award for 2009 is approximately \$8.1 million and the DPH will apply for this grant late summer 2009. The 2009 grant should be awarded in the fall of 2009. The federal capitalization grants and the required match for the Drinking Water SRF must be maintained by the SRF in perpetuity.

Federal capitalization grants are paid to the State as cash draws under the federal payment system, which is initiated when a written payment request is submitted by the DPH. The periodic cash draws by the State are based on the amount of incurred costs for eligible projects or activities by either all or a specific group of projects receiving loans, as elected by the State from time to time. The State has elected to base its cash draws on the costs incurred by a specified group of projects on a dollar-for-dollar basis.

During the year, the ARRA was approved and provided \$2 billion to Drinking Water SRF nationwide. Of that amount, Connecticut was awarded \$19.5 million.

## **Set-asides**

Set-asides are funds allocated for a range of specific activities including Drinking Water SRF program administration and management, technical assistance for small water systems, and operator education and support. These approved purposes can use as much as 31% of each capitalization grant. The IUP as required by the EPA, describes the state's intended uses for project and set-aside funds.

The project portion of the federal capitalization grants and state contributions have been used to make loans to public and private borrowers, to provide credit and interest support for revenue bonds. Set-asides have been used to pay administrative costs, encourage source water protection, and support other state drinking water program activities. Information on the required state matching funds, the amount of federal grants for the Drinking Water SRF and a description of the programs funded with the set-asides can be found in Appendices I and II.

## **State Authorizations – Projects and State Match**

The State has demonstrated a significant commitment to high water quality for its citizenry through its support of the Connecticut Clean Water Fund including the Clean Water SRF and Drinking Water SRF. Due to the similarities between the federal programs, the State authorizations of revenue bonds and general obligation (GO) bonds for the two programs are

combined. As projects are approved, authorizations are allocated to the Drinking Water SRF from the total available authorizations.

To date, revenue bond authorizations of \$30 million for projects have been made available to the Drinking Water SRF. Connecticut's match has been made in the form of taxable state GO bonds deposited in the Drinking Water SRF and cash contributions. At present, future match requirements will be provided with cash contributions from the State.

The State has provided or expects to provide sufficient funds in the Drinking Water SRF to meet the required State match. The State has provided bond authorizations and cash sufficient to meet the match requirements of all amounts drawn to date. It is anticipated that match requirements for all awarded grants will be met as additional grants are drawn by the State from the EPA.

### **Revenue Bonding Program**

Prior to the initial issuance of the bonds, the Drinking Water SRF loans to municipalities and private entities were made from the federal capitalization grants. Since 2001, revenue bonds provided a total of \$87.7 million for Drinking Water SRF projects. Bond proceeds are allocated to the Drinking Water SRF and distributed on a first-come, first-served basis to those borrowers that have executed loan agreements, as the borrowers incur project costs. Borrowers in addition to those listed in the appendices may receive funding. In all cases, funding is subject to State Bond Commission approval.

The bonds for Drinking Water SRF projects are liabilities solely of the Drinking Water SRF. This leveraged financing allows the Drinking Water SRF to maximize the available project funding more quickly than under a direct loan program using the capitalization grant. This strategy also allows the State to provide loans with a low interest rate at favorable 20-year terms to all of the eligible water systems without regard for the size of the project.

The Series 2008A bonds closed on August 6, 2008, and provided \$25 million for Drinking Water SRF projects. Bonds were also issued at the end of the fiscal year on June 25, 2009 which provided an additional \$5 million for projects. More information on the bonds, the payment of debt service and the investments of the Drinking Water SRF can be found in the financial statements. Drinking Water SRF expects to expend all bond proceeds during Fiscal year 2010. The next bond issue is anticipated for the summer of 2010.

### **Ratings**

The bonds are rated at the highest available credit rating from all three rating agencies, AAA from Fitch Ratings and Standard & Poor's Ratings Services, and Aaa by Moody's Investor's Service. Each rating reflects only the views of the respective rating agency, and an explanation of the significance of any rating may be obtained from the rating agency. There is no assurance that ratings will continue for any given period of time or that they will not be revised or withdrawn entirely by a rating agency if, in the judgment of such rating agency, circumstances so warrant.

## **PROGRAM MANAGEMENT**

The state demonstrates its continuing commitment to the program in several ways: 1) a generous portion of the federal grant is set aside to provide critical services to water providers, 2) the State has coordinated funding sources to maximize the financing available, 3) the State provides significant administrative support through the coordinated efforts within the divisions of the DPH, Department of Environmental Protection, and the Office of the State Treasurer.

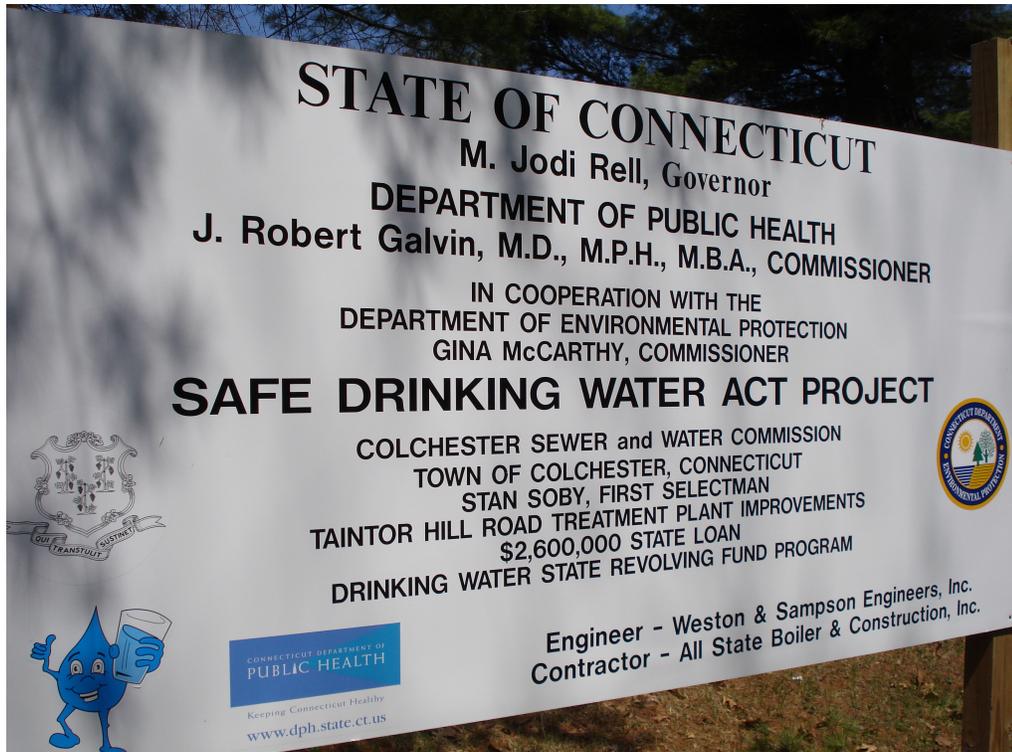
The DPH, the Department of Environmental Protection, and the Office of the State Treasurer have worked together with the Department of Public Utility Control and the Office of Policy and Management to address the drinking water needs of the state since 1995. The process has been implemented with a great deal of consideration for existing regulations and procedures. The Drinking Water SRF Interagency Memorandum of Understanding (MOU) creates an interagency committee and details the roles and responsibilities of each agency. An overview of state agency participation and information on the roles and responsibilities of each agency are available in Appendix VIII and Appendix IX.

## **2010 PROGRAM ACTIVITIES AND INITIATIVES**

The DPH and the interagency committee develop goals for each program of the Drinking Water SRF and set-asides. The major activities in 2010 will include:

### **Administrative and Projects**

- Preparation of the Drinking Water SRF Capitalization Grant and related reports.
- Solicitation and review of project applications.
- Development and maintenance of comprehensive list of projects.
- Conducting Public Hearing and Open Forum on Priority list of projects.
- Evaluating ways to streamline process to improve program efficiency.
- Meeting with stakeholders and applicants as needed.
- Evaluating and implementing program to greater assist small systems.
- Take over role from DEP as lead for drafting loan agreement and processing payments.
- Three projects, the Town of Colchester's Treatment Plant Upgrades as well as the Southington Department's Water Main and Wellhead Protection project will be completed by the end of the calendar year.



Town of Colchester – Sewer & Water Commission

This \$2.6 million project is for water treatment plant upgrades and modifications. The previously existing pump and treatment facility did not have the capacity to meet peak water systems demands. The level of iron in the previously produced water came from wells, which resulted in the decrease operational capacity of existing filters as well as decreased water quality. The population served by this water system is approximately 4,000.



Work progresses at the Colchester facility



Town of Colchester – Sewer & Water Commission – Water Treatment Plant

## Town of Southington – Southington Water Department

This \$1.5 million project consists of replacing water pipes where there were restrictions or operational problems. Replacing the water mains reduced energy consumption, water pressure losses, unaccounted water losses and enhanced water flows. Southington Water Department currently serves a population of approximately 40,000.



## Local Assistance and Other State Set-Asides

### Source Water Protection Program

- Enhance, oversee, and enforce existing public health source protection laws by:
  - Maintaining and enhancing existing permit programs.
  - Integrating source water protection with water supply planning.
  - Enhancing existing source water protection laws.
  - Reviewing permits as required, and

- Enhancing the watershed approach by integration and development of drinking water quality management plan.
- Work will continue with communities across the State to emphasize the concepts of the Drinking Water quality management plan. Initiate contract to assist Groton and other communities to develop source water protection plans. The Department plans to continue its efforts to educate and train local land use officials, linking with related state and federal programs and where possible, involving stakeholders and developing partnerships to emphasize the importance of source water protection.

#### Capacity Development

- Continue to conduct sanitary survey inspections of public water systems, including evaluations of technical, financial, and managerial capacity and cross-connection control programs.
- Hold compliance and technical assistance meetings for targeted small systems identified with weaknesses during sanitary surveys or compliance assessments.
- Continue to perform engineering reviews for public water system infrastructure projects, including Drinking Water SRF projects.
- Continue to provide technical assistance to local health departments on water issues that arise with public water systems serving food service establishments.
- Continue to compile and update data regarding safe water yield, available water, treatment restrictions, diversion permit restrictions, sale of excess water permits, and interconnections in a statewide database to provide the most accurate information to Drinking Water Section staff. Use database to track actual amount of water available for each of the 84 large public water systems, and each of the geographical Water Utility Coordinating Council (WUCC) regions of the State.
- Continue to provide forms to applicants for new public water systems in Connecticut for submission to Exclusive Service Area (ESA) providers and WUCC area chairpersons to ensure the receipt of proper information and the proper construction of new public water systems.
- Continue the integration of the Water Supply Planning process into sanitary survey process. Continued work on forms to provide critical information to Regional Engineers prior to scheduled sanitary surveys for the 84 largest public water systems in Connecticut.
- Continue the Water Utility Coordinating Committee (WUCC) process for the coordinated and orderly development of public water supply in CT after a three year hiatus.
- Hold Water Utility Coordinating Committee (WUCC) meetings across the state.

- Continue the DPH Commissioner's Advisory Committee for the Water Utility Coordinating Committee (WUCC) process to ensure consistency across the state in regards to the coordinated and orderly development of public water supply in CT.
- Hold Regional Water Supply forums in the three water management areas of the state yet to be convened. These forums are critical to provide information to ensure the orderly and proper construction of public water systems in CT.
- Continue to hold planning technical assistance meetings for public water systems that were scheduled to prepare and resubmit water supply plans.
- Continue to hold planning technical assistance meetings for large public water systems with long histories of violations or infrastructure deficiencies that could pose a risk to public health protection.
- Continue to provide technical assistance at meetings for public water systems facing sanctions at other State agencies.
- Enforce the requirement for a Sale of Excess Water (SEW) permit for public water systems that sell bulk water to neighboring public water systems. This requirement is a critical step in assuring the adequate capacity both of the public water system selling the water and the public water system purchasing the water.
- Reviewed and approve Sale of Excess Water permits.
- Complete reviews of Water Company Screening Applications to determine potential status as a public water system and applicability of the Certificate of Public Convenience and Necessity (CPCN) process.
- Continue participation as instructors at DPH water system operator classes and participate in other training sessions to enhance the financial, managerial, and technical capacity of public water systems
- Continue to perform engineering reviews for public water system infrastructure projects, including Drinking Water SRF projects
- Maintain and revise as necessary the sanitary survey inspection standard operating procedures
- Develop new technical guidelines and informational documents and update existing guidelines and documents as necessary.
- Assess technical and managerial capacity of public water systems as necessary systems.
- Provide technical assistance to public water systems on violations and deficiencies noted during assessments.
- Provide technical assistance and enforcement referral to local health departments for maximum contaminant level violations, source water construction violations, and cross-connections identified at food service establishments.

- Participate in training programs related to the technical, managerial, and financial capacity for public water system operators and local health officials.
- Contract with a qualified consultant to develop templates, tools and resources to be use by capacity development staff.

### **Small Systems Technical Assistance**

In fiscal year 2010, the priority activities relating to technical assistance to small systems will include:

- Providing asset management and technical assistance to small public water systems targeting those small systems identified with weaknesses during sanitary surveys or compliance assessments. These efforts will include promoting and providing technical support for the new EPA CUPSS asset management software.
- Performing financial and managerial capacity evaluations for new non-community public water systems.
- Refine technical, financial and managerial capacity evaluations of new and existing public water systems to be conducted during small system sanitary surveys.
- Provide technical assistance information to owners and operators to public water systems that serve less than 10,000 people.
- Administer the Drinking Water SRF loan tracking database and update with ARRA milestones.
- Participate and/or coordinate Drinking Water Section's training events focused on asset management, sustainability, capacity development and the Drinking Water SRF program.
- Assess financial and managerial capacity of new Non-Community public water systems.
- Assist in the preparation of federally reportable ARRA data to comply with federal requirements.

### **Program Management**

The Program Management Activities in 2010 will include:

- Prepare guidance documents, work plans and long-term strategies for Drinking Water SRF program management and EPA required program management reports, contracts related to technical assistance to public water systems to assist the Drinking Water Section in capacity development efforts.
- Continue upgrading SDWIS/State as new revisions to the software are released to help implement new safe drinking water rules promulgated by EPA and adopted by the State.

- Continue to provide direct technical assistance to public water systems and laboratories regarding the required changes to the reporting of water quality and inventory/facility data to SDWIS/State via electronic data interchange.
- Prepare capacity development guidance documents, work plans, standard operating procedures, and long-term strategies.
- Conduct outreach programs to educate public water system staff, certified operators, the general public and other stakeholders on capacity and state drinking water program administration issues.
- Provide technical assistance to the Water Planning Council in the areas of the Water Utility Coordinating Committee water supply planning, and the Connecticut Drought Advisory Committee.
- Coordinate activities with the Environmental Health Section's Laboratory Certification Program in assisting public water systems regarding water quality testing issues.
- Prepare, review and issuance of formal enforcement actions to ensure compliance with state and federal regulations, and return public water systems to compliance.
- Prepare standard operating procedures for all reviews (water supply plans, sale of excess water permits, diversion permits, water company lands, etc.) to ensure consistent reviews.
- Conduct "Careers in Drinking Water" forum.
- Coordinate staff activities to promote standardization of presentations and informational materials;
- Maintain a quality assurance system in cooperation with EPA, Region 1;
- Enhance security and emergency response initiatives;
- Submit grant applications, associated work plans, and progress reports to the EPA.

## **LONG TERM PROJECTIONS**

The State has established management goals for the SRF program as part of its statewide public health initiative. The condition of the Drinking Water SRF continues to be strong primarily because of its effective management and the placement of the Drinking Water SRF within the financial structure of the Connecticut Clean Water. This guarantees that the Drinking Water SRF will benefit from the same management and financial planning mechanisms that have supported the successful Clean Water SRF program. Ongoing discussions about the following issues are shaping the program:

- Coordination within the DPH and continued collaboration with other state agencies, to maximize the effectiveness of the program and meet the state's water quality goals.

- Addressing areas of decentralized system management over the next several years including sewage system assessments as part of real estate transactions, and facilitating the abandonment of large capacity cesspools based on new EPA rules.
- Continuing outreach efforts to reach and assist small water systems, especially those in need of a high level of technical assistance and low cost financing.
- The EPA program guidelines and regulations and their impact on the implementation of the program at the state level, including the use of administrative and program set-asides allowed by the EPA.
- Maximizing the use of available resources through the project priority list of eligible projects, and monitoring the amount of money available for projects, and the number of potential loans.

### **Condition of the Fund**

Each year, the DPH and the Department of Environmental Protection Commissioners in conjunction with the Office of the State Treasurer estimate the amount of funding that will be available for specific projects in the Priority list. This amount is based on the remaining authorizations and the allocations approved through the State Bond Commission. Additional authorizations for Clean Water and Drinking Water projects have been provided for fiscal years 2008 and 2009. Once approved, DPH was able to initiate the project priority process and create a list for fiscal year 2008 and 2009. The current Project Priority List for the base Drinking Water SRF Program is shown in Appendix VII. To review the priority list for the ARRA, please visit the Department's web site [www.ct.gov/dph](http://www.ct.gov/dph).

Since the inception of the program, the Drinking Water SRF has over \$95.3 million --- in completed projects and project commitments. Many of the borrowers have multiple loans and the largest amount of loans and commitments continue to be with MDC and Norwich.

The listing in Appendix XII of water projects funded by the Drinking Water Fund as of June 30, 2009, shows the projects by borrower, and the amounts of funding from each of the state's programs.

Over the past seven years, the State has issued revenue bonds to expand the Drinking Water SRF and its ability to fund critical water quality projects. State bond authorizations for the Drinking Water SRF have only been used for project purposes. Program capacity projections show that the program can sustain bond issuance of approximately \$10 to 12 million in revenue bonds per year through 2020 without state funded interest subsidy depending upon project spending needs. Depending on the needs of the program, the state may provide additional support for higher levels of revenue bond issuance in the future. The receipt of the ARRA funding from EPA has only expanded possible capacity of the program.

## APPENDICES



## APPENDIX I: STATE MATCH FOR FEDERAL CAPITALIZATION GRANTS

Fiscal Year	State 20% Match Requirement
1997	\$4,281,640
1998	\$1,424,260
1999	\$1,492,760
2000	\$1,551,400
2001	\$1,557,820
2002	\$1,610,500
2003	\$1,600,820
2004	\$1,660,620
2005	\$1,657,100
2006	\$1,645,860
2007	\$1,629,200
2008	\$1,645,800
2009*	\$1,645,800
<b>Total</b>	<b>\$21,757,780</b>

\* Applying for grant during the summer of 2009 not included in total

## APPENDIX II: FEDERAL CAPITALIZATION GRANTS

*(As of June 30, 2009)*

	Total Federal Grant Awarded	Program Set Asides	Project Funds
1997	\$21,408,200	\$6,636,542	\$14,771,658
1998	\$7,121,300	\$2,207,603	\$4,913,697
1999	\$7,463,800	\$2,313,778	\$5,150,022
2000	\$7,757,000	\$2,404,670	\$5,352,330
2001	\$7,789,100	\$2,414,621	\$5,374,479
2002	\$8,052,500	\$2,496,275	\$5,556,225
2003	\$8,004,100	\$2,481,271	\$5,522,829
2004	\$8,303,100	\$2,573,961	\$5,729,139
2005	\$8,285,500	\$2,568,505	\$5,716,995
2006	\$8,229,300	\$2,551,083	\$5,678,217
2007*	\$8,229,000	\$1,728,090	\$6,500,910
2008*	\$8,146,000	\$1,221,900	\$6,924,100
<b>Total</b>	<b><u>\$108,788,900</u></b>	<b><u>\$31,598,299</u></b>	<b><u>\$77,190,601</u></b>

The 2009 Grant application will be submitted during the summer of 2009. Priority was given to the submission of the American Recovery and Reinvestment Act of 2009 (ARRA) grant application in the amount of \$19.5 million.

## **APPENDIX III: SET-ASIDE MANAGEMENT**

The Drinking Water SRF has several program set-asides that give the State extensive flexibility to explore multiple options to support eligible participants in the Drinking Water SRF. Set-asides are funds allocated for a range of specific activities such as encouraging source water protection and supporting other state drinking water program activities. Drinking Water SRF program administration, drinking water program management, technical assistance for small water systems and operator education and support are approved purposes, which can represent up to 31% of the capitalization grant. The Intended Use Plan, a document required by the EPA for grant applications, describes the State's intended uses for set-aside and project funds. The following descriptions include the set-aside categories, percentages of the federal capitalization grant taken and the use of the funds:

### **Administrative Set-Aside - (up to 4%)**

These funds are used in various aspects of administering the Drinking Water SRF. Funds are earmarked for the Departments of Public Health (DPH), Environmental Protection (DEP) and the Office of the State Treasurer. Administrative functions include:

Reviewing and approving eligibility and full loan applications and meeting with applicants as needed;

Processing loan agreements including loan closings;

Reviewing and approving project cost;

Determining if the applicants possess adequate financial, technical and managerial capabilities to ensure long-term compliance with applicable state and federal regulations;

Receiving and processing payment requests;

Preparing and submitting funding request to the State Bond Commission; and

Assisting in the preparation of the capitalization grant and various Drinking Water SRF reports.

### **Local Assistance and Other State Programs Set-Aside - (up to 15%)**

#### **Source Water Protection**

The Drinking Water Section also uses the Local Assistance set-aside for source water protection of wellheads. Funds are designated for the following source water protection activities: Delineation and assessment of source water protection areas;

Loans to systems to acquire land or conservation easements; Loans to systems to assist in voluntary, incentive-based source water protection measures; Development and implementation of wellhead protection programs; and Assistance for systems as part of a capacity development strategy.

## Capacity Development

The staff funded under this set-aside is responsible for assessing compliance with state regulation and the SDWA. The staff also assesses the managerial and technical capacities of public water systems by conducting and reviewing sanitary surveys. As enforcement actions are initiated, staff also assesses the cause or triggers of violations associated with a public water system and assist the system in recognizing the corrective measures to return the system to compliance with the regulations. Systems that do not correct existing violations through technical assistance are referred for formal enforcement actions including possible take-over proceedings.

## **Small Systems Technical Assistance Set-Aside – (up to 2%)**

These funds are designated for technical assistance to small systems. Some of the activities include:

Preparing guidelines for the design and construction of water storage tanks, pumping facilities, chlorination treatment systems and chemical feed treatment systems.

Playing a lead role in project review management and providing technical assistance to facility operators on project submittal issues.

## **State Program Management Set-Aside – (up to 10%)**

These funds are designated for the administration of the State Public Water Supply Supervision Program. The Program provides technical assistance through source water protection capacity development and operator certification programs and activities include:

Developing, tracking and submitting grant applications to the Environmental Protection Agency

Continue implementing electronic reporting of water systems.

Managing State Drinking Water Information System (SDWIS)

Web-page development and management.

Develop and coordinate reports to the Environmental Protection Agency.

Develop fact sheets, brochures pamphlets and electronic public informational services (e-mail, internet and DPH's Health Alert Network).

Coordinate with public water systems, businesses, trade associations etc. to provide speakers to and/or initiate conferences and workshops.

Prepare, review and submit formal enforcement actions on non-compliant water systems for processing.

Staff has presented information on operator certification to various industry groups such as water system owners and operators, and well drillers.

## Set-Asides Management

As of 6/30/2009	Administration	State	Small	Local	Total Set
	4%	Management	Systems	Assistance	
	Set-Aside	Set-Aside	Technical	Set – Aside	Asides
	21076	21081	Assistance	21088	
	0000-4001-991	0000-4001-992	21085	0000-4001-994	
			2%	15%	
1997 Award	856,328	2,140,820	428,164	3,211,230	6,636,542
Drawn thru 6/30/09	856,328	2,140,820	428,164	3,211,230	6,636,542
Balance	-	-	-	-	-
1998 Award	284,852	712,130	142,426	1,068,195	2,207,603
Drawn thru 6/30/09	284,852	712,130	142,426	1,068,195	2,207,603
Balance	-	-	-	-	-
1999 Award	298,552	746,380	149,276	1,119,570	2,313,778
Drawn thru 6/30/09	298,552	746,380	149,276	1,119,570	2,313,778
Balance	-	-	-	-	-
2000 Award	310,280	775,700	155,140	1,163,550	2,404,670
Drawn thru 6/30/09	310,280	775,700	155,140	1,163,550	2,404,670
Balance	-	-	-	-	-
2001 Award	311,564	778,910	155,782	1,168,365	2,414,621
Drawn thru 6/30/09	311,564	778,910	155,782	1,168,365	2,414,621
Balance	-	-	-	-	-
2002 Award	322,100	805,250	161,050	1,207,875	2,496,275
Drawn thru 6/30/09	322,100	805,250	161,050	1,207,875	2,496,275
Balance	-	-	-	-	-
2003 Award	320,164	800,410	160,082	1,200,615	2,481,271
Drawn thru 6/30/09	320,164	800,410	160,082	1,200,615	2,481,271
Balance	-	-	-	-	-
2004 Award	332,124	830,310	166,062	1,245,465	2,573,961
Drawn thru 6/30/09	332,124	830,310	166,062	870,383	2,198,879
Balance	-	-	-	375,082	375,082
2005 Award	331,420	828,550	165,710	1,242,825	2,568,505
Drawn thru 6/30/09	331,420	825,500	165,710	1,245,465	1,325,680
Balance	-	-	-	-	1,242,825
2006 Award	329,172	822,930	164,586	1,234,395	2,551,083
Drawn thru 6/30/08	240,960	459,053	164,586	-	864,599
Balance	88,212	363,877	-	1,234,350	1,686,484
					-
2007 Award	329,160	-	164,580	1,234,350	1,728,090
Drawn thru 6/30/09	-	-	35,095	-	35,095
Balance	329,160	-	129,485	1,234,350	1,692,995

<b>As of 6/30/2009</b>	<b>Administration 4% Set-Aside 21076 0000-4001-991</b>	<b>State Management 10% Set-Aside 21081 0000-4001-992</b>	<b>Small Systems Technical Assistance 2% Set-Aside 21085 0000-4001-993</b>	<b>Local Assistance 15% Set – Aside 21088 0000-4001-994</b>	<b>Total Set Asides</b>
2008 Award					
Drawn thru 6/30/09	-	-	-	-	-
Balance	-	-	-	1,221,900	1,221,900
<b>Total Awarded to date</b>	<b>4,025,716</b>	<b>9,241,390</b>	<b>2,012,858</b>	<b>16,318,335</b>	<b>31,598,299</b>
<b>Drawn thru 6/30/09</b>	<b>3,608,344</b>	<b>8,877,513</b>	<b>1,883,373</b>	<b>11,009,783</b>	<b>25,379,013</b>
<b>Total Undrawn Balance</b>	<b>417,372</b>	<b>363,877</b>	<b>129,485</b>	<b>5,308,552</b>	<b>6,219,286</b>

## Appendix IV: Drinking Water SRF Closed Loans—Fiscal Year 2009

Closing Date	Entity	Project No	SCD	IFO/PLO	Amount	New PLO Amount	New IFO Amount
7/30/08	CTWC Shoreline Region – Point O’ Woods	200802-C		IFO	\$800,000		\$800,000
4/30/09	SNEW	200601-C		PLO	\$24,715,165	\$24,715,165	
6/30/09	City of Norwich	2008-01-C		IFO/PLO	\$450,000	\$450,000	\$450,000
<b>Totals</b>						\$25,165,165	\$1,250,000

Total New IFO Loans	2
Total Dollar Value on New IFO Loans	\$ 1,250,000
Total New PLO Loans	2
Total Dollar Value on PLO Loans	\$25,165,165

**Key:**

SCD- Scheduled Completion Date( Based on Loan Agreement)

IFO- Interim Funding Obligations

PLO- Permanent Loan Obligations

## Appendix V: Pending Projects

As of 6/30/2009	PROJECT NUMBER	Total IFO/PLO as of 06/30/09	Undrawn Loan Commitments	Additional Loan Commitments Through 12/30/10	Total Commitments
Aquarian Water(BHC)	9701-C	245,495			245,495
Bethel				500,000	500,000
Brookfield				958,253	958,253
Colchester	200702-C	2,425,524	174,476		2,600,000
CTWC Gallup Water Service Inc.				126,589	126,589
Cook Willow	9706-C	484,527	1,073		485,599
Crystal Lake	9711-C	254,027			254,027
East Lyme				1,486,659	1,486,659
Harrybrook Park Condo	9703-C	142,195			142,195
Hillside Water Corp	2000b-DC	113,023			113,023
Ledyard	200401-C	820,028			820,028
MDC	200105-C	4,924,634		14,681,520	19,606,154
New Britain	2000A-DC	24,974,021			24,974,021
Newtown	200101-C	525,070			525,070
Norwich	9714-C	1,739,884		1,649,990	3,389,874
Point-o-Woods	200802-C	252,451	547,549		800,000
Portland	9708-C	1,460,454		1,542,500	3,002,954
Putnam WPCA				1,362,947	1,362,947
Second Taxing District- City of Norwalk	200601-C	24,715,165			24,715,165
Sharon	2000d-DC	1,677,195			1,677,195
Southington	200202-C	4,572,688	1,253,792		5,826,480
Tolland				126,589	126,589
Twin Hills	9707-C	118,243			118,243
Watertown Fire District	200104-C	857,047			857,047
Woodlake Taxing District		372,363		209,147	581,510
		<b>70,674,034</b>	<b>1,976,890</b>	<b>22,644,194</b>	<b>95,295,117</b>

## Appendix VI: Financial Assistance by Bond Rating

Borrower	Total Commitments	AAA	A & Aa	B to Baa	Not Rated
<b><u>Public</u></b>					
Colchester	2,600,000		2,600,000		
Ledyard	820,028		820,028		
MDC	19,606,154		19,606,154		
New Britain	24,974,021		24,974,021		
Newtown	525,070		525,070		
Norwich	3,389,874		3,389,874		
Portland	3,002,954		3,002,954		
Putnam	1,362,947		1,362,947		
Second Taxing District-City of Norwalk	24,715,165		24,715,165,		
Sharon	1,677,195		1,677,195		
Southington	5,826,480		5,826,480		
Watertown Fire District	857,047		857,047		
<b>Subtotal</b>	<b>92,428,436</b>		<b>92,428,436</b>		
<b><u>Private</u></b>					
Aquarian Water(BHC)	245,495				245,495
Cook Willow	485,599				485,599
Crystal Lake	254,027				254,027
Harrybrook Park Condo	142,195				142,195
Hillside Water Corp	113,023				113,023
Point-o-Woods	800,000				800,000
Twin Hills	118,243				118,243
Woodlake Taxing District	581,510				581,510
<b>Subtotal</b>	<b>2,866,681</b>				<b>2,866,681</b>
<b>Total</b>	<b>95,295,117</b>		<b>92,428,436</b>		<b>2,866,681</b>
<b>Percentage</b>			<b>97%</b>		<b>3%</b>

## Appendix VII: Priority List of Projects for 2008/2009

(This list of the base DWSRF is in effect until the FFY 2009 list is drafted).

### FINAL DRAFT PRIORITY LIST OF PROJECTS (REV 12-10-08)

#	PTS	APPLICANT/PWS	SIZE	DWSRF ID #	DESCRIPTION	AMOUNT	STATUS
1	85	HARRINGTON MOBILE HOME PARK	SML	2008 1091011a	Interconnect to Connecticut Water Co.	\$640,000	Fundable
2	60	EAST LYME WATER & SEWER COMMISSION	LRG	2008 0450011b	Replace Well 3B, Bride Brook Road	\$746,812	Fundable
3	50	EAST LYME WATER & SEWER COMMISSION	LRG	2008 0450011a	Installation of System Wide Chlorine Disinfection	\$1,275,500	Fundable
4	15	METROPOLITAN DISTRICT COMMISSION *	LRG	2007 0640011a	Water Main - Various Towns	\$12,115,422	Fundable
5	15	METROPOLITAN DISTRICT COMMISSION *	LRG	2007 0640011c	Water Main - Hartford	\$342,000	Fundable
6	15	METROPOLITAN DISTRICT COMMISSION	LRG	2007 0640011d	Water Main - Hartford	\$4,270,000	Fundable
7	15	METROPOLITAN DISTRICT COMMISSION *	LRG	2007 0640011e	Install 16" Feeder Main - Glastonbury/East Hartford	\$4,691,520	Fundable
8	15	METROPOLITAN DISTRICT COMMISSION	LRG	2008 0640011g	Water Main - Olds Place, Hartford	\$158,000	Fundable
9	15	METROPOLITAN DISTRICT COMMISSION	LRG	2008 0640011i	Transmission Main - Farmington Ave., Hartford	\$1,840,000	Fundable
10	15	METROPOLITAN DISTRICT COMMISSION *	LRG	2008 0640011n	Water Main - Granby St. area, Hartford	\$7,136,640	Potently Fundable
11	5	METROPOLITAN DISTRICT COMMISSION	LRG	2008 0640011a	Water Main - Montclair Dr., West Hartford	\$1,521,000	Potentl Fundable
12	5	METROPOLITAN DISTRICT COMMISSION	LRG	2008 0640011b	Water Main - Linbrook Rd., West Hartford	\$846,000	Potentl Fundable
13	5	METROPOLITAN DISTRICT COMMISSION	LRG	2008 0640011c	Water Main - Norwood Rd., West Hartford	\$1,262,000	Potentl Fundable
14	5	METROPOLITAN DISTRICT COMMISSION	LRG	2008 0640011d	Water Main - Brenway Dr., West Hartford	\$764,000	Potentl Fundable
15	5	METROPOLITAN DISTRICT COMMISSION	LRG	2008 0640011e	Water Main - Rumford St., West Hartford	\$1,104,000	Potentl Fundable
16	5	METROPOLITAN DISTRICT COMMISSION	LRG	2008 0640011f	Water Main - Carol Rd., West Hartford	\$223,000	Potentl Fundable
17	5	METROPOLITAN DISTRICT COMMISSION	LRG	2008 0640011h	Transmission Main - Farmington Ave., West Hartford	\$930,000	Potentl Fundable
18	5	METROPOLITAN DISTRICT COMMISSION	LRG	2008 0640011j	Transmission Gate Valve Replacement - Various Towns	\$2,000,000	Potentl Fundable
19	5	PORTLAND WATER DEPARTMENT	MED	2008 1130011a	Water Main - High Street	\$647,500	Fundable
20	5	PORTLAND WATER DEPARTMENT	MED	2008 1130011b	Water Storage Tanks - Improvements & Replacement	\$895,000	Fundable
* REFLECTS REQUESTED AMOUNT FROM SUBMITTED FULL LOAN APPLICATION						<b>Total Amount Requested:</b>	<b>\$43,408,394</b>

## FINAL DRAFT PRIORITY LIST OF PROJECTS (REV 12-10-08) (continued)

PROJECTS IN PROGRESS					
APPLICANT/PWS	SIZE	DPH ID #	DESCRIPTION	AMOUNT	STATUS
TOWN OF BROOKFIELD	SML	2006 0189043a	WATER MAIN EXTENSION - SILVERMINE ROAD	\$2,700,000	Fundable
METROPOLITAN DISTRICT COMMISSION	LRG	2006 064001 1b	RESERVOIR NO. 6 WATER TREATMENT FACILITY FILTER REHABILITATION	\$4,500,000	Fundable
NORWICH PUBLIC UTILITIES	LRG	2007 104001 1c	FILTER BACKWASH RECYCLE	\$522,000	Fundable
CTWC-SHORELINE REGION -POINT O' WOODS	LRG	2007 1050752a	WATER MAIN REPLACEMENT - (OLD LYME)	\$727,145	Loan Closed
BETHEL WATER DEPARTMENT	MED	2007 009001 1a	NEW WATER STORAGE TANK	\$500,000	Fundable
BARLOW MOUNTAIN & SCOTLAND ELEM SCHOOL	SML	2007 1180013a	WATER MAIN EXTENSION - (RIDGEFIELD)	\$1,450,000	Fundable
INTERLAKEN WATER COMPANY	SML	2007 0911061a	INFRASTRUCTURE UPGRADE - (NEW FAIRFIELD)	\$145,800	Fundable
RIDGEFIELD HIGH AND MIDDLE SCHOOLS	MED	2007 1180382a	ACRE LANE WATER MAIN EXTENSION	\$400,000	Fundable
<i>NORWICH PUBLIC UTILITIES*</i>	<i>LRG</i>	<i>2007 104001 1d</i>	<i>BUSINESS PARK WATER TANK UPGRADE AND REPAIR</i>	<i>\$616,990</i>	<i>Fundable</i>
<i>CANDLEWOOD TRAILS ASSOCIATION</i>	<i>SML</i>	<i>2005 0960091a</i>	<i>NEW WELL PUMPING STATION</i>	<i>\$285,000</i>	<i>Fundable</i>
<i>TOWN OF LEDYARD</i>	<i>MED</i>	<i>2005 0727031a</i>	<i>LEDYARD CENTER STORAGE TANK</i>	<i>\$1,790,400</i>	<i>Fundable</i>
METROPOLITAN DISTRICT COMMISSION	LRG	2006 064001 1d	RAW WATER BYPASS ELIMINATION - WEST HARTFORD	\$1,000,000	Fundable
<b>Total Amount Requested for Projects in Progress:</b>				<b>\$14,637,335</b>	

# = Ranking Order

PTS = Ranking Point Total

SIZE = Water System Population [Small (under 1,000), Medium (1,001-10,000), Large 10,001+]

FUNDABLE = Project is eligible for funding. All small & medium projects are fundable based on % of funds available for those categories.

POTENTIAL FUNDABLE = Project is potentially fundable based on available funds

ITALICIZED PROJECTS (3)-Rolled-over from 2007 Priority List and has been Approved by the State Bond Commission either as an individual project or lump sum project.

## **APPENDIX VIII: PROGRAM MANAGEMENT**

### **Department of Public Health**

The DPH is the state agency that carries out the public health policy of the State including the use and protection of the state's drinking water resources. The DPH is also responsible for enforcement of, and compliance with, state and federal laws, rules and regulations pertaining to drinking water and its use in the state. Connecticut General Statute Section 25-32 grants DPH jurisdiction over all matters concerning the purity and adequacy of drinking water. Acting on behalf of the Department, the Drinking Water Section protects public health through regulatory oversight of public water systems throughout the State. In the course of a day, virtually every Connecticut resident as well as many others who visit the State come into contact with drinking water provided by a public water system. It is the Department's mission to "protect and improve the health and safety of the people of Connecticut".

As the primary agency responsible for the Drinking Water SRF, DPH monitors approximately 1,249 public water systems in Connecticut that are eligible for funding. The DPH emphasizes the importance of reaching these potential applicants through the implementation of its public outreach initiatives simultaneously with the development of the Drinking Water SRF program. The DPH determines future needs and sets priorities with the preparation of an annual project priority list. The DPH distributes applications and project information to the Department of Environmental Protection and Office of the State Treasurer and when applicable, the Department of Public Utility Control, for review and approval. Once approved, the loans with the Drinking Water SRF borrowers are signed by the DPH and the Department of Environmental Protection. The DPH establishes a compliance schedule for each step of the project, including planning, design and construction. The DPH reports the details of these and other program activities to the EPA quarterly and annually each year. The DPH also conducts the annual Public Hearing and Open Forum on the priority list of projects. Representatives of all three state agencies and the EPA usually attend the public hearing with potential borrowers. In the upcoming year, DPH's role will increase significantly as it takes on a much grater role in the financial aspect of the program.

### **Department of Environmental Protection**

The Department of Environmental Protection carries out the environmental policy of the State for conserving, improving and protecting the state's natural resources and environment and mitigating water, land and air pollution. The state Clean Water Act gives the Department of Environmental Protection certain statutory responsibilities for the Drinking Water SRF, which are similar to its Clean Water SRF responsibilities. The Department of Environmental Protection monitors the financial elements of a project from the design and planning phase to construction. In addition to assisting in the determination of project eligibility, the Department of Environmental Protection reviewed all project information to ensure compliance with project schedules and budgets. The Department of Environmental Protection also enters into loans with Drinking Water SRF borrowers and approves disbursement requests for all eligible costs incurred. In the upcoming year, Department of Environmental Protection's function will be greatly reduced as the DPH takes on a much grater role in the financial aspect of the program.

### Department of Public Utilities Control

The Department of Public Utility Control (DPUC) enforces the regulations of the state with regard to utilities including privately owned public water systems, with over 50 connections. The DPUC approves all rate change requests from privately-owned public water systems. The DPUC reviews the capital budget requests and adjudicates over the enforcement of state laws. In addition, the DPUC monitors and approves financing obligations for privately-owned public water systems before any disbursements can be made. As a result, the DPUC is a member of the interagency committee.

The DPUC develops liability and financial models to analyze each water company's rate structure and debt capacity. The DPUC has no formal role in the Drinking Water SRF project approval process for municipalities and small public water systems with fewer than 50 connections, but regularly consults with the DPH and the interagency committee on general credit issues for water system borrowers.

## **APPENDIX IX: PROGRAM MANAGEMENT BY THE OFFICE OF THE STATE TREASURER**

The State Treasurer, elected for a term of four years as prescribed by the State Constitution, is responsible for the safe custody of the property and money of the state and makes disbursements on warrants drawn and presented by the State Comptroller.

The State Treasurer invests all funds in the state's General Fund as well as the assets of the state pension, trusts and other funds. As authorized by the State Bond Commission, the State Treasurer administers the issuance of state bonds and the payment of principal and interest thereon. The State Treasurer also manages the process of the borrowing of those funds, the repayment of which is a limited or contingent liability of the state.

Subject to approval by the Governor, the State Treasurer is authorized to borrow funds which are a binding obligation backed by the full faith and credit of the state, and shall be redeemed as funds become available to do so.

Administering the state's bond and debt financing program, includes the sale of state bonds, monitoring the bond markets, financing structures and economic trends that affect interest rates in order to realize favorable bond issuances. The State Treasurer's oversee the issuance of bonds to finance state capital projects, refinance outstanding debt when appropriate, manage debt service payments and cash flow borrowing, and provide information and data to private credit rating agencies for the Clean Water Fund's financing program. Pursuant to entered into a Memorandum of Agreement in 1989 by the State Treasurer and the Department of Environmental Protection Commissioner. The Agreement delegates to the State Treasurer various financial components of the Clean Water Fund and certain responsibilities with respect to the implementation and management of the Clean Water Fund. A financial administrator, works for the State Treasurer, manages, and coordinates the various financial components of the Clean Water Fund and the Drinking Water Fund Programs on a day-to-day basis. The activities of the financial administrator are coordinated with those of the Department of Environmental Protection and OPM. OPM manages the State's capital budget and oversees the bond allocation process.

The financial administrator is also responsible for:

The review of supporting data for financing of Clean Water Fund projects and credit related documents submitted by the borrowers;

Preparation and review of loan and grant agreements and related documents;

Investment of bond proceeds and other funds to maximize the yield and meet programmatic requirements;

Management of the bond financing for the Clean Water Fund program including documentation of the projects to meet IRS requirements;

Coordination of the independent audit of the state's federal account and the audit of all program accounts by the State Auditors of Public Accounts and the preparation of the annual report;

Ongoing procedures including: surveillance of the borrowers' financial condition; compliance with secondary market disclosure regulations; loan administration, including preparation of loan schedule information and coordination with the trustee on billing and collection of loan payments; and

Participation as a member of the Nitrogen Credit Advisory Board created to administer the Nitrogen Credit Exchange Program.

Participated in the development of financing plan to new initiatives which might expand the use of revolving funds and leverage financing concepts within the state

The State Treasurer receives all money belonging to the State, makes disbursements as directed by Statute, and manages, borrows, and invests all funds for the State.

The State Bond Commission delegates to the State Treasurer the authority and responsibility for determining the State's financing plans including the terms and conditions of issuing state general obligation and revenue bonds.

The Office of the State Treasurer has responsibilities for the Drinking Water SRF's financing program and various financial components of the Drinking Water SRF. The State Treasurer and the Commissioners of Department of Environmental Protection and DPH entered into a Memorandum of Agreement in 1996, which delegates to the State Treasurer certain responsibilities with respect to the implementation and management of the Drinking Water SRF. A financial administrator works for the State Treasurer, manages, and coordinates the various financial components of the Drinking Water SRF programs on a day-to-day basis. The activities of the financial administrator are coordinated with those of the DPH, Department of Environmental Protection and State Office of Policy and Management (OPM). OPM manages the state's capital budget and oversees the bond allocation process. The financial administrator is also responsible for:

- The review of supporting data for financing of Drinking Water SRF projects and credit related documents submitted by the borrowers;
- Preparation of loan agreements and related documents;
- Investment of bond proceeds and other funds to maximize the yield and meet programmatic requirements;

- Management of the bond financing for the Drinking Water SRF program including documentation of the projects to meet IRS requirements;
- Coordination of the independent audit of the state's federal account and the audit of all program accounts by the State Auditors of Public Accounts and the preparation of the annual report;
- Ongoing procedures including: surveillance of the borrowers' financial condition; compliance with secondary market disclosure regulations; loan administration, including preparation of loan schedule information and coordination with the trustee on billing and collection of loan payments; and
- Participation as a member of the Drinking Water SRF Interagency Committee.

The DPH and the State Treasurer have joint responsibility for the program's data management systems. An extensive project tracking system was developed by Department of Environmental Protection and is maintained by the DPH and Department of Environmental Protection. A dual entry general ledger accounting system was developed by the Office of the State Treasurer. These systems are maintained by each agency's information technology staff, as coordinated by the State Department of Information and Technology.

The program management goals and objectives of the State Office of the State Treasurer relating to the Drinking Water SRF are to:

- Maintain accurate project funding and accounting systems for the Drinking Water SRF;
- Develop the Fund's capacity to provide low-cost financing for eligible projects, as simply and effectively as possible;
- Fund loan amounts to the maximum extent possible;
- Provide effective financial management to ensure integrity of the Drinking Water SRF; and
- Maintain both the federal tax-exempt status and the high credit ratings of the program's publicly issued debt.

### **Financing Program Administration**

Both the DPH and the Office of the State Treasurer are involved in the evaluation of each loan application. After review by both offices, all loans are approved by the Commissioner of the DPH and the Commissioner of the Department of Environmental Protection. The State Treasurer has the responsibility to structure loans based on consideration of the borrower's financial condition and financial management capabilities, protection of the high credit quality of the state fund, as well as the laws and regulations of the State. There are four levels of approval for each project:

1. Evaluation and Enforcement (DPH): The proposed project must address the needs cited by the Department of Environmental Protection and comply with regulatory and statutory requirements for the project.

2. Project Administration (DPH and Department of Environmental Protection): All project costs included in the application must be designated as either eligible or ineligible for funding in

accordance with state and federal regulations. Any costs that are considered to be ineligible remain the responsibility of the local municipality.

3. Environmental Review (Department of Environmental Protection): Based on information received from the borrowers, the Department of Environmental Protection prepares an environmental assessment of all activities to be undertaken in order to ensure that the project is consistent with the State Plan of Conservation and Development and complies with the Connecticut Environmental Policy. The assessment report is submitted to the Intergovernmental Policy Division of the Office of Policy and Management (OPM) for final concurrence.

4. Credit Review (Office of the State Treasurer): The applicant must be creditworthy, and the Clean Water Fund underwriting standards must be met. The Office of the State Treasurer reviews the financial information submitted with each application, determines the general terms, and conditions for providing financial assistance. The loan agreements are written to permit eventual financing by the state through the program's revenue bonding program.

Although there is some flexibility with regard to the timing of approvals, in all cases funding is subject to project priority listing and State Bond Commission approval.

### **Program Bond Resolutions**

There are three resolutions under which program bonds have been issued as summarized below. As more fully described in financial statements, the bonds are special obligations of the state payable solely from all moneys available for debt service payments under the resolutions. The flow of funds, security provisions and the accounts held by trustee under each resolution are discussed in the financial statements. For the Drinking Water SRF program bonds were issued in 2001 under the 1990 Bond Resolution and none of these bonds are outstanding as of June 30, 2009. No bonds were ever issued for the Drinking Water SRF program under the 1996 Subordinate Bond Resolution.

<b><u>Summary of Bond Resolutions</u></b>			
Resolutions	Security	Accounts	Restricted /Unrestricted
General Revenue Resolution adopted Dec. 17, 2002	Available Money Assets of the Fund	Loan Fund	R
		Debt Service Fund	R
		Support Fund	R
		Revolving Fund	U
Bond Resolution adopted Dec. 7, 1990	Revenue, Loans DSF and DSRF	Loan Fund	R
		Debt Service Fund	R
		Debt Service Reserve Fund	R
		Sr. Sinking Fund	R
		Debt Service Fund	R
Subordinate Bond Resolution adopted Feb 7, 1996	Second Lien on Revenue, Loans	Debt Service Fund	R

### **Bond Debt Service**

Repayment of the revenue bonds comes from loan repayments, interest earnings on assets and the State's earlier interest subsidy contributions. While all loan repayments are available for the

payment of the bonds, a portion of loan repayments is retained in the debt service fund as a cash flow cushion in conformance with rating agency default coverage guidelines. The debt service schedule for all bonds outstanding is provided in the financial statements.

### **Cross-Collateralization**

Both the Drinking Water Fund and the Clean Water Fund make loans from the proceeds of revenue bonds. Loan repayments from both State Revolving Fund Programs are available to pay all bonds whether the loans were made under the Drinking Water or the Clean Water programs. This cross-collateralization of the State Revolving Fund Programs has been structured in accordance with the EPA regulations, interpretations and guidance and the Bond Resolution, as amended and supplemented.

### **Revenue Bond Swap Information**

There are two interest rate swap agreements with Goldman Sachs Mitsui Marine Derivative Products ("GSMMDP"). The swaps were initiated to lock-in a fixed rate for the \$121,375,000 State Revolving Fund General Revenue Bonds, 2003 Series C issue, which was issued as auction rate securities.

The State secured a fixed payment rate of 3.0299% with Swap A in return for receiving a floating payment rate of (1-month LIBOR x 67%). Swap A includes an option for the State to terminate the agreement effective October 1, 2013 and semiannually thereafter. The notional amount of the swap mirrors the amortization schedule of the 2003 Series C bonds.

The floating rates on the 2003 Series C bonds are expected to pay interest rates substantially similar to the tax-exempt BMA index, which has historically averaged around 67% of LIBOR. However, there is a risk that the BMA index could equal more than 67% of LIBOR creating a mismatch between floating receipts from the swap agreement and floating interest payments under the 2003 Series C bonds or basis risk. This situation generally happens when interest rates are low. To hedge this risk, the State entered into Swap B with GSMMDP.

Swap B pays the State a floating rate equaling the lesser of 33% of LIBOR or 58% of LIBOR plus 0.39%, minus 67% of LIBOR, subject to a 0% minimum. The State makes fixed payments to GSMMDP with an interest rate of 0.149%. Swap B matures on October 1, 2013 and contains no termination option. The combined effect of the swaps is that the State receives a higher percentage of LIBOR when LIBOR rates are below 4.33% (to a maximum of 100% of LIBOR) and a lower percentage of LIBOR when rates are higher (to a minimum of 67% of LIBOR). The creation of this structure ("Collar") approximates the relationship between the BMA and the taxable LIBOR index, thereby reducing basis risk.

Current valuation information is available in the audited financial statements. Following the end of the fiscal year, the swap agreements were terminate in conjunction with the full refunding of all outstanding State Revolving Fund General Revenue Bonds, 2003 Series C Auction Rate Securities.

### **Investments and Reserve Account Information**

As further described in the financial statements, the State currently invests Drinking Water Fund assets in the State's Short-Term Investment Fund and in guaranteed investment agreements with financial institutions. The 2002 bond resolution requires that the investment agreements be with, or be guaranteed by, institutions with ratings in the two top rating categories given by Standard & Poor's and Moody's Investors Service or any rating service recognized by the State Banking Commissioner,

or agencies or instrumentalities whose market value is at least 100% of the funds invested. Upon the issuance of the 2003 bonds and the restructuring of the program's debt, certain long-term investments pursuant to investment agreements with AA providers and are collateralized with securities issued or guaranteed by the U.S. Government, may be unrestricted assets. The restricted accounts for the Drinking Water SRF are related to each bond issue and are described in the financial statements.

## **APPENDIX X: APPLICATION PROCESS**

To qualify for funding, the project must be listed on the DPH's Project Priority List. Once a project is placed on the Project Priority List, the potential loan recipient applies for financial assistance for the specific projeCT The application must pass four levels of approval:

Evaluation and Enforcement (DPH): The proposed project must address the needs cited by the DPH and comply with regulatory and statutory requirements for the projeCT

Project Administration (Department of Environmental Protection): All project costs included in the application must be eligible for funding in accordance with state and federal regulations.

Environmental Review (DPH): Based on information received from the borrowers, the DPH prepares an environmental assessment of all activities to be undertaken in order to ensure that the project is consistent with the State Plan of Conservation and Development. The assessment report is submitted to the Physical Resource Planning Section of OPM for final concurrence.

Credit Review (Office of the State Treasurer, DPUC and the interagency committee): The applicant must be creditworthy, and the Drinking Water SRF underwriting standards must be met. The Office of the State Treasurer reviews the financial information submitted with each application. The interagency committee determines whether, and on what general terms and conditions, financial assistance will be provided. The loan agreements are written to permit eventual financing through a revenue bonding program.

At each level of approval, modifications can be made to address any concerns. Upon receipt of the signed commitment letter from the borrower, the State Bond Commission approves the project funding. Once all approvals are in place and after completion of an overall review of the Project Loan Agreement and the other loan documents, a closing is scheduled with the Office of the State Treasurer. The Project Loan Agreement is then executed and signed first by the borrower, then by the DPH Commissioner and the Department of Environmental Protection Commissioner. The State Attorney General also reviews and signs the documents.

Loan funds are disbursed on a first-come, first-served basis as project costs are incurred. Under the terms of the loan, the specific amounts disbursed to any borrower will depend upon the actual progress of construction.

Project audit requirements are subject to the provisions of the Single Audit Act Chapter 55b of the Connecticut General Statutes. Once disbursement is complete, the interim loan is converted to a Project Loan Obligation (PLO). The borrower is billed according to the terms of the PLO. Generally, all borrowers make monthly principal and interest payments. The DPH and its staff of engineers assist each borrower through the process as each department completes its work.

## **APPENDIX XI: SUMMARY OF PROJECT FUNDING AGREEMENTS**

In accordance with the State's Clean Water SRF and Drinking Water SRF and as required by the Connecticut General Statutes, the mechanism by which financial assistance is provided to the borrower is the Project Loan Agreement between the borrower and the State. Under each agreement, the State agrees to make loans for eligible project costs incurred by the borrower, upon the terms and in the maximum amount specified. Funds are disbursed to a borrower to pay eligible project costs which have been incurred by the municipality, and the amount of a loan is equal only to the aggregate of such disbursed amounts. Thus the municipality is obligated to repay only that amount that it actually draws down for the payment of project costs. The ARRA provided for subsidization for eligible projects. The funding agreements have been crafted to provide subsidization and inform borrowers of any reporting requirements imposed by the ARRA.

Additionally, each loan agreement specifies a scheduled completion date. Amortization of each loan is required to begin one year from the project's scheduled completion date and the final maturity of each loan is twenty years from the scheduled completion date. Each loan is secured by the borrower's pledge of its full faith and credit and/or a dedicated source of revenue. Principal and interest payments on loans are payable (1) in equal monthly installments commencing one month after the scheduled completion date, or (2) in a single annual installment representing the first year's principal and interest not later than one year after the scheduled completion date and thereafter in monthly installments.

Below is a summary of the Project Loan Agreements.

### **SECTION I      DEFINITIONS**

### **SECTION II     THE PROJECT**

Project Description including Eligible Project Costs

### **SECTION III    THE GRANT**

The Project Grant, Increase in Project Grant, Required Repayment of the Grant and Disbursement of Project Grant

### **SECTION IV    THE LOAN**

The Loan Commitment, The Interim Funding Obligations and Project Loan, Disbursement of Project Loan and Project Grant Proceeds, Required Repayment of Obligations, Optional Prepayment of Principal, Method of Payments, New Municipality.

### **SECTION V     REPRESENTATIONS AND WARRANTIES**

Existence and Power, Authority, No Litigation Pending, Expenditure of Project Grant and Project Loan by Municipality, Validity, and Events of Default.

### **SECTION VI    CONDITIONS PRECEDENT**

Written Documentation, Evidence of Municipal Action, Opinion of Bond Counsel, Signature and No Litigation Certificate, No Event of Default, Representations and Warranties, Compliance with Federal and State Requirements.

SECTION VII AGREEMENTS OF THE MUNICIPALITY

Construction, Municipality to Pay Excess Cost of Project, Inspection of Project By State, Maintenance of Project Records, Maintenance of Existence, Use of Proceeds, Tax Compliance, Nondiscrimination, Executive Orders of the Governor, Indemnification, Audits, Litigation, Waiver of Governmental Immunity Expenses, Completion of Project; Audit Maintenance of Project, Continuing Disclosure;

SECTION VIII AGREEMENTS OF THE STATE

Loan, Termination, Notice of Approval, Audit

SECTION IX DEFAULTS

Events of Default and Remedies

SECTION X MISCELLANEOUS

Waivers, Notices, Connecticut Law, Interpretation, Severability, Survival of Representations, Warranties and Covenants, Successors and Assigns, Incorporation of Other Documents, Amendments, Cancellation, Effective Date Official Statement.

- Exhibit I Form Of Interim Funding Obligation
- Exhibit II Form of Project Loan Obligation
- Exhibit III Form of Opinion of Bond Counsel
- Exhibit IV Form of Signature No Litigation Certificate
- Exhibit V Continuing Disclosure Agreement
- Exhibit VI Budget
- Exhibit VII Certification of System of Charges, Assessments and Other Revenues
- Exhibit VIII Form of Request for Advance
- EXHIBIT IX Closing Statement
- Exhibit X Conditions precedent
- Attachment I Insurance Requirements

## APPENDIX XII: CUMULATIVE PROJECTS

APPLICANT	ID	TOWN	BRIEF DESCRIPTION	AMOUNT
TWIN HILLS TAXING DISTRICT	C 97 0340131a	COVENTRY	DISTRIBUTION & SOURCE IMPROVEMENTS	\$207,420.86
SHARON SEWER & WATER	DC 97 1250011b	SHARON	WATER MAIN REPLACEMENT (REFINANCE)	\$1,084,010
SHARON SEWER & WATER	DC 97 1250011a	SHARON	PUMP STATION	\$210,000
MDC	C 970640011b	WEST HARTFORD	SYSTEM REPAIRS & UPGRADES	\$3,086,188.44
MDC	C 97 0640011a	BLOOMFIELD	VARIOUS IMPROVEMENTS	\$1,163,888.62
NEW BRITAIN	PDC 98 0890011a	NEW BRITAIN	NEW WATER TREATMENT PLANT - PHASE I	\$12,682,987
NORWICH	DC 97 1040011a	NORWICH	REPLACE ASBESTOS PIPE WITH DUCTILE IRON PIPE	\$1,898,651.36
MDC	C 97 0640011c	BLOOMFIELD/HARTFORD/ W. HARTFORD	WATER MAIN REPLACEMENT	\$861,978.47
WATERTOWN FIRE DISTRICT	DC 98 1530011a	WATERTOWN	NEW DISTRIBUTION PUMP STATION	\$717,731.37
CRYSTAL LAKE CONDOS	C 97 1210021/31a	SALEM	CONSTRUCT NEW WATER SYSTEM	\$359,202.19
HARRYBROOKE PARK CONDO	PDC 97 0960131a	NEW MILFORD	INTERCONNECT WITH UNITED WATER COMPANY	\$231,327.45
BHC - STAMFORD (AQUARION)	PDC 97 1350011a	STAMFORD	UPGRADE PUMP STATION	\$391,038

<b>APPENDIX XII: CUMULATIVE PROJECTS (continued)</b>				
<b>APPLICANT</b>	<b>ID</b>	<b>TOWN</b>	<b>BRIEF DESCRIPTION</b>	<b>AMOUNT</b>
COOK WILLOW REALTY	DC 97 1110111a	PLYMOUTH	INTERCONNECT WITH CONNECTICUT WATER COMPANY	704,259.24
HILLSIDE WATER	PDC 00 0790021a	MARLBOROUGH	WATER MAIN & DISTRIBUTION IMPROVEMENTS	\$149,052
SHARON SEWER & WATER	DC 98 1250011a	SHARON	INTAKE & PIPELINE UPGRADE, WATER FILTRATION TREATMENT PLANT, STORAGE TANK	\$1,100,000
TOWN OF PORTLAND	C 97 1180081a	PORTLAND	INTERCONNECT WITH METROPOLITAN DISTRICT COMMISSION	\$2,500,000
NEW BRITAIN PHASE II	PDC 98 0890011a	NEW BRITAIN	NEW WATER TREATMENT PLANT - PHASE II	\$24,000,000
SHARON SEWER & WATER	DC 01 1250011a	SHARON	WATER MAIN REPLACEMENT	\$438,153.49
TOWN OF NEWTOWN (H.S)	C 02 0970442a	NEWTOWN	CONNECTION TO TOWN WATER	\$516,000
MDC	C 01 0640011x	BLOOMFIELD	CONSTRUCTION OF WATER MAINS	\$2,343,735
WATERTOWN FIRE DISTRICT	DC 98 1530011b	WATERTOWN	UPGRADE CHEMICAL FEED EQUIPMENT	\$435,500
UNIONVILLE WATER COMPANY	C 97 0520011b	FARMINGTON	INTERCONNECT WITH METROPOLITAN DISTRICT COMMISSION	\$1,646,970.16
TOWN OF NEWTOWN	D 03 0970422a	NEWTOWN	CONNECTION TO TOWN WATER	\$171,738
TOWN OF SOUTHINGTON	D 03 1310011a	SOUTHINGTON	WELLHEAD PROTECTION	\$4,643,030
SECOND TAXING DISTRICT	DC 04 1030021a	NORWALK	WATER TREATMENT PLANT UPGRADE	\$24,715,165

<b>APPENDIX XII: CUMULATIVE PROJECTS (continued)</b>				
<b>APPLICANT</b>	<b>ID</b>	<b>TOWN</b>	<b>BRIEF DESCRIPTION</b>	<b>AMOUNT</b>
TOWN OF LEDYARD	DC 03 0727031a	LEDYARD	INTERCONNECTION TO ELEM SCHOOL	\$926,006
TOWN OF SOUTHINGTON	DC 03 0727031b	SOUTHINGTON	WATER MAIN EXTENSION	\$1,500,000
WOODLAKE TAX DISTRICT	PDC 03 1680031a	WOODBURY	LAND PURCHASE/ WELL DEVELOPMENT	\$404,500
TOWN OF COLCHESTER	C 04 0280111a	COLCHESTER	WATER TREATMENT PLANT UPGRADE	\$2,600,000
CT WATER COMPANY SHORELINE REGION – POINT O' WOODS	DC 07 1050752a	OLD LYME	Water Main Installation	\$800,000
NORWICH	DC 07 1040011d	NORWICH	Water Storage Tank	\$450,000
<b>TOTAL 1997 to 2009</b>				\$92,938,535.65



# **FINANCIAL STATEMENTS**

**STATE OF CONNECTICUT CLEAN WATER FUND -**

**DRINKING WATER FEDERAL REVOLVING  
LOAN ACCOUNT (STATE REVOLVING FUND)**

**AUDIT REPORTS AND SCHEDULES IN  
ACCORDANCE WITH OMB CIRCULAR A-133**

---

**STATE OF CONNECTICUT CLEAN WATER FUND -  
DRINKING WATER FEDERAL REVOLVING  
LOAN ACCOUNT (STATE REVOLVING FUND)**

---

**TABLE OF CONTENTS**

	<b><u>Page</u></b>
<b>INDEPENDENT AUDITORS' REPORT</b>	1 - 2
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	3 - 9
<b>FINANCIAL STATEMENTS</b>	
Balance Sheets	10
Statements of Revenues, Expenses and Changes in Fund Net Assets	11
Statements of Cash Flows	12
Notes to Financial Statements	13 - 27
<b>REPORTS AND SCHEDULES REQUIRED BY OMB CIRCULAR A-133</b>	
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>	28 - 29
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program, on Internal Control over Compliance in Accordance with OMB Circular A-133, and on the Schedule of Expenditures of Federal Awards	30 - 32
Schedule of Expenditures of Federal Awards	33
Notes to Schedule of Expenditures of Federal Awards	34
Schedule of Federal Findings and Questioned Costs	35 - 36

# SEWARD AND MONDE

CERTIFIED PUBLIC ACCOUNTANTS  
296 STATE STREET  
NORTH HAVEN, CONNECTICUT 06473-2165  
(203) 248-9341  
FAX (203) 248-5813

## INDEPENDENT AUDITORS' REPORT

Ms. Denise L. Nappier, Treasurer

Mr. J. Robert Galvin, M.D., Commissioner,  
Department of Public Health

Ms. Amey Marrella, Commissioner,  
Department of Environmental Protection,  
State of Connecticut

We have audited the accompanying financial statements of the State of Connecticut Clean Water Fund - Drinking Water Federal Revolving Loan Account (State Revolving Fund) (SRF) (an enterprise fund of the State of Connecticut) as of and for the years ended , as listed in the table of contents. These financial statements are the responsibility of the SRF's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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 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.

As discussed in Note 1, the financial statements present only the Clean Water Fund - Drinking Water Federal Revolving Loan Account and do not purport to, and do not, present fairly the financial statements of the State of Connecticut, as of , and the changes in its financial position and cash flows, where applicable, for the years then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the State of Connecticut Clean Water Fund – Drinking Water Federal Revolving Loan Account - SRF as of , and the changes in financial position and cash flows thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, on our consideration of the State of Connecticut Clean Water Fund – Drinking Water Federal Revolving Loan Account – SRF's internal control over financial reporting and on 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.

The management's discussion and analysis on pages 3 through 9, is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. 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 express no opinion on it.

*Seward and Monde*

September 15, 2009

**OFFICE OF THE TREASURER  
STATE OF CONNECTICUT  
DRINKING WATER FUND  
FISCAL YEAR ENDED JUNE 30, 2009**

---

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

---

This is a narrative overview and analysis of the financial performance and activities of the State of Connecticut Drinking Water Fund for the fiscal year ended June 30, 2009. Readers are encouraged to review this discussion in conjunction with the Fund's financial statements that follow.

**Financial Highlights**

Changes in Net Assets - Fund net assets under management in the Drinking Water Fund at the close of fiscal year 2009 were \$102,111,842 (including assets of \$163,540,261 offset by liabilities of \$61,428,419) compared to fiscal year 2008 were \$97,489,251 (including assets of \$131,778,082 offset by liabilities of \$34,288,831). Fund net assets increased by \$4,622,591 or 4.7% primarily due to higher interest on loans resulting from increases in loans receivable and federal capitalization grants.

Operating Revenues - The Fund's gross operating revenues decreased by \$74,764 or 4% to \$1,621,309 due to lower interest on loans.

Bonds Outstanding - During the year new bonds were issued. The Fund's total debt outstanding increased significantly during the fiscal year by \$26,957,449 to \$58,096,497 as a result. Scheduled principal payments were \$2,717,551.

Loans Receivable - Total loans receivable increased by \$1,563,907 from \$69,110,128 to \$70,674,035 due to the net of new loans and regular loan repayments.

Capitalization Grants - During the year, \$2,353,338 was drawn from the EPA for projects, compared to \$9,895,456 drawn in 2008. To date, the State has drawn \$91,497,474 from the federal EPA against the total of \$108,788,900 in cumulative drinking water capitalization grant awards. New grants in the amount of \$16,375,000 were awarded during the year. This amount does not include the capitalization grants awarded under the American Recovery and Reinvestment Act of 2009 in the amount of \$19.5 million.

## **Overview of the Financial Statements**

The Drinking Water Fund financial statements are reported by the Office of the Treasurer in conjunction with the Department of Public Health (DPH) and the Department of Environmental Protection (DEP). The Treasurer is responsible for the detailed financial information in the Drinking Water Fund financial statements.

The Drinking Water Fund is a part of the Clean Water Fund which is classified as an enterprise fund within the Proprietary Funds of the State of Connecticut. Proprietary Funds focus on the determination of the change in fund net assets, financial position, and cash flow for governmental activities that operate similar to a commercial enterprise. Proprietary funds use the accrual basis of accounting.

The Drinking Water Fund Balance Sheets, Statements of Revenues, Expenses and Changes in Fund Net Assets, and Statements of Cash Flows provide information about the activities of the Fund as a whole and present an overall view of the Fund's finances.

The Balance Sheets include all of the assets and liabilities of the Fund.

The Statements of Revenues, Expenses and Changes in Fund Net Assets divide the activities of the Fund into two categories:

1. Operating Activities, including the Drinking Water Loan program; and
2. Nonoperating Activities, including investment of funds and the Revenue Bond Program.

For the Drinking Water Loan Program activities, the statements indicate the amount of loans financed during the past year. The statements indicate the amount of interest income generated by the investment of funds and describe the structure of the investments. For the Revenue Bond Program activities, these statements indicate the amount of the bonds issued and retired, and the remaining amount of bonds to be repaid in the future. Fund financial statements also provide information about activities of the Fund as a recipient of federal capitalization grants and the amount of capitalization grants remaining for future use. The Clean Water Fund issues revenue bonds and uses the proceeds to provide financing for Clean Water and Drinking Water projects. Where necessary, due to the issuance of bonds and investment activities for both the Clean Water Fund and Drinking Water Fund, bond proceeds, interest income and expenses may be allocated between the Clean Water Fund and the Drinking Water Fund.

## **Net Assets**

Net Assets of the Drinking Water Fund are categorized as follows:

Restricted - includes net assets that have been restricted in use in accordance with the terms of an award, agreement or by state law, plus amounts determined to be prudent by management.

Unrestricted - includes all net assets not restricted and available for any program purpose of the Drinking Water Fund.

The Clean Water Fund has issued bonds under three bond resolutions since 1991. Since 2001, the proceeds of these bonds have been used for both clean water and drinking water projects. As of June 30, 2008, all bonds issued under the first two resolutions have either been paid, refunded or legally defeased. The issuance of bonds under the third general bond resolution resulted in the creation of three additional fund accounts within the Drinking Water Fund accounts. Two of these accounts, the Senior Sinking Fund and the Support Fund, are restricted accounts and the General Revenue Revolving Fund account is unrestricted. All three accounts are held by the Trustee.

## **Operating Activities**

### **The Drinking Water Loan Program**

The purpose of the State of Connecticut's State Revolving Fund Programs is to provide a source of low interest loans and other types of financial assistance (other than direct grants) to local entities for the construction, rehabilitation, expansion or improvement of wastewater treatment or drinking water facilities in accordance with the State Act. Loans are made by the Drinking Water Fund to public water systems, owned by both municipalities and private entities, for project funding. There are two categories of loans, construction loans or interim funding obligations (IFOs) which accrue interest during construction and the long-term permanent financing obligations (PLOs) which are signed after projects are completed. The PLOs have 20 year repayment terms and can be prepaid at any time. There are no state grants available to participants in this program.

Construction loans in progress totaled \$5,142,055, a decrease of \$20,659,636 from 2008. Payments to municipalities for ongoing projects totaled \$4,504,553. Completed projects which were permanently financed during the year totaled \$25,165,165. There were 2 new construction loan commitments (excluding extensions under existing agreements) totaling \$1,250,000 made to public water systems during the year. There are no delinquent loans in the Drinking Water loan program. Further details about the loans can be found in the notes to the financial statements.

Loan repayment collection services are provided by the Trustee, US Bank. Repayments on all loans made by the DPH and DEP since 1998 are paid to the Drinking Water Fund account held at US Bank. These funds provide security for the Bonds and any new Bonds issued thereafter.

## **Non-Operating Activities**

### **Investment of Funds**

The federal capitalization grants and state matching funds are used to provide leveraged financing for eligible projects. Federal capitalization grants and state matching funds are held by the Trustee in the form of cash or permitted investments.

The State currently invests in the State's Short Term Investment Fund (STIF) and in guaranteed investment agreements with financial institutions. The 2002 bond resolution requires that the investment agreements be with, or be guaranteed by, institutions with ratings in the two top rating categories given by Standard & Poor's and Moody's Investors Service or any rating service recognized by the State Banking Commissioner. Certain moneys held in the Fund are invested pursuant to investment agreements with AA providers which are collateralized with securities issued or guaranteed by the U.S. Government or agencies or instrumentalities whose market value is at least 100% of the funds invested.

### **The Bond Program**

The Clean Water Fund has issued long-term debt obligations backed by the pledge of specific assets including loans, reserve funds and other program assets. There are three bond resolutions: the 1990 General Bond Resolution, the 1996 Subordinate Bond Resolution and the 2002 General Revenue Bond Resolution. As of June 30, 2009, there are only bonds outstanding under the 2002 resolution. Long-term debt obligations of the Fund are special obligations of the State which are payable only from the revenues or monies available in the Fund as provided in the Resolutions and the State Act. The proceeds of these bonds were also used to fund loans to Drinking Water Fund borrowers. Further information about outstanding bonds can be found in the Notes to the Financial Statements.

The program's advisors are:

Bond Counsel - Edwards Angell Palmer and Dodge, LLP and Hardwick Law Firm, LLC

Financial Advisors - Lamont Financial Services Corporation and First Southwest

Auditor - Seward & Monde CPAs

Trustee - US Bank

Loan Repayment Collection Services - US Bank

Verification Agent - AMTEC

Arbitrage Rebate Calculation Services - AMTEC and Nixon Peabody

General Counsel - Attorney General of the State of Connecticut

**Selected Financial Information**

	<b>2009</b>	<b>2008</b>	<b>Increase (Decrease)</b>	<b>% Change</b>
Change in Net Assets	\$4,622,591	\$14,207,002	(\$9,584,411)	- 67.46%
Operating Revenues	\$1,621,309	\$1,696,073	(\$74,764)	- 4.41%
Federal Capitalization Grants	\$6,527,567	\$12,462,439	(\$5,934,872)	- 47.62%
Interest on Investments	\$2,374,313	\$2,852,133	(\$477,820)	- 16.75%
Operating Expenses	\$4,184,304	\$2,576,833	\$1,607,471	62.38%
Interest Expense	\$2,254,720	\$1,632,894	\$621,826	38.08%

**Economic Conditions and Outlook**

During the year, the collapse of housing values and stock market wealth reduced households' willingness to consume, dampened businesses' motivation to invest, and spawned the worst recession since the 1930s. All states have not been affected equally, and Connecticut entered the recession later than most. During 2009, the State experienced lower employment, a reduction in state Gross Production, and adverse trends in several economic indicators including a significantly lower house price index.

Every economic downturn ends with a recovery, and recovery may be more than a year away. More recent news is encouraging, and the federal stimulus plan, the American Recovery and Reinvestment Act (ARRA) that became law in February 2009, is performing about as expected. While the national economy is still in recession and all states will not recover equally, some signs indicate that Connecticut may be close to the bottom although leading indicators of future activity are mixed. Estimates of peak unemployment show that Connecticut unemployment may rise to 8.7%, but the pace of job loss will slow through 2010. With more mortgage rate resets on the horizon, the housing market may take additional time to stabilize. The state's citizens continue to be faced with the effects of relatively high costs for health care, housing, and energy, traffic congestion, an aging population, and a highly skewed income distribution.

All of these trends point toward caution on capital spending in all sectors and further pressure on the tax and revenue bases of the state's municipalities, both of which impact the ability of municipalities to meet tax collection revenue targets. Many agree that, like the onset of this recession, we will not know it has ended until well past the start of the recovery. When Connecticut's recovery will begin, how robust will it be, and which counties will lead or lag in the state are key questions as the new fiscal year begins. The answers to these questions will determine where communities will look to invest their resources to meet water quality needs.

The major concern for the Drinking Water Fund is its ability to direct assistance to small systems with critical needs, fund increasingly high construction costs, and effectively utilize the federal ARRA funding to spur the initiation of water quality across the state. Coordination of resources as well as outreach efforts designed to educate and inform potential borrowers will continue to be important in the coming year. DPH, DEP and the Office of the Treasurer will continue to work together to identify needs, set priorities and assist public water systems in determining the most cost effective and efficient way to meet their water quality needs.

The Debt Management Division continually monitors the impact of credit ratings of investment providers and municipalities and assists in the preparation of comments on financial regulation. We will continue to monitor and participate in industry discussions on infrastructure, including water and transportation, as well as the economic development and growth potential for the state.

### **Required Supplementary Information**

The Drinking Water Fund does not separately report required supplementary information that contains budgetary comparison schedules; schedules presenting infrastructure assets or supplementary pension fund information because this information is reported by the State of Connecticut. The State is in compliance with GASB Statement 34.

The Notes to the Financial Statements provide additional information that further explains and supports the information in the financial statements. The Notes provide additional information that is essential to a full understanding of the data provided in the Drinking Water Fund's financial statements.

## **Contacts**

This financial report is designed to provide a general overview of the Drinking Water Fund's finances. Questions about this report or requests for additional information should be addressed to:

Drinking Water Fund Financial Administrator  
Connecticut State Treasurer's Office  
55 Elm Street  
Hartford, CT 06106-1773  
Telephone (860) 702-3134  
[www.state.ct.gov/ott](http://www.state.ct.gov/ott)

Questions about the Drinking Water Fund and water quality in Connecticut should be addressed to:

Connecticut Department of Public Health  
Drinking Water Section  
410 Capitol Avenue, MS# 51 WAT  
P.O. Box 340308  
Hartford, CT 06134-0308  
Telephone (860) 509-7333  
[www.state.ct.gov/dph](http://www.state.ct.gov/dph)

**STATE OF CONNECTICUT CLEAN WATER FUND -  
DRINKING WATER FEDERAL REVOLVING LOAN ACCOUNT  
(STATE REVOLVING FUND)  
BALANCE SHEETS  
June 30, 2009 and 2008**

	2009	2008
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ -	\$ 1,469,528
Interest receivable - investments	278,963	490,773
Interest receivable - loans	123,141	586,081
Grant receivable	315,633	-
Loans receivable	10,032,735	28,753,721
Total current assets	10,750,472	31,300,103
Noncurrent assets:		
Loans receivable	60,641,300	40,356,407
Revolving fund	38,368,398	17,876,870
Deferred loss on early retirement of bonds	546,071	641,164
Restricted assets:		
Bond proceeds fund	5,599,081	-
Revolving fund	18,521,563	19,413,887
Debt service fund	20,638,754	16,787,415
Support fund	8,474,622	5,402,236
Total restricted assets	53,234,020	41,603,538
Total noncurrent assets	152,789,789	100,477,979
Total assets	\$ 163,540,261	\$ 131,778,082
<b>LIABILITIES</b>		
Current liabilities:		
Interest payable on revenue bonds	\$ 759,046	\$ 393,731
Due to other funds	209,623	-
Deferred grant revenue	-	914,682
Revenue bonds payable	3,443,013	1,041,640
Refunding bonds payable	521,565	520,911
Total current liabilities	4,933,247	2,870,964
Noncurrent liabilities:		
Premium on revenue and refunding bonds	2,363,253	1,841,370
Revenue bonds payable	48,788,412	23,711,425
Refunding bonds payable	5,343,507	5,865,072
Total noncurrent liabilities	56,495,172	31,417,867
Total liabilities	61,428,419	34,288,831
<b>FUND NET ASSETS</b>		
Unrestricted	10,648,669	11,180,084
Restricted for loans	91,463,173	86,309,167
Total fund net assets	102,111,842	97,489,251
Total liabilities and fund net assets	\$ 163,540,261	\$ 131,778,082

See notes to financial statements.

**STATE OF CONNECTICUT CLEAN WATER FUND -  
DRINKING WATER FEDERAL REVOLVING LOAN ACCOUNT  
(STATE REVOLVING FUND)  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
For the years ended June 30, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
<b>OPERATING REVENUES</b>		
Interest on loans	<u>\$ 1,621,309</u>	<u>\$ 1,696,073</u>
<b>OPERATING EXPENSES</b>		
Salaries	1,441,676	1,280,683
Employee benefits	823,088	737,077
Other	<u>1,919,540</u>	<u>559,073</u>
Total operating expenses	<u>4,184,304</u>	<u>2,576,833</u>
Operating loss	<u>( 2,562,995)</u>	<u>( 880,760)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest on investments	2,374,313	2,852,133
Amortization of bond premium	190,966	153,644
Interest expense	<u>( 2,254,720)</u>	<u>( 1,632,894)</u>
Total nonoperating revenues (expenses)	<u>310,559</u>	<u>1,372,883</u>
Income (loss) before federal capitalization grants and transfers	<u>( 2,252,436)</u>	<u>492,123</u>
<b>FEDERAL CAPITALIZATION GRANTS</b>		
Project funds	2,353,338	9,895,456
Set-aside activities	<u>4,174,229</u>	<u>2,566,983</u>
Total federal capitalization grants	<u>6,527,567</u>	<u>12,462,439</u>
<b>OPERATING TRANSFERS</b>	<u>347,460</u>	<u>1,252,440</u>
Change in fund net assets	<u>4,622,591</u>	<u>14,207,002</u>
<b>FUND NET ASSETS, beginning</b>	<u>97,489,251</u>	<u>83,282,249</u>
<b>FUND NET ASSETS, ending</b>	<u>\$ 102,111,842</u>	<u>\$ 97,489,251</u>

See notes to financial statements.

**STATE OF CONNECTICUT CLEAN WATER FUND -  
DRINKING WATER FEDERAL REVOLVING LOAN ACCOUNT  
(STATE REVOLVING FUND)  
STATEMENTS OF CASH FLOWS  
For the years ended June 30, 2009 and 2008**

	2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Interest received on loans	\$ 2,084,249	\$ 1,265,279
Loan originations	( 4,504,553)	( 11,041,837)
Principal paid on loans receivable	2,940,646	2,990,608
Payments to employees for salaries and benefits	( 2,264,764)	( 2,017,760)
Other payments	( 1,919,540)	( 559,073)
Net cash used by operating activities	( 3,663,962)	( 9,362,783)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Federal capitalization grants	5,297,252	14,083,541
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Repayment of revenue bonds payable	( 2,196,640)	( 2,260,521)
Repayment of refunding bonds payable	( 520,911)	( 399,267)
Proceeds from revenue bonds payable	29,675,000	-
Premium on revenue bonds payable	712,849	-
Interest paid on revenue and refunding bonds	( 1,794,312)	( 1,628,880)
Payment for cash defeasance of revenue bonds	-	( 5,622,931)
Operating transfers	557,083	1,087,575
Net cash provided (used) by noncapital financing activities	26,433,069	( 8,824,024)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received on investments	2,586,123	2,630,311
Decrease (increase) in revolving fund	( 20,491,528)	5,770,668
Increase in restricted assets	( 11,630,482)	( 2,828,185)
Net cash provided (used) by investing activities	( 29,535,887)	5,572,794
Net change in cash and cash equivalents	( 1,469,528)	1,469,528
<b>CASH AND CASH EQUIVALENTS, beginning</b>	1,469,528	-
<b>CASH AND CASH EQUIVALENTS, ending</b>	\$ -	\$ 1,469,528
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Operating loss	(\$ 2,562,995)	(\$ 880,760)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Changes in assets and liabilities:		
Decrease (increase) in interest receivable - loans	462,940	( 430,794)
Increase in loans receivable	( 1,563,907)	( 8,051,229)
Net cash used by operating activities	(\$ 3,663,962)	(\$ 9,362,783)

See notes to financial statements.

STATE of CONNECTICUT CLEAN WATER FUND - DRINKING WATER  
FEDERAL REVOLVING LOAN ACCOUNT (STATE REVOLVING FUND)  
NOTES to FINANCIAL STATEMENTS

---

1 - NATURE OF ORGANIZATION

The State of Connecticut Clean Water Fund - Drinking Water Federal Revolving Loan Account (State Revolving Fund or SRF), an enterprise fund of the State of Connecticut, established in 1998 pursuant to Connecticut General Statutes Section 22a-475 to 22a-483, provides assistance to the public water systems in Connecticut to finance the costs of infrastructure needed to achieve or maintain compliance with the Safe Drinking Water Act (SDWA). The SRF is funded through revenue bonds and federal grants as established under the SDWA, which requires the State of Connecticut (State) to match federal funds to the extent of 20% of federal funds received.

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the SRF conform to U.S. generally accepted accounting principles as applicable to government enterprises. The following is a summary of the SRF's significant accounting policies:

Basis of Accounting

The financial statements are prepared using the accrual basis of accounting and the flow of economic resources as specified by the Governmental Accounting Standards Board's (GASB) requirements for an enterprise fund.

Under GASB Statement No. 20, *Accounting and Reporting for Proprietary Funds and other Governmental Entities that Use Proprietary Fund Accounting*, the SRF has elected to apply all Financial Accounting Standards Board Statements and Interpretations issued on or before November 30, 1989, except those that conflict with or contradict GASB pronouncements.

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

### Operating and Nonoperating Revenues and Expenses

The SRF's principal operation consists of making low interest loans to public water systems in Connecticut. Operating revenue consists of interest earned on those loans. Operating expenses consist of personnel and other expenses incurred in the initial approval, disbursement and ongoing servicing of those loans through maturity and incurred in set-aside activities.

Nonoperating revenues include interest earned on investments and nonoperating expenses include interest expense on revenue and refunding bonds.

### Revenue Recognition

Federal capitalization grants are reported as nonoperating revenue and are recognized as federal funds are drawn and as the SRF expenditures are made.

### Cash and Cash Equivalents

For purposes of the statements of cash flows, the SRF considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. However, the SRF's policy is to exclude restricted assets from cash and cash equivalents for purposes of the statements of cash flows due to the limitations imposed on their use by the Clean Water Fund Revenue Bond Program General Bond Resolutions, adopted by the State Bond Commission on December 7, 1990, as amended and supplemented on December 15, 2000 (the "1990 Resolution") and on December 17, 2002 (the "Resolution").

### Investments

The SRF's policy is to present all investments at fair value except for money market investments and investment contracts, which the SRF has elected to report at amortized cost. The fair value of investments traded on public markets is determined using quoted market prices. The fair value of state general obligation bonds, which are not traded on a public market, is estimated using a comparison of other State general obligation bonds. Based on this comparison, the cost or par value of the state general obligation bonds approximates their estimated fair value.

There were no material investment gains or losses for the years ended .

### Loans, Allowance for Loan Losses and Credit Risk

The SRF makes loans to public water systems in the State of Connecticut to finance the costs of infrastructure needed to achieve or maintain compliance with the SDWA. Interest rates on the loans range from 2.04% to 4.68% and interest income is recognized as it is earned. The loans are secured by the full faith and credit or revenue pledges of the public water systems, or both. No allowance for loan losses is considered necessary based on management's evaluation of the collectability of the loans. The evaluation takes into consideration such factors as changes in the size of the public water system loans, overall quality, review of specific problem loans, and current economic conditions and trends that may affect the borrowers' ability to pay.

### Restricted Assets

Restricted assets consist of investments, which are segregated into funds and accounts in accordance with the Resolution as previously described, plus amounts determined to be prudent by management including amortizing long-term investments. The Resolution restricts investments to: a) the State Treasurer's Short-Term Investment Fund, b) Tax Exempt Proceeds Fund of the State, c) interest bearing time deposits held by the trustee, a member bank of the Federal Reserve System, or a bank which is insured by the Federal Deposit Insurance Corporation and d) Investment Obligations as defined in the Resolution.

### Bond Premiums/Deferred Loss

The premiums on the revenue and refunding bonds are being amortized over the term of the bonds on a straight-line basis, which yields results equivalent to the interest method.

The deferred loss on early retirement of bonds (Note 8) is being amortized using the outstanding bond method, which yields results equivalent to the interest method.

## Revenue Bonds

The following funds and accounts have been established in accordance with the 1990 Resolution:

<u>Fund / Account</u>	<u>Description and Use</u>
Revenue Fund	Receives all pledged receipts including loan repayments from the municipalities.
a. Pledged Receipts Account	Out-flows include amounts transferred to the interest and principal accounts of the debt service fund for payment of current debt service.
b. Earnings Account	Receives all earnings on funds and investments in all funds and accounts. Out-flows include amounts transferred to the interest and principal accounts of the debt service fund for payment of current debt service.
Loan Fund	Receives proceeds from the sale of revenue bonds as specified and determined by the Resolution. Funds expended for purposes of the State Revolving Fund program, including the financing of loans to municipalities.
Debt Service Reserve Fund	Required to be funded in an amount equal to 50% of all outstanding bonds. The reserve is funded by federal capitalization grant payments drawn under the federal letter of credit and state general obligation bonds. Investment income is transferred to the revenue fund for debt service payments. Used for payment of principal and interest in the event of deficiencies in the revenue accounts.
Debt Service Fund	Receives amounts from the revenue fund accounts sufficient to pay the interest portion due on each interest payment date. Pays interest on outstanding bonds.
a. Interest Account	
b. Principal Account	Receives amounts from the revenue fund accounts sufficient to pay the principal or current sinking fund installments. Pays principal on outstanding bonds.
c. Redemption Account	Receives amounts from the interest and principal accounts for the redemption of bonds. Used for redemption of bonds.
d. Capitalized Interest Account	Receives any capitalized interest received by the trustee. Amounts in the account are transferred for payment of capitalized interest on outstanding bonds.
Interest Subsidy Fund	Established outside of the state revolving fund, principal and investment income is transferred to the revenue fund, then to the debt service fund for payment of debt service. Provides payment of principal and interest in the event of a deficiency in the debt service reserve fund.
Administrative Fund: Cost of Issuance Account	Established outside the SRF, receives a portion of the revenue bond proceeds. Investment income is transferred to the revenue fund for debt service payments. Used to pay issuance cost on revenue bonds.
Rebate Fund	Receives any earnings required to be rebated to the United States pursuant to the Tax Regulatory Agreement. Used for IRS obligations as required.

The cash defeasance (see Note 8), on June 30, 2008, allowed all assets of the Revolving Fund that had previously been pledged to the Bonds issued under the 1990 Resolution to be released from that pledge and such assets or the receipts thereon are now available money under the Resolution. As a result of the cash defeasance or as fund/account balances are depleted, some of the funds/accounts listed above will be closed.

The following funds and accounts have been established in accordance with the Resolution adopted December 17, 2002:

Fund/Account	Description and Use
Revolving Fund	The Revolving Fund consists of amounts in the water pollution control federal revolving loan account and drinking water federal revolving loan account. The State maintains the Revolving Fund in accordance with the Federal Act. The State shall transfer to the Debt Service Fund any amounts necessary, together with any amounts on deposit therein, sufficient to pay principal of, redemption premium, if any, and interest on bonds.
Bond Proceeds Fund	Receives proceeds from the sale of revenue bonds as specified and determined by the Resolution. Funds are expended for purposes of financing loans to borrowers under the State Revolving Fund program and if other monies are not available, payment of principal and interest on bonds.
Debt Service Fund	Receives amount from the Revolving Fund, Support Fund and, if necessary, Bond Proceeds Fund sufficient to pay the debt service on the bonds. Pays principal and interest on outstanding bonds.
Support Fund	The Support Fund, and accounts therein, shall be funded in the amounts and in the manner set forth in a Supplemental Resolution. Monies in the Support Fund shall be transferred to the Debt Service Fund to pay the interest, principal and Sinking Fund Installments and Redemption Price due on bonds, in accordance with the schedule set forth in the applicable Supplemental Resolution.
Administrative Fund: Cost of Issuance Account	Established outside the SRF, receives a portion of the revenue bond proceeds. Investment income is transferred to the revenue fund for debt service payments. Used to pay issuance cost on revenue bonds.
Rebate Fund	Receives any earnings required to be rebated to the United States pursuant to the Tax Regulatory Agreement. Used for IRS obligations as required.

Fund Net Assets - Restricted for Loans

The fund net assets reserved for loans represents amounts accumulated from federal drawdowns, less set-aside activity expenses not exceeding 31% of the federal grant, transfers from the State representing the 20% match on federal funds and interest earned on public water system loans.

### 3 - CASH DEPOSITS AND INVESTMENTS

According to GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, the SRF needs to make certain disclosures about deposits and investment risks that have the potential to result in losses. Thus, the following deposit and investment risks are discussed below:

Interest Rate Risk - the risk that changes in interest rates will adversely affect the fair value of an investment.

Credit Risk - the risk that an issuer or other counterparty to an investment will not fulfill its obligation.

Concentration of Credit Risk - the risk of loss attributed to the magnitude of an investment with a single issuer.

Custodial Credit Risk (deposits) - the risk that, in the event of a bank failure, the SRF's deposits may not be recovered.

Custodial Credit Risk (investments) - the risk that, in the event of a failure of the counterparty, the SRF will not be able to recover the value of investments or collateral securities that are in the possession of an outside party.

#### Cash and cash equivalents

Cash and cash equivalents of the SRF include funds held by the Connecticut State Comptroller and US Bank.

As of funds held by the State Comptroller were \$106,041 and \$554,878, respectively. These funds are pooled with other State of Connecticut accounts, and custodial credit risk cannot be determined at the SRF level. As of , cash included in restricted assets was \$35,813 and \$86,778, respectively.

As of funds held in Connecticut Short Term Investment Funds (STIF) were \$52,435,465, of which \$5,599,081 is included in the bond proceeds fund, \$38,368,398 is included in the revolving fund and \$8,467,986 is included in the debt service fund on the Balance Sheet. As of funds held in STIF were \$23,718,087, of which \$15,418,087 is included in the revolving fund and \$8,300,000 is included in the debt service fund on the Balance Sheet. STIF is a money market investment pool, rated AAAM by Standard and Poor's, in which the State, municipal entities, and political subdivisions of the State are eligible to invest. The State Treasurer with the advice of the Investment Advisory Council, whose members include outside investment professionals and pension beneficiaries, establishes investment policies and guidelines. The State Treasurer is authorized to invest STIF funds in U.S. government and agency obligations, certificates of deposit, commercial paper, corporate bonds, savings accounts, bankers' acceptances, repurchase agreements, asset-backed securities, and student loans.

As of funds held in Fidelity Institutional Government Money Market (FIGMM) were \$12,134,956 which is included in the debt service fund on the Balance Sheet. As of funds held in FIGMM were \$10,859,420, of which \$2,458,783 is included in the revolving

fund and \$8,400,637 is included in the debt service fund on the Balance Sheet. FIGMM is a money market investment pool, managed by Fidelity Investments, normally investing at least 80% of assets in U.S. Government securities and repurchase agreements for those securities and generally maintaining a dollar-weighted average maturity of 60 days or less.

### Investments

As of , the SRF had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in years)				Rating
		Less than 1	1 - 5	6 - 10	More than 10	
Guaranteed Investment Contracts	\$ 8,218,334	\$ -	\$ -	\$ 8,218,334	\$ -	AAA
Guaranteed Investment Contracts	6,248,105	-	-	-	6,248,105	AA+
Guaranteed Investment Contracts	755,126				755,126	A+
U.S. Treasury State & Local Governments	4,044,758	149,493	2,313,259	1,512,627	69,379	Unrated
Connecticut General Obligation Bonds	<u>7,729,861</u>	<u>478,861</u>	<u>2,553,408</u>	<u>2,840,934</u>	<u>1,856,658</u>	AA
	<u>\$ 26,996,184</u>	<u>\$ 628,354</u>	<u>\$ 4,866,667</u>	<u>\$ 12,571,895</u>	<u>\$ 8,929,268</u>	

As of , the SRF had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in years)				Rating
		Less than 1	1 - 5	6 - 10	More than 10	
Guaranteed Investment Contracts	\$ 15,057,714	\$ -	\$ -	\$ -	\$ 15,057,714	AAA
Guaranteed Investment Contracts	1,079,664	-	-	-	1,079,664	AA+
U.S. Treasury State & Local Governments	480,421	480,421				Unrated
Connecticut General Obligation Bonds	<u>8,198,324</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,198,324</u>	AA
	<u>\$ 24,816,123</u>	<u>\$ 480,421</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,335,702</u>	

### Interest Rate Risk

The SRF's policy for managing interest rate risk is to have the maturity or redemption dates of investment coincide as nearly as practicable with the times at which funds will be required for purposes as established in the General Bond Resolutions.

### Credit Risk

The SRF's minimizes exposure to this risk by investing in Investment Obligations as defined by the Resolution.

Concentration of Credit Risk

The SRF currently invests approximately 56% and 65%, at , respectively, in long-term investment agreements with Natixis Funding Corp., Trinity Plus Funding and Bank of America.

4 - LOANS RECEIVABLE

The SRF loans funds to qualified public water systems. Principal and interest payments on loans are payable over a 20 year period in equal monthly installments commencing one month after the scheduled completion date, or in a single annual installment representing the first year's principal and interest not later than one year after the scheduled completion date and thereafter in monthly installments. Loans receivable by type are as follows as of June 30:

	<u>2009</u>	<u>2008</u>
Construction in process	\$ 5,142,055	\$ 25,801,691
Completed projects	<u>65,531,980</u>	<u>43,308,437</u>
	<u>\$ 70,674,035</u>	<u>\$ 69,110,128</u>

Aggregate maturities of loans receivable in subsequent years for completed projects are as follows:

<u>Year ending June 30</u>	
2010	\$ 4,890,680
2011	4,026,198
2012	4,064,107
2013	4,102,944
2014	4,142,736
Thereafter	<u>44,305,315</u>
	<u>\$ 65,531,980</u>

5 - FEDERAL LETTER OF CREDIT

The following represents a summary of the cumulative amounts of funds awarded and drawn, as well as the amount of funds available under the U.S. Environmental Protection Agency's letter of credit as of June 30:

	<u>2009</u>	<u>2008</u>
Awarded	\$ 108,788,900	\$ 92,413,900
Drawn	<u>91,497,474</u>	<u>86,200,222</u>
Available federal letter of credit	<u>\$ 17,291,426</u>	<u>\$ 6,213,678</u>

In May 2009 the SRF was awarded \$19,500,000 in funding under the American Recovery and Reinvestment Act of 2009. No funds were drawn or expended under this award as of June 30, 2009. This grant is not included in the schedule above.

#### 6 - RESTRICTED ASSETS

Restricted assets as of June 30 are comprised of the following:

	<u>2009</u>	<u>2008</u>
Cash and cash equivalents:		
Money market funds	\$ 26,202,023	\$ 16,700,637
Cash	35,813	86,778
Investments:		
Guaranteed Investment Contracts	15,221,565	16,137,378
U.S. Treasury State and Local Governments	4,044,758	480,421
Connecticut General Obligation Bonds	<u>7,729,861</u>	<u>8,198,324</u>
	<u>\$ 53,234,020</u>	<u>\$ 41,603,538</u>

#### 7 - RELATED PARTY TRANSACTIONS

The SRF is one fund of many within the State of Connecticut financial reporting structure and as a result, certain transactions including operating transfers, loans receivable and allocation of expenses among funds are under the direction of the State.

##### Investments

The SRF holds State General Obligation Bonds as presented in Note 3.

##### Allocation of Expenses

Fringe benefit costs which are incurred at the State level are applied as a percentage of salaries to all State governmental units, including the SRF. For the years ended , the actual rates were 57.09% and 57.55%, respectively, of the SRF wages and the amounts charged aggregated \$ and \$, respectively.

## 8 - BONDS PAYABLE

A summary of changes in bonds payable during the year ended is as follows:

	Balance June 30, 2008	Issued	Principal Paydown/ Transfers	Balance June 30, 2009
Revenue bonds payable	\$ 24,753,065	\$ 29,675,000	\$ 2,196,640	\$ 52,231,425
Refunding bonds payable	6,385,983	-	520,911	5,865,072
	<u>\$ 31,139,048</u>	<u>\$ 29,675,000</u>	<u>\$ 2,717,551</u>	<u>\$ 58,096,497</u>

A summary of changes in bonds payable during the year ended is as follows:

	Balance June 30, 2007	Principal Defeasance	Principal Paydown/ Transfers	Balance June 30, 2008
Revenue bonds payable	\$ 32,527,852	\$ 5,514,266	\$ 2,260,521	\$ 24,753,065
Refunding bonds payable	6,785,250	-	399,267	6,385,983
	<u>\$ 39,313,102</u>	<u>\$ 5,514,266</u>	<u>\$ 2,659,788</u>	<u>\$ 31,139,048</u>

### Revenue Bonds

The proceeds of these bonds are to be used to provide funds to make loans to Connecticut municipalities and public water systems, for use in connection with the financing or refinancing of waste water and drinking water treatment projects.

The State of Connecticut has issued the following bonds, of which a portion has been allocated to the SRF:

Issue Date	Issue Name	Original Allocated Par Amount	Balance Outstanding June 30, 2009
6/1/2001	Clean Water Fund Revenue Bonds, 2001 Series	\$ 29,614,747	\$ -
7/1/2003	State Revolving Fund General Revenue Bonds, 2003 Series A	33,063,800	18,974,258
7/1/2003	State Revolving Fund Refunding General Revenue Bonds, 2003 Series B	7,572,339	5,865,072
7/27/2006	State Revolving Fund General Revenue Bonds, 2006 Series A	5,000,000	4,737,167
8/6/2008	State Revolving Fund General Revenue Bonds, 2008 Series A	25,000,000	23,845,000
6/25/2009	State Revolving Fund General Revenue Bonds, 2009 Series A	4,675,000	4,675,000
		<u>\$ 104,925,886</u>	<u>\$ 58,096,497</u>

The State of Connecticut issued State Revolving Fund General Revenue Bonds 2003 Series dated July 10, 2003 pursuant to the General Bond Resolution adopted December 17, 2002. In accordance with the State Revolving Fund General Revenue Bonds, 2003 Series Plan of Finance, the State allocated the proceeds of 2003 Series Bonds between the SRF and the Clean Water Fund with \$33,063,800 allocated to the SRF and \$85,021,200 allocated to the Clean Water Fund. Debt service on the 2003 Series Bonds is paid from any available monies in the SRF and the Clean Water Fund. The State has pledged amounts in the bond proceeds fund, the support fund and the debt service fund pursuant to the Resolution. After a review of the total expenditures from both programs since 2003, as of July 1, 2006, the State transferred \$10,210,105 in 2003 bond proceeds from the Drinking Water Fund to the Clean Water Fund. An equal principal amount of 2003 bonds will now be designated Clean Water bonds and will be payable from Clean Water revenues for their remaining term. The 2003 Support Fund balances for each program are similarly impacted by the reassignment. Available money equal to \$1,734,740 in the Clean Water Fund's General Revenue Revolving Fund has been deposited in the Clean Water Fund's 2003 Support Fund and \$1,734,740 in the Drinking Water 2003 Support Fund has become available money in the Drinking Water Fund's General Revenue Revolving Fund. Other related accounts were affected and adjusted to reflect the transfer.

The State of Connecticut issued State Revolving Fund General Revenue Bonds 2006 Series dated July 27, 2006 pursuant to the General Bond Resolution adopted December 17, 2002. In accordance with the State Revolving Fund General Revenue Bonds, 2006 Series Plan of Finance, the State allocated the proceeds of 2006 Series Bonds between the Clean Water Fund and the SRF with \$145,000,000 allocated to the Clean Water Fund and \$5,000,000 allocated to the SRF. Debt service on the 2006 Series Bonds is to be paid from any available monies in the Clean Water Fund and the SRF. The State has pledged amounts in the bond proceeds fund, the support fund and the debt service fund pursuant to the Resolution.

The State of Connecticut issued State Revolving Fund General Revenue Bonds 2008 Series dated August 6, 2008 pursuant to the General Bond Resolution adopted December 17, 2002. In accordance with the State Revolving Fund General Revenue Bonds, 2008 Series Plan of Finance, the State allocated the proceeds of 2008 Series Bonds between the Clean Water Fund and the SRF with \$171,195,000 allocated to the Clean Water Fund and \$25,000,000 allocated to the SRF. Debt service on the 2008 Series Bonds is to be paid from any available monies in the Clean Water Fund and the SRF. The State has pledged amounts in the bond proceeds fund, the support fund and the debt service fund pursuant to the Resolution.

The State of Connecticut issued State Revolving Fund General Revenue Bonds 2009 Series dated June 25, 2009 pursuant to the General Bond Resolution adopted December 17, 2002. In

accordance with the State Revolving Fund General Revenue Bonds, 2009 Series Plan of Finance, the State allocated the proceeds of 2006 Series Bonds between the Clean Water Fund and the SRF with \$194,765,000 allocated to the Clean Water Fund and \$4,675,000 allocated to the SRF. Debt service on the 2009 Series Bonds is to be paid from any available monies in the Clean Water Fund and the SRF. The State has pledged amounts in the bond proceeds fund, the support fund and the debt service fund pursuant to the Resolution.

The SRF's revenue bonds payable are serial bonds, of which \$ and \$ was outstanding as of , respectively. The serial bonds mature through June 1, 2027 and have interest rates ranging from 2.0% to 5.0%.

#### Refunding Bonds - 2003 Series

On July 10, 2003 the State of Connecticut issued \$115,785,000 of State Revolving Fund Refunding General Revenue Bonds, 2003 Series B (2003 Series B Refunding Bonds) with interest rates of 2.0% to 5.9% to advance refund Clean Water Fund 2001 Series Revenue Bonds (Refunded Bonds) with a principal balance totaling \$17,834,000 and interest rates of 4.0% to 5.5%. The State allocated \$7,572,339 of the 2003 Series B Refunding Bonds to the SRF. The Refunded Bonds were to mature at various dates through September 1, 2022.

The net proceeds of the 2003 Series B Refunding Bonds of \$18,879,694 were used to purchase U.S. Government securities and those securities were placed in an irrevocable trust with an escrow agent to provide debt service payments until the Refunded Bonds are called on various dates through October 1, 2011. The advance refunding met the requirements of an in-substance defeasance and, accordingly, the Refunded Bonds with a principal balance of \$17,834,000 were removed from the SRF's balance sheet. As of , the outstanding principal balance of the Refunded Bonds was \$17,834,000.

The difference of \$1,045,694 between the book value of the Refunded Bonds and the amount deposited to the irrevocable trust to fund their debt service represents a loss which has been deferred and is being recognized as an adjustment of interest expense over the life of the 2003 Series B Refunding Bonds using the outstanding bond method. Amortization of the deferred loss for the years ended totaled \$94,252 and \$82,618, respectively.

#### Cash Defeasance - 2008

On June 30, 2008 the SRF paid \$5,622,931 to advance refund Clean Water Fund 2001 Series Revenue Bonds (Refunded Bonds) with principal balances totaling \$5,514,266 and interest rates of 4.0% to 6.0%. The Refunded Bonds were to mature at various dates through March 1, 2020.

The \$5,622,931 was used to purchase U.S. Government securities and those securities were placed in an irrevocable trust with an escrow agent to provide debt service payments and the call premium until the Refunded Bonds are called on various dates through October 1, 2012. The advance refunding met the requirements of an in-substance debt defeasance and, accordingly, the Refunded Bonds with a principal balance of \$5,514,266 were removed from the SRF's balance sheet. As of , the outstanding principal balances of the Refunded Bonds was \$4,180,110 and \$5,514,266, respectively.

The difference of \$7,572 between the book value of the Refunded Bonds and the amount deposited to the irrevocable trust to fund their debt service represents a loss which has been deferred and is being recognized as an adjustment of interest expense over the life of the Refunded Bonds using the outstanding bond method. Amortization of the deferred loss for the year ended totaled \$841.

### Bond Maturities

Requirements at to retire the SRF's revenue and refunding bonds are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 3,964,578	\$ 2,404,622
2011	4,055,406	2,302,204
2012	4,103,268	2,177,409
2013	4,681,563	1,967,026
2014	5,186,569	1,780,002
2015-2019	22,383,137	5,592,717
2020-2024	10,032,582	2,086,633
2025-2028	3,689,394	244,373
	<u>\$ 58,096,497</u>	<u>\$ 18,554,986</u>

### 9 - FUND NET ASSETS

The following represents an analysis of fund net assets for the years ended .

	<u>Unrestricted</u>	<u>Restricted for Loans</u>	<u>Total</u>
Balance at June 30, 2007	\$ 10,543,702	\$ 72,738,547	\$ 83,282,249
Change in fund net assets	<u>636,382</u>	<u>13,570,620</u>	<u>14,207,002</u>
Balance at June 30, 2008	11,180,084	86,309,167	97,489,251
Change in fund net assets	<u>( 531,415)</u>	<u>5,154,006</u>	<u>4,622,591</u>
Balance at June 30, 2009	<u>\$ 10,648,669</u>	<u>\$ 91,463,173</u>	<u>\$ 102,111,842</u>

#### 10 - OPERATING TRANSFERS

Operating transfers consist of the following for the years ended June 30:

	<u>2009</u>	<u>2008</u>
Transfer related to CWF debt service	(\$ 1,160,251)	(\$ 348,376)
Interest subsidy transfer	1,660,620	1,600,816
Transfer related to the fiscal year 2009 bond offerings	<u>( 152,909)</u>	<u>-</u>
	<u>\$ 347,460</u>	<u>\$ 1,252,440</u>

#### 11 - LOAN FUNDING COMMITMENTS

The operating agreements for the federal capitalization grants require that the SRF enter into binding commitments with local government units within one year of the receipt of each federal

grant payment to provide assistance in an amount equal to 120% (including 20% state matching grants) of each federal capitalization grant.

The following represents a summary of loan commitments at June 30:

	<u>2009</u>	<u>2008</u>
Total funds committed to public water systems	\$ 95,295,117	\$ 77,158,214
Loan amount outstanding to public water systems	<u>70,674,035</u>	<u>69,110,128</u>
Loan commitments outstanding	<u>\$ 24,621,082</u>	<u>\$ 8,048,086</u>

## 12 - RISK MANAGEMENT

The State of Connecticut is responsible for risk management of the SRF activities through the use of commercial and self-insurance.

# SEWARD AND MONDE

CERTIFIED PUBLIC ACCOUNTANTS  
296 STATE STREET  
NORTH HAVEN, CONNECTICUT 06473-2165  
(203) 248-9341  
FAX (203) 248-5813

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*

---

Ms. Denise L. Nappier, Treasurer

Mr. J. Robert Galvin, M.D., Commissioner,  
Department of Public Health

Ms. Amey Marrella, Commissioner,  
Department of Environmental Protection,  
State of Connecticut

We have audited the financial statements of the State of Connecticut Clean Water Fund - Drinking Water Federal Revolving Loan Account (State Revolving Fund) (SRF) (an enterprise fund of the State of Connecticut) as of and for the year ended , and have issued our report thereon dated September 15, . We conducted our audit in accordance with U.S. generally accepted auditing standards 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 SRF'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 SRF's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the SRF'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 U.S. 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.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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, as defined above.

#### COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the SRF'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 management of the SRF and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Seward and Monde*

September 15, 2009

# SEWARD AND MONDE

CERTIFIED PUBLIC ACCOUNTANTS  
296 STATE STREET  
NORTH HAVEN, CONNECTICUT 06473-2165  
(203) 248-9341  
FAX (203) 248-5813

## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM, ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133, AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Ms. Denise L. Nappier, Treasurer

Mr. J. Robert Galvin, M.D., Commissioner,  
Department of Public Health

Ms. Amey Marrella, Commissioner,  
Department of Environmental Protection,  
State of Connecticut

### COMPLIANCE

We have audited the compliance of the State of Connecticut Clean Water Fund - Drinking Water Federal Revolving Loan Account (State Revolving Fund) (SRF) (an enterprise fund of the State of Connecticut) 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 program for the year ended . The SRF's major federal program is identified in the summary of auditors' results section of the accompanying schedule of federal 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 SRF's management. Our responsibility is to express an opinion on the SRF's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; 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 SRF'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 SRF's compliance with those requirements.

In our opinion, the SRF complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended .

#### INTERNAL CONTROL OVER COMPLIANCE

The management of the SRF 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 SRF'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 SRF'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 result 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 SRF as of and for the year ended , and have issued our report thereon dated September 15, . 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 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 the management of the SRF and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Seward and Monde*

September 15, 2009

STATE OF CONNECTICUT CLEAN WATER FUND - DRINKING WATER  
 FEDERAL REVOLVING LOAN ACCOUNT (STATE REVOLVING FUND)  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For the year ended

---

<u>Federal Grantor; Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
ENVIRONMENTAL PROTECTION AGENCY		
Direct:		
Capitalization Grants for State Revolving Fund	66.468	<u>\$ 6,527,567</u>

See notes to schedule.

STATE OF CONNECTICUT CLEAN WATER FUND - DRINKING WATER  
FEDERAL REVOLVING LOAN ACCOUNT (STATE REVOLVING FUND)  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the year ended

---

A - ACCOUNTING BASIS

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the State of Connecticut Clean Water Fund - Drinking Water Federal Revolving Loan Account (State Revolving Fund) and is presented on the accrual basis of accounting. 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*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

Revenues are recognized to the extent of expenditures. Expenditures have been recognized to the extent that administrative costs have been incurred by the SRF and charged to the grant and federal funds have been loaned to municipalities during the year.

B - MUNICIPAL LOAN BALANCES

The balance of outstanding loans to municipalities totaled \$ as of .

STATE OF CONNECTICUT CLEAN WATER FUND - DRINKING WATER  
FEDERAL REVOLVING LOAN ACCOUNT (STATE REVOLVING FUND)  
SCHEDULE OF FEDERAL FINDINGS AND QUESTIONED COSTS  
For the year ended  
\_\_\_\_\_

SECTION 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 that are not considered to  
be material weaknesses? \_\_\_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 that are not considered to  
be material weaknesses? \_\_\_Yes X None reported

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

Any audit findings disclosed that are required to be reported  
in accordance with Section .510(a) of Circular A-133? \_\_\_Yes X No

Major Programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
66.468	Capitalization Grants for State Revolving Fund

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

Auditee qualified as low risk auditee? X Yes \_\_\_No

SECTION II - FINANCIAL STATEMENT FINDINGS

No findings are reported

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No findings or questioned costs are reported.

