

# State of Connecticut



## State Revolving Fund Programs: **DRINKING WATER FUND**

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

### **2005 Annual Report**

# State of Connecticut

## DRINKING WATER FUND



Keeping Connecticut Healthy

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



**Gina McCarthy**  
**Commissioner**  
**Department of Environmental**  
**Protection**



**Denise L. Nappier**  
**State Treasurer**

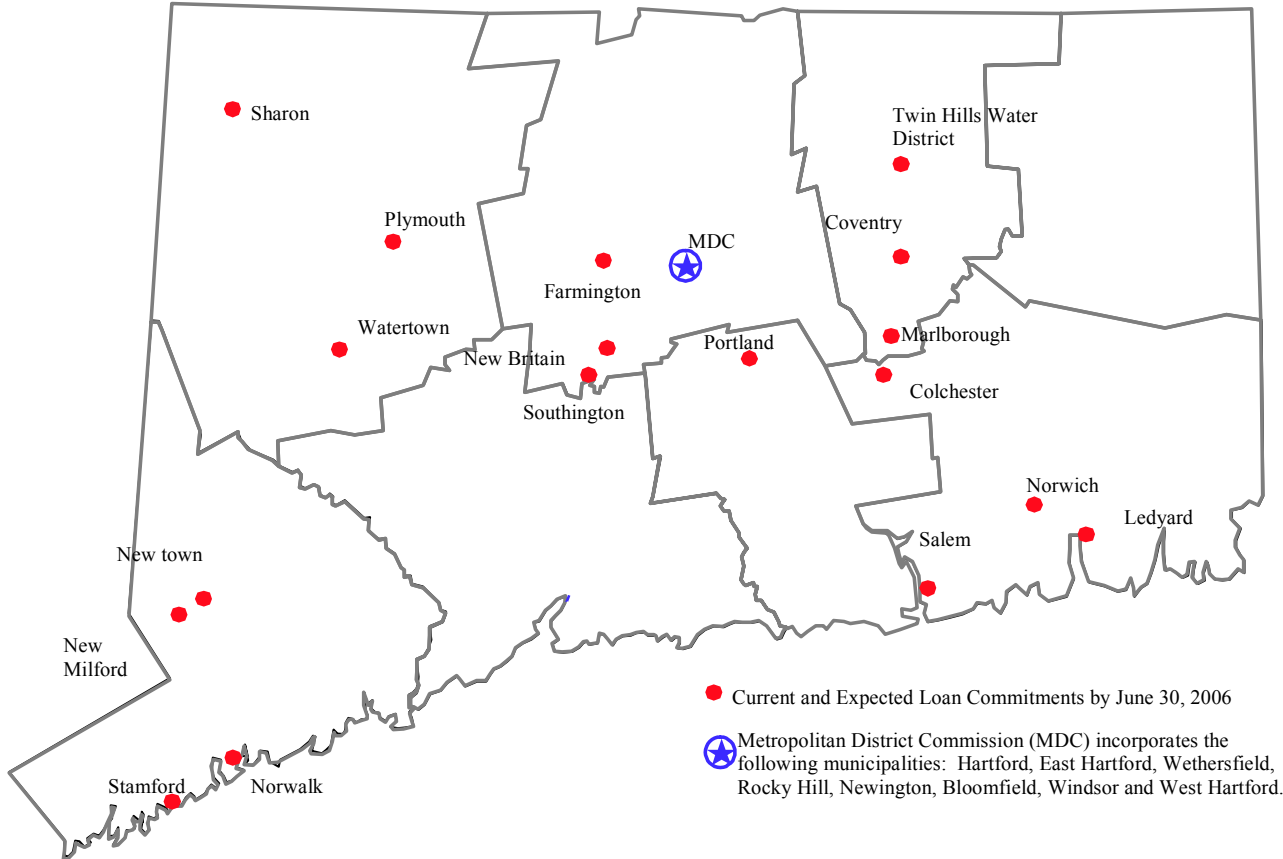


**Donald W. Downes**  
**Chairperson**  
**Department of Public**  
**Utilities Control**

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## Location of Drinking Water Projects



This report is the eighth Annual Report to the Governor on the Drinking Water State Revolving Fund (DWF) loan program for the fiscal year ending June 30, 2005. It has been prepared jointly by the Department of Public Health (DPH) and the State Treasurer's Office, Debt Management Division (OTT) with assistance from the Department of Environmental Protection (DEP).

This report includes the history of the DWF, a review of operations and project financing during state fiscal year 2005, descriptions of the Revenue Bond Program, and projections of future project funding and the management initiatives for the fiscal year ending 2006. As a recipient of more than \$300,000 in 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 June 30, 2005 have been prepared by a firm of independent certified public accountants and are provided in these reports.

This report includes some references to the Clean Water Fund (CWF). A separate annual report is available for the CWF. Copies of the annual reports of the State Revolving Funds are available at the State Treasurer's Office during regular business hours, or online through the Treasurer's website at [www/state.ct.us/ott](http://www/state.ct.us/ott).

# History

The State of Connecticut Clean Water Fund provides financial assistance to municipalities or private entities for the construction, rehabilitation, expansion or improvement of publicly-owned systems for the storage, treatment, recycling and reclamation of sewage. The State's revolving fund (SRF) programs consist of: (1) the wastewater pollution control revolving fund program, or Clean Water Revolving Fund (CWF), established by the State under the federal Water Quality Act of 1987, and (2) the Drinking Water Revolving Fund (DWF) Program established by the State under the 1996 amendments to the Federal Safe Drinking Water Act. These amendments to the Safe Drinking Water Act (SDWA) authorize the federal Environmental Protection Agency (EPA) to offer state Capitalization Grants for the DWF. Nationwide, there was annual federal authorization of \$1 billion for the DWF through 2003. The State has received annual appropriations of approximately \$8.3 million in each year since 2003. The state statutes authorize the SRF programs to apply for and receive federal funds and to provide low-cost financing.

The DPH's major concerns are the protection of public health and compliance with federal and state drinking water mandates. Within the DPH, the Drinking Water Section is responsible for the administration of the DWF and its mission is to: "Promote, enhance and protect public health by proactively providing source protection for all existing and future public drinking water sources of supply in Connecticut."

# Summary of Activities and Accomplishments in 2005

Major activities and accomplishments during the 2005 fiscal year occurred in the following areas:

## **Projects and 4% Administrative Set-Aside**

Project loans were executed for the towns of Newtown and Southington.

Projects were completed in several locations including:

- New Britain– The Water Department’s new water treatment plant with a total cost of over \$50,000,000, more than 2/3 funded by DWF monies,
- Bloomfield & West Hartford– Systems improvements were completed by Metropolitan District Commission (MDC),
- Farmington/Unionville– A pipeline extension project was completed by Unionville Water Company,
- Newtown– Well field system improvements were completed at Newtown High School,
- Sharon– Upgrade and improvements to the water main and pump station were completed for the Sharon Sewer & Water system, and
- Watertown– A new distribution pump station was completed in the Watertown Fire District.

## **Small Systems Technical Assistance 2% Set-Aside**

The major emphasis of this set-aside is to provide assistance to small public water systems serving fewer than 1,000 people. In 2005, emphasis continued to be placed on security and emergency response for public water systems. Staff supported by this set-aside played a lead role in security workshops.

## **15% Local State Set-Aside**

Based on the completion of the Connecticut’s Source Water Protection (SWP) assessment reports, a two-year process of developing a drinking water source protection program was completed. The Source Water Protection Unit uses assessment information to further public health protection. The activities and accomplishments of the unit included:

- Redeveloped the budget and budget work plan,
- Developed initial 5-Year Strategic Plan for SWP,
- Developed and continued to enhance the Drinking Water Geographical Information System (DWGIS),
- Participated on Ground Water Protection Council/EPA Headquarters (GWPC/EPA) pilot project for SWP measures reporting,

- Participated on EPA Headquarters SWP measures workgroup,
- Redeveloped a drinking water source protection stakeholders group,
- Redeveloped the requirements for Regulations of the State of Connecticut 19-13-B102(b),
- Developed an enforcement initiative,
- Gave presentation on numerous forums/meetings,
- Initiated linkages between DPH, DEP and various stakeholders,
- Developed a program to review and provide education on SWP assessment information with Atlantic State's Rural Water Association (ASRWA).

# Project Financing

State drinking water revolving fund loans must serve to protect the public health and to achieve or maintain compliance with the SDWA. The drinking water revolving funds are to be used to provide financial assistance to local, privately owned, nonprofit or publicly owned water systems in connection with the planning, design, development, construction, repair, extension, improvement, remodeling, alteration, rehabilitation, reconstruction or acquisition of all or a portion of a public water system.

Within the parameters set by the EPA guidelines, the State exercises considerable flexibility in the type of planning, design and construction projects that the DWF will fund. The only limitations on project funding are exclusions for increased capacity and other non-eligible project purposes as described in the DWF guidance document, available from the Department of Public Health and the Environmental Protection Agency.

## Available Financing

Financing tools available through the DWF include: low interest rates on loans at one-half of market rate with a 20-year repayment period, refinancing of local water system debt and additional assistance from the use of set-aside money. All projects are selected for financial assistance based on a priority list system created and managed by the DPH. A priority ranking system reinforces the long-term goals and reflects the Department's philosophy of encouraging public health protection through the distribution of safe and adequate drinking water.

The DWF has no grant program. Once a project is deemed eligible for funding, an evaluation of the applicant's capabilities is performed using a Department of Public Utilities Control (DPUC) approved economic viability model. The purpose of this evaluation is to ascertain if the applicant's system can support the DWF loan.

## Needs Survey

The total nationwide needs reported in the third Drinking Water Infrastructure Needs Survey and Assessment released in June 2005 were \$276.8 billion. The survey assessed the cost and types of drinking water needs throughout the nation and determined the federal Drinking Water State Revolving Fund allocation for fiscal years 2006, 2007, 2008 and 2009. Connecticut has been one of the many states that receives the minimum 1% allocation (currently \$8.3 million) and will continue to do so.

The survey consisted of the EPA mailing surveys to 28 randomly selected medium and large population public water systems in Connecticut. The survey identified the cost of Connecticut's 20-year drinking water needs at approximately \$653 million.

As was the case in the 1999 Drinking Water Needs Survey, transmission and distribution (\$336 million) and treatment (\$176 million) represented the bulk of the dollars. The estimated cost of storage, source and other work were \$96 million, \$40 million and \$4 million respectively. Compared with the other five New England States, Connecticut's 20-year needs were higher than New Hampshire (\$595.6 million), Rhode Island (\$402.6 million) and Vermont (\$394.8 million), but



lower than Maine (\$831.8 million) and Massachusetts (\$8.5 billion).

## The Priority List

The priority list system is a key component of the management of the DWF. 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.

Each year, the State develops a list of projects that will receive funding in the year after the federal grant award and maintains a comprehensive priority list of eligible projects for funding in future years. Eligible participants are public water systems (PWS) that have 15 or more service connections or regularly serve at least 25 people, 60 or more days a year. PWS can be owned by municipalities and private entities and are subdivided by regulation into two categories: community and non-community. Community systems serve water to residential populations, whereas non-community systems serve water to non-residential populations. Priority for the use of funds will be designated to those PWS 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

These ranking criteria award points for situations in which water quality impairments, water quantity deficiencies, or water system imperfections may increase risk to public health and/or result in non-compliance. Points awarded for the acquisition of an existing public water system and upgrades emphasize the importance of supporting projects that achieve long-term solutions to existing water quality deficiencies. Affordability points are given to projects located in communities where the median household income is less than 80% of the state's average.

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. In each fiscal year, the Commissioner of the DPH approves project loans to recipients in the order of the priority list of eligible projects to the extent of funds available. Each recipient may apply for and receive a project loan in an amount equal up to 100% of the eligible project cost. The Drinking Water Section (DWS) continually updates its computer-based application to track programmatic information for all DWF loan applications. The DPH may bypass a project on the priority list if the selected project is not ready to proceed.

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 DWS website.

Based on the fiscal year 2005 Priority List, of the projects earmarked for funding, 17.9% are for systems serving under 1,000 population, 12.9% for systems serving between 1,001 and 10,000 population and 69.2% for systems serving populations greater than 10,001.

## Borrowers

Approximately 1249 public water systems in Connecticut are eligible for funding. A public water system (PWS) has 15 or more service connections or regularly serves at least 25 people, 60 or more days a year. Eligible PWSs are subdivided by regulation into two categories, community and non-community. Community systems provide water to residential populations that are owned and operated by municipalities or private entities. Non-community systems provide water to non-residential populations and are owned by non-profit entities.

The DPH emphasizes the importance of reaching these potential applicants and has several annual public outreach initiatives including mailings, statewide informational meetings, open forums, and conference presentations. DWSRF Project Staff are not always present during these outreach measures, but program information is always available.

## Portfolio Credit Quality

The overall financial condition of the state's municipal and privately owned public water systems reflects positively on the DWF. The analysis and review of borrowers and their financial condition prior to awarding a project loan is essential to the long-term viability of the fund. Each borrower applying for financial assistance submits documentation to evidence its ability to repay debt and its technical and financial management capabilities. Required documentation includes financial statements, tax returns, capital budget, a current operating budget, a projected budget including the proposed debt and economic data. Most importantly, 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.

The DWF loan portfolio is diverse, with almost all of the loans and commitments to municipalities rated "A" or higher by Moodys Investor Services as shown in Appendix III. Most of the private 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.

## 2005 Projects

The closed loans for the program during state fiscal year 2005 are discussed below. Two project loans with total project costs of over \$5 million were executed during the fiscal year.

Town of Newtown – The Middle Gate Elementary School loan was for the installation of a 3,000 foot water main from an existing United Water Connecticut, Inc. water main to the school. The school, with

a student population of approximately 560, had an at-risk water supply due to poor water quality. The school was using a radon removal system due to elevated levels of radon in the groundwater supply wells and an anion exchange system for uranium removal. In addition, the school incurred historic violations for the presence of total coliform bacteria in the water system. This water main interconnection project will greatly improve quality and quantity of water, eliminate high operational and maintenance costs, and provide additional water supply for fire protection.

Town of Southington – The Southington Water Department’s loan was primarily for the protection of a well from potential fuel contamination from a nearby crew garage. After the garage and fuel tanks are removed, the area will be restored to green space. The funding will also be used to create a new laboratory facility, water meter testing room, a safe vault for storing important documents and materials, fencing to protect the well supply, and the installation of an emergency generator. This project will help alleviate the potential of fuel contaminating the water system that serves over 40,000 Southington Water Company customers. The provision of a security system will protect the integrity of the water system.

## Program Funding

The four primary sources of funds for the DWF are the (i) Federal Capitalization Grants awarded to the State, (ii) State contributions for the 20% match of the federal grant funds, (iii) proceeds of the Fund's revenue bonds, and (iv) repayment from loans outstanding. Since direct grants cannot be financed through the DWF, the State uses the entire 31% allowable for set-asides to provide managerial and technical assistance to public water systems. There are no state funded grant programs associated with the DWF.

Fund	Name	Purpose/Requirements
21017	Drinking Water State Account	State match
21018	Drinking Water Federal Account	The designated qualifying State Revolving Fund ("SRF") under Title VI of the federal Water Quality Act and the federal Drinking Water Act.

To maintain flexibility within its programs, the State has created the following separate accounts to accept federal capitalization grants and state matching funds.

### Federal Statutory Framework

The 1996 amendments to the Safe Drinking Water Act (SDWA), established State Drinking Water Revolving Fund Programs. Federal appropriations continue to be made annually to the states for capital funding of drinking water projects even though the program authorization under the SDWA ended in 2003. As of June 30, 2005, the SDWA for drinking water state revolving funds has not yet been reauthorized by Congress.

The Federal Act both authorizes the DWF and places legal constraints on its uses. Federal regulations limit the uses of program equity to: loans, support for bonds issued to make loans, loan guarantees or insurance, refinancing prior debt, or administrative expenses associated with qualified projects. Unlike the CWF, the DWF can also make loans to private entities that own and operate public water systems. The Federal Capitalization Grant and the required match must be maintained by the DWF in perpetuity. Based on the federal capitalization grant awards to date, the perpetuity requirement as of fiscal year ending June 30, 2005 was \$81.4 million.

### Federal Capitalization Grants

Each year Connecticut has been allocated 1% of the funds available nationally. Federal Drinking Water Capitalization Grant awards for fiscal years 1997 through 2003 total \$67.9 million. Connecticut's allocated grant award for fiscal year 2004 will be approximately \$8.3 million, which should be received by late 2005. The DPH plans to apply for \$8.3 million in 2005 Funds in

December 2005, and expects to receive the 2005 award in 2006.

Each year the DPH submits a Capitalization Grant Application to the EPA for Connecticut's DWF allocation. Applications for funding from the EPA include set-aside activities as well as project funds. 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. DWF program administration, drinking water program management technical assistance for small water systems and operator education and support represent 31% of the capitalization grant. The Intended Use Plan, a document required by the EPA for grant submission, describes the State's intended uses for set-aside and project funds.

To receive Federal Drinking Water Capitalization Grants, the State must provide matching funds equal to at least 20% of Federal Drinking Water Capitalization Grants. To date Connecticut's match has been made in the form of taxable state General Obligation (GO) Bonds deposited in the DWF.

Federal Capitalization Grants are paid to the State as cash draws under the Federal Transfer Payment System, which are initiated when a written payment request is submitted by the DPH.

Periodic cash draws by the State under the federal ACH system 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.

The Federal Drinking Water 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 and to pay administrative costs and other set-aside activities. Since the 2001 revenue bond issue, projects have been funded with bond proceeds and the capitalization grants have been used for credit and interest support.

## State Authorizations

The State has demonstrated a significant commitment to high water quality for its citizenry through its support of the Clean Water and Drinking Water State Revolving Fund Programs. The State created its DWF as part of the CWF due to the similarities between the federal programs and the authorizations for the two programs are combined. As projects are approved, authorizations are allocated to the DWF from the total available authorizations of revenue bonds and GO bonds. To date, revenue and GO bond authorizations of \$62.7 million for projects and \$14.1 million for match of the capitalization grant have been made available to the DWF for projects.

The State has provided or expects to provide sufficient funds in the DWF to meet the required state matching. Information on the required state matching funds and the amount of federal grants for the DWF can be found in Appendices I and II. The State has provided bond authorizations sufficient to meet the match requirements of all amounts drawn to date. It is anticipated that bonds will be issued to meet match requirements for all awarded grants before the grants are drawn by the State from the EPA.

## Revenue Bonding Program

Prior to the initial issuance of the bonds, the SRF loans to municipalities and private entities were made from The Federal Drinking Water Capitalization Grants. Since 2001, loans to borrowers in the Drinking Water Fund have been funded from the proceeds of bonds. To date there have been twelve (12) series of revenue bonds issued by the Clean Water Fund providing a total of \$863 million in total project funding including \$62.7 million for DWF projects. The revenue bonds for the DWF are liabilities of the DWF. The State intends to fund future loans to DWF borrowers from bond proceeds.

The State enters into loan a agreement with each borrower in the program whether a municipal public water system or a private water system. The State then uses revenue bonds to fund the project loans. Bond proceeds are disbursed on an as-needed basis to borrowers with executed loan agreements, as such 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.

This leveraged financing allows the DWF 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.

### **Bond Resolutions**

There are three bond resolutions: (1) the 2002 General Revenue Bond Resolution secured by the resources of the combined CWF and DWF; (2) the 1990 General Bond Resolution, which is secured by specific pledged municipal loans from the CWF and DWF and other pledged funds; and (3) the 1996 Subordinate Bond Resolution which is secured by surplus revenues. The DWF does not have bonds outstanding under the 1996 Subordinate Resolution.

As more fully described in Appendix IX, the bonds are special obligations of the State payable solely from all moneys available for debt service payments under the resolutions. No additional bonds will be issued under the 1990 Resolution or the 1996 Subordinate Resolution.

### **Fixed Rate Bonds and Auction Rate Security Bonds**

In connection with the issuance of the 2003C Bonds, the State entered into interest rate swap agreements to convert its variable rate exposure to a fixed rate. The interest rate swap had a notional amount equal to the par amount of the 2003C Bonds and was effective on the date of delivery of the 2003C Bonds. Under the terms of the swap, the state pays a fixed rate to the counterparty and receives a variable rate payment based on an index. Additional information about the swap agreement is provided in the financial statements and in Appendix X.

### **Bond Debt Service**

Repayment of the revenue bonds comes from loan repayments and interest earnings on assets. 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 DWF program and the CWF program make loans from the proceeds of the revenue bonds. Loan repayments from both SRF programs are deposited to the State Revolving Fund General Revenue Bond program and are available to pay all bonds whether the loans were made under the DWF program or the CWF program. This cross-collateralization of the SRF programs has been structured in accordance with the EPA regulations, interpretations and guidance (collectively, the “Federal Environmental Law”) and the Bond Resolution, as amended and supplemented.

## **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. The subordinate bonds are rated AAA from Fitch Ratings, Aa1 from Moody’s Investor’s Services and AA+ from Standard & Poor’s Ratings Services.

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.

## **Investment of Funds**

The State currently invests in the State’s Short-Term Investment Fund (STIF) and in guaranteed investment agreements with financial institutions. The bond resolutions require that the investment agreements be with, or be guaranteed by, institutions with ratings at least equal to the rating on the bonds given by Standard & Poor’s and Moody’s Investors Service or any rating service recognized by the State Banking Commissioner. Certain moneys currently held in the Debt Service Reserve Fund are invested pursuant to investment agreements 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. Upon the issuance of the 2003 bonds and the restructuring of the program’s debt, certain of these long-term investments became unrestricted assets of the DWF.

## **Condition of the Fund**

As of fiscal year end 2005, the Drinking Water Fund has made 24 commitments totaling \$61.7 million to 15 public water systems, including one independent regional district. The listing in Appendix XI of water quality projects funded by the DWF as of June 30, 2005, shows the projects by borrower.

# 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 Department of Public Health.

The DEP, the DPH and the Treasurer's Office have worked together with the DPUC and the Office of Policy and Management (OPM) 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 DWF Interagency Memorandum of Understanding (MOU) creates an interagency committee and details the roles and responsibilities of each agency. The following is a brief overview of state agency participation.

## Department of Public Health

The Department of Public Health (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.

As the primary agency, DPH monitors approximately 1,249 public water systems in Connecticut that are eligible for funding. The DPH has emphasized the importance of reaching these potential applicants through the implementation of its public outreach initiatives simultaneously with the development of the DWF program. Each year outreach includes mailings, statewide informational meetings, open forums, conference presentations, correspondence, telephone inquiries and meetings held at the request of interested parties.

The DPH determines future needs and sets priorities with the preparation of an annual project priority list. Once approved, the financing obligations with the DWF borrowers are signed by the DPH and the DEP. The DPH establishes a compliance schedule for each step of the project, including planning, design and construction. Lastly, the DPH reports the details of these and other program activities to the EPA every year.

## Department of Environmental Protection

The Department of Environmental Protection (DEP) 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 DEP certain statutory responsibilities for the DWF, which are similar to its CWF responsibilities. The DEP 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 DEP reviews all project information to ensure compliance with project schedules and budgets. The DEP also enters into financing obligations with borrowers and approves disbursement requests for all eligible costs incurred.



## Department of Public Utilities Control

The Department of Public Utilities 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 plays a role in the management of the DWF and 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 role in the DWF process for municipalities and small public water systems with fewer than 50 connections, but regularly consults with the DPH and the interagency committee on credit issues.

## State Treasurer's Office

The State Treasurer is primarily responsible for receiving and disbursing all money belonging to the state, superintending the collection of state taxes, the investment of state funds, administering certain state trust funds and managing state property.

The State Bond Commission delegates to the 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 Treasurer's Office has responsibilities for the DWF's financing program and various financial components of the DWF. In addition to participation on the interagency committee, the Financial Administrator within the Treasurer's Office also:

- Administers the DWF financing program, which includes the issuance of bonds;
- Administers the lending process including the review of any credit-related documents submitted by the loan applicant, evaluation of the prospective and current borrowers' financial condition, and oversight of project loans outstanding;
- Coordination of tax documentation necessary to finance the projects;
- Maintains the program's dual entry accounting system developed and maintained by the State Treasurer's Office;
- Documents changes in the loan interest rates based on the state G.O. bond issues; and
- Coordinates the independent federal audit and the audit by the State Auditors of Public Accounts.

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

- 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 Fund; and
- Maintain both the federal tax-exempt status and the high credit ratings of the program's publicly issued debt.

## **2006 Program Activities and Initiatives**

The DPH and the interagency committee continue to develop goals for all facets of the DWF program. Major activities during the 2006 fiscal year will be focused on Source Water Protection and Operator Certification Programs.

### **Source Water Protection Program**

The DPH seeks to encourage the use of set-asides to promote source protection efforts integral to Connecticut's nationally recognized multiple barrier approach to protection of public supplies. The DPH also plans to use these funds to foster greater appreciation of drinking water among the general public and the regulated community. Both of these intended uses address proactive and preventive measures endorsed by Congress in its authorization of SDWA.

### **Operator Certification Program**

During fiscal year 2006, management will focus on training and staff development, and will:

- Revise and implement regulations to clarify certification requirements to improve operator certification enforcement, to certify backflow personnel, and to clarify cross connection control requirements;
- Develop an interface between the DPH licensing database and SDWIS for operator and facility data;
- Complete revision of Operator Certification Handbook;
- Develop pamphlets on operator duties and responsibilities;
- Expand operator training to other subject areas;
- Conduct evaluation site visits of courses given by other providers;
- Prepare quarterly newsletter for operators;
- Streamline review process for cross connection control survey reports; and
- Conduct on-site reviews of cross connection control programs.

The DWF will continue its activities designed to meet the following goals which are part of the operating agreement between the state and the federal EPA.

## Financial Goals

- Efficiently manage the use of the DWF funds and enter into project funding agreements or contracts with recipients that are consistent with the program.
- Performing annual review of DWF fiscal elements as required by the EPA.

## Program Goals

- Perform technical review of DWF projects.
- Approve requests for funding from the applicants on the DWF priority list.
- Monitor projects pending oversight and contract compliance.
- Implement and maintain the DWF Standard Operating Procedures Manual.
- Draft DWF state regulations.
- Complete the annual review of DWF programmatic elements as required by the EPA.

Prior to requesting the disbursement of federal funds, the DPH will submit work plans to the EPA detailing specifics about set-aside utilization.

## Long Term Projections

The DWF has been developed over the past eight years and the State has established management goals for the SRF program as part of its statewide public health initiative. The condition of the DWF continues to be strong primarily because of its effective management and the placement of the DWF within the financial structure of the CWF. This guarantees that the DWF will benefit from the same management and financial planning mechanisms that have marked the success of the CWF program. Ongoing discussions about the following issues will shape the program in the coming years:

- The amount of administrative and program set-asides allowed by the EPA and the discretion the state will exercise in the use of those dollars;
- The EPA's program guidelines and regulations and their impact on the implementation of the program at the state level; and
- The priority list of eligible projects, the amount of money available for projects and the number of potential loans.

The latest long-term projections of project funding are being reviewed. A new report is expected to be available in 2005.



# FINANCIAL STATEMENTS

# State Account (21017) - Unaudited Balance Sheet

(in thousands)	Fiscal Year Ended June 30, 2005	Fiscal Year Ended June 30, 2004
<b>ASSETS</b>		
Cash and equivalents	\$ 0	\$ 0
Interest receivable— Loans	0	0
Cost of Issuance	0	0
<b>Total assets</b>	<b>0</b>	<b>0</b>
<b>FUND BALANCE:</b>		
Prior fund balance	0	85
Net Income/(Loss)	0	(85)
Current fund balance	0	0
<b>Total fund balance</b>	<b>\$ 0</b>	<b>\$ 0</b>

# State Account (21017)- Unaudited

## Statement of Revenue and Expenses and the Statement of Change in Fund Balance

	Fiscal Year Ended	Fiscal Year Ended
<b>REVENUE:</b>		
Interest on Loans	\$ 0	\$ 0
Interest Income	0	1
		1
 <b>EXPENSES:</b>		
Cost of issuance expense	0	222
		0
		222
Income before Operating transfers	0	(221)
<b>Operating transfers:</b>		
Other operating transfers	0	136
		0
<b>Total Operating Transfers</b>		<b>0</b>
<b>Net Income after Transfers:</b>	<b>0</b>	<b>(85)</b>
 <b><u>Fund Balance</u></b>		
Beginning of the year	0	85
End of the year	\$ 0	\$ 0

## **Notes to the Financial Statements**

These are the internally prepared statements for the State account.

The State does not provide grants for this program.

The State has not provided interest subsidy payments for the bonds issued for the benefit of this program.

No bonds were issued during fiscal year 2005 so there was no activity in the account.



# **AUDITED FINANCIAL STATEMENTS**

*STATE OF CONNECTICUT CLEAN WATER FUND -*

*DRINKING WATER FEDERAL REVOLVING*

*LOAN ACCOUNT (STATE REVOLVING FUND)*

*AUDITED FINANCIAL STATEMENTS*

**JUNE 30, 2005 AND 2004**

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The audited statements provided on the following pages have been prepared by the auditors, Seward & Monde, CPAs of North Haven, CT. for the DWSRF as of June 30, 2005. These statements are also available in a separate report dated September 17, 2005 from the auditors.



**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**

**JUNE 30, 2005 AND 2004**

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**STATE OF CONNECTICUT CLEAN WATER FUND –  
DRINKING WATER FEDERAL REVOLVING  
LOAN ACCOUNT (STATE REVOLVING FUND)  
JUNE 30, 2005 and 2004**

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# 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. Gina McCarthy, 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 June 30, 2005 and 2004, 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 June 30, 2005 and 2004, 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 June 30, 2005 and 2004, 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 August 26, 2005 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 conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 3 through 7 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**

North Haven, Connecticut  
August 26, 2005

**STATE OF CONNECTICUT  
OFFICE OF THE TREASURER  
STATE OF CONNECTICUT  
DRINKING WATER FUND  
FISCAL YEAR ENDED JUNE 30, 2005**

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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This is a narrative overview and analysis of the activities of the State of Connecticut Drinking Water Fund for the fiscal year ended June 30, 2005. Readers are encouraged to review it in conjunction with the Fund's financial statements that follow.

The Drinking Water Fund has implemented Governmental Accounting Standards Board (GASB) Statement No. 40 as required during the fiscal year ending June 30, 2005.

### **Financial Highlights**

Changes in Net Assets - Fund net assets under management in the Drinking Water Fund at the close of fiscal year 2005 were \$59,326,083 (including assets of \$113,190,656 offset by liabilities of \$53,864,573) compared to fiscal year 2004 Fund net assets of \$57,979,060 (including assets of \$112,862,336 offset by liabilities of \$54,883,276). Fund net assets increased by \$1,347,023 or 2.32% primarily reflecting lower debt outstanding. The statement also shows restricted fund net assets of \$46,998,638 at the close of fiscal year 2005, an increase of \$1,919,105 or 4.26% above the 2004 balance.

Statement of Cash Flows – The Statement of Cash Flows shows a reduction in cash for the year of \$223,554.

Bonds Outstanding – No new bonds were issued during the fiscal year. The Fund's total bonds outstanding decreased to \$49,571,570 from \$51,084,399 due to scheduled amortization.

Loans Receivable – Total loans receivable decreased by \$3,678,620 from \$52,995,470 to \$49,316,850 due to loan repayments. Two loan commitments were executed in June 2005 but no cash advances were made against them.

Capitalization Grants – During the year, drawdowns were \$1,694,186 compared to \$5,011,400 in fiscal year 2004 because capitalization grants were drawn only for the drinking water set asides. At June 30, 2005, \$46,452,217 has been drawn from the federal EPA against the total of \$67,596,000 in cumulative drinking water capitalization grant awards.

## 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 and the amount of capitalization grants remaining for future use. 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 retired during the year 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. 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, 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.

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. 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

Loans are made 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. There were no construction loan draws in 2005. There were two loan originations 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, permitted investments, or State general obligation bonds.

The State currently invests a significant portion of the funds in the accounts created under the general bond resolution in investment agreements with financial institutions. The investment agreements are with, or guaranteed by, institutions with ratings at least equal to the rating on the Bonds given by Standard & Poor's and Moody's Investors Service. Certain monies currently held in the debt service reserve funds are invested pursuant to investment agreements, collateralized with securities issued or guaranteed by the U.S. Government or agencies or instrumentalities thereof whose market value is at least 100% of the funds invested.

### The Bond Program

The Connecticut 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. 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. Since 2001, proceeds of these bonds have been used to fund loans to the Drinking Water Fund borrowers. Further information about outstanding bonds can be found in the notes to the financial statements. No bonds were issued in fiscal year 2005.

The program's Advisors are:

Bond Counsel - Nixon Peabody, LLP and Hardwick Law Firm, LLC  
Financial Advisors - Lamont Financial Services Corporation and P.G. Corbin & Co., Inc.  
General Counsel - Attorney General of the State of Connecticut  
Auditor - Seward & Monde CPAs  
Trustee - US Bank  
Loan Repayment Collection Services - US Bank

## SELECTED FINANCIAL INFORMATION

	<u>2005</u>	<u>2004</u>	<u>Increase (Decrease)</u>
<b>Change in Fund Net Assets</b>	\$ 1,347,023	\$ (3,299,557)	\$ 4,646,580
<b>Operating Revenues</b>	\$ 1,422,669	\$ 1,216,304	\$ 206,365
<b>Federal Capitalization Grants</b>	\$ 2,482,179	\$ 5,898,420	\$ (3,416,241)
<b>Interest on Investments</b>	\$ 1,851,281	\$ 1,631,325	\$ 219,956
<b>Operating Expenses</b>	\$ 1,743,096	\$ 1,507,942	\$ 235,154
<b>Interest Expense</b>	\$ 2,130,066	\$ 1,906,285	\$ 223,781

## ECONOMIC CONDITIONS AND OUTLOOK

During fiscal year 2005, the State's economic and financial situation improved over the prior year; employment remained stable or improved and the overall State Budget showed a surplus at the end of the fiscal year, part of which was deposited in the State's Budget Reserve Fund. While the news has generally been good for Connecticut's economy, there were fluctuations in economic conditions during the year including increasing short term interest rates and higher fuel costs. While employment improved, significant job losses in some sectors continued.

State and federal budget constraints have led to reduced authorizations for the program which could lead to a slow down in the initiation of drinking water projects. The DPH, the DEP and the Treasurer's Office will continue to monitor planning activities and will assist municipalities in determining the most cost effective and efficient way to meet their water quality needs. In addition, DPH is continuing to be proactive in identifying needs, setting priorities and working with municipalities to plan compliance with federal water quality laws.

## 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 recorded 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.us/ott](http://www.state.ct.us/ott)

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

Connecticut Department of Public Health  
450 Capitol Avenue  
Hartford, CT 06106  
Telephone (860) 509-7333  
[www.state.ct.us/dph](http://www.state.ct.us/dph)

**STATE OF CONNECTICUT CLEAN WATER FUND -  
DRINKING WATER FEDERAL REVOLVING LOAN ACCOUNT  
(STATE REVOLVING FUND)  
BALANCE SHEETS  
June 30, 2005 and 2004**

	2005	2004
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ -	\$ 223,554
Interest receivable - investments	322,582	330,100
Interest receivable - loans	11,608	105,864
Other assets	146,635	-
Grant receivable	1,238,087	449,850
Loans receivable	2,728,732	3,773,468
Total current assets	4,447,644	4,882,836
Noncurrent assets:		
Loans receivable	46,588,118	49,222,002
Revolving fund	13,013,662	12,839,336
Deferred loss on early retirement of bonds	882,600	967,769
Restricted assets:		
Loan fund	13,645,960	13,486,329
Debt service reserve fund	21,982,914	22,802,940
Debt service fund	6,725,963	2,987,693
Support fund	5,903,795	5,673,431
Total restricted assets	48,258,632	44,950,393
Total noncurrent assets	108,743,012	107,979,500
Total assets	\$ 113,190,656	\$ 112,862,336
<b>LIABILITIES</b>		
Current liabilities:		
Interest payable on revenue bonds	\$ 507,712	\$ 521,764
Due to other funds	714,481	-
Revenue bonds payable	1,559,304	1,226,051
Refunding bonds payable	279,585	286,779
Total current liabilities	3,061,082	2,034,594
Noncurrent liabilities:		
Premium on revenue and refunding bonds	3,070,810	3,277,113
Revenue bonds payable	40,859,795	42,419,098
Refunding bonds payable	6,872,886	7,152,471
Total noncurrent liabilities	50,803,491	52,848,682
Total liabilities	53,864,573	54,883,276
<b>FUND NET ASSETS</b>		
Unrestricted	12,327,445	12,899,527
Restricted for loans	46,998,638	45,079,533
Total fund net assets	59,326,083	57,979,060
Total liabilities and fund net assets	\$ 113,190,656	\$ 112,862,336

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, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
<b>OPERATING REVENUES</b>		
Interest on loans	\$ 1,422,669	\$ 1,216,304
<b>OPERATING EXPENSES</b>		
Salaries	1,018,998	966,461
Employee benefits	491,754	433,056
Other	232,344	108,425
Total operating expenses	<u>1,743,096</u>	<u>1,507,942</u>
Operating loss	<u>( 320,427)</u>	<u>( 291,638)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest on investments	1,851,281	1,631,325
Amortization of bond premium	206,303	460,458
Interest expense	<u>( 2,130,066)</u>	<u>( 1,906,285)</u>
Total nonoperating revenues (expenses)	<u>( 72,482)</u>	<u>185,498</u>
Loss before federal capitalization grants and transfers	<u>( 392,909)</u>	<u>( 106,140)</u>
<b>FEDERAL CAPITALIZATION GRANTS</b>		
Project funds	-	4,040,617
Set-aside activities	2,482,179	1,857,803
Total federal capitalization grants	<u>2,482,179</u>	<u>5,898,420</u>
<b>OPERATING TRANSFERS</b>	<u>( 742,247)</u>	<u>( 9,091,837)</u>
Change in fund net assets	<u>1,347,023</u>	<u>( 3,299,557)</u>
<b>FUND NET ASSETS, beginning</b>	<u>57,979,060</u>	<u>61,278,617</u>
<b>FUND NET ASSETS, ending</b>	<u>\$ 59,326,083</u>	<u>\$ 57,979,060</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, 2005 and 2004**

	2005	2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Interest received on loans	\$ 1,516,925	\$ 1,370,031
Loan originations	( 136,104)	( 11,607,632)
Principal paid on loans receivable	3,814,724	1,311,585
Payments to employees	( 1,629,433)	( 1,399,517)
Other payments	<u>( 232,344)</u>	<u>( 108,425)</u>
Net cash provided (used) by operating activities	<u>3,333,768</u>	<u>( 10,433,958)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Federal capitalization grants	<u>1,694,186</u>	<u>5,011,400</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Repayment of revenue bonds payable	( 1,226,050)	( 1,199,398)
Repayment of refunding bonds payable	( 286,779)	( 133,089)
Proceeds from revenue bonds payable	-	33,063,800
Proceeds from refunding bonds payable	-	7,572,339
Premium received on revenue and refunding bonds	-	3,292,267
Payment to refunded revenue bond escrow agent	-	( 18,879,694)
Interest paid on revenue bonds	( 2,058,949)	( 1,656,189)
Operating transfers	<u>( 55,964)</u>	<u>( 9,091,837)</u>
Net cash provided (used) by noncapital financing activities	<u>( 3,627,742)</u>	<u>12,968,199</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received on investments	1,858,799	1,583,934
Increase in revolving fund	( 174,326)	( 12,839,336)
(Increase) decrease in restricted assets	<u>( 3,308,239)</u>	<u>2,788,462</u>
Net cash used by investing activities	<u>( 1,623,766)</u>	<u>( 8,466,940)</u>
Net decrease in cash and cash equivalents	( 223,554)	( 921,299)
<b>CASH AND CASH EQUIVALENTS, beginning</b>	<u>223,554</u>	<u>1,144,853</u>
<b>CASH AND CASH EQUIVALENTS, ending</b>	<u>\$ -</u>	<u>\$ 223,554</u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Operating loss	(\$ 320,427)	(\$ 291,638)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Changes in assets and liabilities:		
Decrease in interest receivable - loans	94,256	258,827
Increase in other assets	( 118,681)	-
(Increase) decrease in loans receivable	<u>3,678,620</u>	<u>( 10,401,147)</u>
Net cash provided (used) by operating activities	<u>\$ 3,333,768</u>	<u>(\$ 10,433,958)</u>

See notes to financial statements.

STATE of CONNECTICUT CLEAN WATER FUND - DRINKING WATER  
FEDERAL REVOLVING LOAN ACCOUNT (STATE REVOLVING FUND)  
NOTES to FINANCIAL STATEMENTS  
June 30, 2005 and 2004

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[1 - NATURE OF ORGANIZATION](#)

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), 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.

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 loaned to public water systems and as the SRF expenditures for administration 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 15, 2000 as amended and supplemented on December 17, 2002 (collectively, the "Resolution"). The SRF had no cash equivalents as of June 30, 2005 and 2004, except as reflected in Note 6.

### 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 matrix pricing. The cost of the state general obligation bonds approximates their estimated fair value. There were no material investment gains or losses for the years ended June 30, 2005 and 2004.

### 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 2.1% 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 collectibility 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. 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 Resolution adopted December 15, 2000:

Fund / Account	Description and Use
Revenue Fund a. Pledged Receipts Account	Receives all pledged receipts including loan repayments from the municipalities. 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	Received 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 a. Interest Account	Receives amounts from the revenue fund accounts sufficient to pay the interest portion due on each interest payment date. Pays interest on outstanding bonds.
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 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 from which the Bonds are repaid consists of amounts in the water pollution control federal revolving loan account and drinking water federal revolving loan account. The State will maintain the Revolving Fund in accordance with the Federal Act.
Loan Fund	Received proceeds from the sale of revenue bonds as specified and determined by the Resolution. Funds expensed 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 Loan 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.

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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

#### Cash Deposits

Cash deposits are classified in categories of custodial credit risk. This is the risk that, in the event of the failure of a depository financial institution, the SRF will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. Cash deposits of the SRF include funds held by the Connecticut State Comptroller and the Connecticut Short Term Investment Fund (STIF). As of June 30, 2005 funds held by the State Comptroller was \$645,998. These funds are pooled with other State of Connecticut accounts, and custodial credit risk cannot be determined at the SRF level. As of June 30, 2005 funds held by STIF were \$26,659,622, of which \$13,013,662 is included in the revolving fund and \$13,645,960 is included in the loan 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 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.

#### Investments

As of June 30, 2005, 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	
Federated Treasury Repurchase Agreements	\$ 6,725,963	\$ 6,725,963	\$ -	\$ -	\$ -	AAA
Guaranteed Investment Contracts	18,339,668	-	-	-	18,339,668	AAA
Connecticut General Obligation Bonds	9,547,041	-	-	-	9,547,041	AA
	<u>\$ 34,612,672</u>	<u>\$ 6,725,963</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 27,886,709</u>	

#### Interest Rate Risk

The maturity or redemption dates of investment shall coincide as nearly as practicable with the times at which funds will be required for purposes as established in the General Bond Resolutions.

### 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>2005</u>	<u>2004</u>
Construction in process	\$ 65,242	\$ 65,242
Completed projects	<u>49,251,608</u>	<u>52,930,228</u>
	<u>\$ 49,316,850</u>	<u>\$ 52,995,470</u>

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

<u>Year ending June 30</u>	
2006	\$ 2,663,490
2007	2,785,229
2008	2,800,941
2009	2,817,140
2010	2,833,841
Thereafter	<u>35,350,967</u>
	<u>\$ 49,251,608</u>

#### 5 - FEDERAL LETTER OF CREDIT

The following represents a summary of the funds available under the U.S. Environmental Protection Agency's letter of credit as of June 30:

	<u>2005</u>	<u>2004</u>
Awarded	\$ 67,596,000	\$ 67,596,000
Requested	<u>46,452,217</u>	<u>44,758,031</u>
Available federal letter of credit	<u>\$ 21,143,783</u>	<u>\$ 22,837,969</u>

## 6 - RESTRICTED ASSETS

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

	<u>2005</u>	<u>2004</u>
Cash equivalents:		
Money market funds	\$ 13,645,960	\$ 13,486,329
Investments:		
Federated Treasury Repurchase Agreements	6,725,963	2,987,693
Guaranteed Investment Contracts	18,339,668	18,498,824
Connecticut General Obligation Bonds	<u>9,547,041</u>	<u>9,977,547</u>
	<u>\$ 48,258,632</u>	<u>\$ 44,950,393</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 management.

### Allocation of Expenditures

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 June 30, 2005 and 2004, the actual rates were 48.26% and 44.81%, respectively, of the SRF wages and the amounts charged aggregated \$491,754 and \$433,056, respectively.

### Investments

The SRF holds State General Obligation Bonds as presented in Note 6.

## 8 - BONDS PAYABLE

A summary of changes in bonds payable during the year ended June 30, 2005 is as follows:

	<u>Balance June 30, 2004</u>	<u>Principal Paydown</u>	<u>Balance June 30, 2005</u>
Revenue bonds payable	\$ 43,645,149	\$ 1,226,050	\$ 42,419,099
Refunding bonds payable	<u>7,439,250</u>	<u>286,779</u>	<u>7,152,471</u>
	<u>\$ 51,084,399</u>	<u>\$ 1,512,829</u>	<u>\$ 49,571,570</u>

A summary of changes in bonds payable during the year ended June 30, 2004 is as follows:

	Balance June 30, 2003	Additional Borrowings	Principal Paydown	Advance Refunding	Balance June 30, 2004
Revenue bonds payable	\$ 29,614,747	\$ 33,063,800	\$ 1,199,398	\$ 17,834,000	\$ 43,645,149
Refunding bonds payable	-	7,572,339	133,089	-	7,439,250
	<u>\$ 29,614,747</u>	<u>\$ 40,636,139</u>	<u>\$ 1,332,487</u>	<u>\$ 17,834,000</u>	<u>\$ 51,084,399</u>

### Revenue Bonds

The State of Connecticut issued Clean Water Fund, Revenue Bonds 2001 series, dated May 24, 2001. 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. These bonds are payable solely from funds pledged pursuant to the General Bond Resolution adopted December 15, 2000. In accordance with the State Clean Water Fund Revenue Bonds, 2001 Series Plan of Finance, the State allocated the proceeds between the SRF and the State of Connecticut Clean Water Fund - State Revolving Fund ("Clean Water Fund") (collectively, "The Obligated Group") with \$29,614,747 allocated to the SRF and \$70,385,253 allocated to the Clean Water Fund. The Clean Water Fund (an enterprise fund of the State of Connecticut) was also established pursuant to Connecticut General Statutes Section 22a-475 to 22a-483, and provides assistance to municipalities and public water systems of Connecticut for the planning, design and construction of water quality projects. Debt service on the 2001 series bonds is to be paid from pledged receipts, earnings on investments held in the debt service reserve funds and maturing principal and interest on investments held in the interest subsidy funds. "Pledged receipts" means payments of principal and interest on municipal obligations, including both timely and delinquent payments with late charges, if any, and includes any fees and charges, fines and penalties collected or held by the State. Pledged receipts include the repayments of loans made by the Obligated Group, including all loans previously funded as well as future loans. Although amounts attributable to the Obligated Group will be tracked separately for federal reporting purposes, all pledged receipts will secure all bonds of the Clean Water Fund Revenue Bond Program. The SDWA and the initial Resolution permit the pledging of assets of both the SRF and the Clean Water Fund SRF to secure these revenue bonds.

The State of Connecticut issued Clean Water Fund Revenue Bonds 2003 series dated July 10, 2003. In accordance with the State Clean Water Fund Revenue Bonds, 2003 Series Plan of Finance, the State allocated the proceeds of 2003 series 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 to be paid from any available monies in the SRF and the Clean Water Fund. The State has pledged amounts in the loan fund, the support fund and the debt service fund pursuant to the General Bond Resolution dated December 17, 2002.

The SRF's revenue bonds payable are serial bonds, of which \$42,419,099 and \$43,645,149 was outstanding as of June 30, 2005 and 2004, respectively. The serial bonds mature on October 1, 2022 with 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 Clean Water Fund Refunding Bonds, 2003 Series B 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 October 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 June 30, 2005, 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 June 30, 2005 and 2004 totaled \$85,169 and \$77,925, respectively.

Bond Maturities

Requirements at June 30, 2005 to retire the SRF's revenue and refunding bonds are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 1,838,889	\$ 1,999,929
2007	3,209,474	1,924,110
2008	2,970,958	1,836,423
2009	3,176,655	1,748,530
2010	3,187,324	1,649,763
2011-2015	13,954,406	6,545,326
2016-2020	10,264,862	3,626,853
2021-2025	10,116,400	1,262,977
2026	852,602	17,905
	<u>\$ 49,571,570</u>	<u>\$ 20,611,816</u>

## 9 - FUND NET ASSETS

The following represents an analysis of fund net assets for the years ended June 30, 2005 and 2004.

	<u>Unrestricted</u>	<u>Restricted for Loans</u>	<u>Total</u>
Balance at June 30, 2003	\$ 22,635,689	\$ 38,642,928	\$ 61,278,617
Change in fund net assets	<u>( 9,736,162)</u>	<u>6,436,605</u>	<u>( 3,299,557)</u>
Balance at June 30, 2004	12,899,527	45,079,533	57,979,060
Change in fund net assets	<u>( 572,082)</u>	<u>1,919,105</u>	<u>1,347,023</u>
Balance at June 30, 2005	<u>\$ 12,327,445</u>	<u>\$ 46,998,638</u>	<u>\$ 59,326,083</u>

## 10 - OPERATING TRANSFERS

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

	<u>2005</u>	<u>2004</u>
Operating expenses transfer	(\$ 742,247)	(\$ 349,859)
Transfers related to bond offerings	-	( 8,195,382)
Debt service payment to Clean Water Fund	-	<u>( 546,596)</u>
	<u>(\$ 742,247)</u>	<u>(\$ 9,091,837)</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>2005</u>	<u>2004</u>
Total funds committed to public water systems	\$ 56,902,452	\$ 100,958,799
Loan amount outstanding to public water systems	<u>49,316,850</u>	<u>52,995,470</u>
Loan commitments outstanding	<u>\$ 7,585,602</u>	<u>\$ 47,963,329</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

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Ms. Denise L. Nappier, Treasurer  
Mr. J. Robert Galvin, M.D., Commissioner,  
Department of Public Health  
Ms. Gina McCarthy, 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 June 30, 2005, and have issued our report thereon dated August 26, 2005. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

## 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

North Haven, Connecticut  
August 26, 2005

# 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. Gina McCarthy, 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 June 30, 2005. 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 accounting 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 June 30, 2005.

#### 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 and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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

#### SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

We have audited the financial statements of the SRF as of and for the year ended June 30, 2005, and have issued our report thereon dated August 26, 2005. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended 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**

North Haven, Connecticut  
August 26, 2005

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 June 30, 2005

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<u>Federal Grantor; Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
ENVIRONMENTAL PROTECTION AGENCY		
Direct:		
Capitalization Grants for Drinking Water State Revolving Fund	66.468	<u>\$ 2,482,179</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 June 30, 2005

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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 LOANS

The balance of outstanding loans to public water systems totaled \$49,316,850 as of June 30, 2005.

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 June 30, 2005

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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

Reportable condition(s) identified 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

Reportable condition(s) identified 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 Circular A-133, Section .510(a)? \_\_\_ Yes     X  No

Identification of Major Programs:

CFDA Number	Name of Federal Program
66.468	Capitalization Grants for Drinking Water State Revolving Fund

Auditee qualified as low-risk auditee?  X  Yes \_\_\_ No

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



# APPENDICES



## **Appendix I: State Match of Capitalization Grants**

<b>Fiscal Year</b>	<b>State 20% Match Requirement</b>
<b>1997</b>	<b>\$4,281,640</b>
<b>1998</b>	<b>\$1,424,260</b>
<b>1999</b>	<b>\$1,492,760</b>
<b>2000</b>	<b>\$1,551,400</b>
<b>2001</b>	<b>\$1,557,820</b>
<b>2002*</b>	<b>\$1,610,500</b>
<b>2003*</b>	<b>\$1,600,820</b>
<b>2004**</b>	
<b>2005**</b>	
<b>Total</b>	<b>\$13,519,200</b>
*Bonds approved by State Bond Commission on 12/7/2002	
**Match Requirements for 2004 and 2005 are expected to be: \$1,660,620 and \$1,657,100	

**Appendix II: Federal Capitalization Grant Awards**  
(as of June 30, 2005)

	<b>Total Federal Grant</b>	<b>Program Set Asides</b>	<b>Federal Project Funds</b>
<b>1997</b>	<b>\$21,408,200</b>	<b>\$6,636,542</b>	<b>\$14,771,658</b>
<b>1998</b>	<b>\$7,121,300</b>	<b>\$2,207,603</b>	<b>\$4,913,697</b>
<b>1999</b>	<b>\$7,463,800</b>	<b>\$2,313,778</b>	<b>\$5,150,022</b>
<b>2000</b>	<b>\$7,757,000</b>	<b>\$2,404,670</b>	<b>\$5,352,330</b>
<b>2001</b>	<b>\$7,789,100</b>	<b>\$2,414,621</b>	<b>\$5,374,479</b>
<b>2002</b>	<b>\$8,052,500</b>	<b>\$2,496,275</b>	<b>\$5,556,225</b>
<b>2003</b>	<b>\$8,004,100</b>	<b>\$2,481,271</b>	<b>\$5,522,829</b>
<b>2004*</b>			
<b>2005*</b>			
<b>Total</b>	<b>\$67,596,000</b>	<b>\$20,954,760</b>	<b>\$46,641,240</b>

**\*DPH expects that the 2004 award will be \$8,303,100, and the 2005 award will be \$8,285,500**

## Appendix II (continued): Set-Aside Management

	CWF-DWF Revolving Loan Account	Drinking Water Revolving Loan Program Set-Aside 21076	Revolving Loan Program State Management 21081	DWSRF 2% Technical Assistance Set-Aside 21085	Local Assistance Set - Aside Account 21088	Totals
	3105-6868-999	0000-4001-991	0000-4001-992	0000-4001-993	0000-4001-994	
1997 Award	14,771,658.00	856,328.00	2,140,820.00	428,164.00	3,211,230.00	21,408,200.00
Drawn thru 6/30/04	14,771,658.00	856,328.00	2,140,820.00	428,164.00	3,211,230.00	21,408,200.00
Balance	-	-	-	-	-	-
1998 Award	4,913,697.00	284,852.00	712,130.00	142,426.00	1,068,195.00	7,121,300.00
Drawn thru 6/30/05	4,913,697.00	284,852.00	712,130.00	142,426.00	1,068,195.00	7,121,300.00
Balance	-	-	-	-	-	-
1999 Award	5,150,022.00	298,552.00	746,380.00	149,276.00	1,119,570.00	7,463,800.00
Drawn thru 6/30/04	5,150,022.00	298,552.00	138,395.00	149,276.00	59,179.00	5,795,424.00
Balance	-	-	607,985.00	-	1,060,391.00	1,668,376.00
2000 Award	5,352,330.00	310,280.00	775,700.00	155,140.00	1,163,550.00	7,757,000.00
Drawn thru 6/30/05	5,352,330.00	310,280.00	161,267.00	155,140.00	-	5,979,017.00
Balance	-	-	614,433.00	-	1,163,550.00	1,777,983.00
2001 Award	5,374,479.00	311,564.00	778,910.00	155,782.00	1,168,365.00	7,789,100.00
Drawn thru 6/30/04	5,000,709.00	128,148.00	-	155,782.00	-	5,284,639.00
Balance	373,770.00	183,416.00	778,910.00	-	1,168,365.00	2,504,461.00
2002 Award	5,556,225.00	322,100.00	805,250.00	161,050.00	1,207,875.00	8,052,500.00
Drawn thru 6/30/05	-	-	-	255,653.00	163,199.00	418,852.00
Balance	5,556,225.00	322,100.00	805,250.00	(94,603.00)	1,044,676.00	7,633,648.00
2003 Award	5,522,829.00	320,164.00	800,410.00	160,082.00	1,200,615.00	8,004,100.00
Drawn thru 6/30/05	-	-	-	-	-	-
Balance	5,522,829.00	320,164.00	800,410.00	160,082.00	1,200,615.00	8,004,100.00
2004 Award	-	-	-	-	-	-
Drawn thru 6/30/05	-	-	-	-	-	-
Balance	-	-	-	-	-	-
Total Awarded to date	46,641,240.00	2,703,840.00	6,759,600.00	1,351,920.00	10,139,400.00	67,596,000.00
Drawn thru 6/30/05	35,188,416.00	1,878,160.00	3,152,612.00	1,286,441.00	4,501,803.00	46,007,432.00
Total Balance	11,452,824.00	825,680.00	3,606,988.00	65,479.00	5,637,597.00	21,588,568.00

## Set-Aside Management

The DWF has several program set-asides that give the State extensive flexibility to explore multiple options to support eligible participants in the DWF.

The following descriptions include the set-aside categories, percentages of the federal capitalization grant taken and the use of the funds:

### **Administration (4%) - (21076)**

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

- Reviewing and approving Eligibility and Full Loan applications;
- 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;
- Conducting inter-agency meetings on the status and ways to improve the DWF Program;
- Assisting in the preparation of the Capitalization Grant and various DWF reports; and,
- Meeting with applicants as needed.

### **Operator Certification Program – 10% of the 15% Local Assistance and Other State Programs Set-Aside - (21088)**

The Operator Certification Program (OCP) was established as a separate program within the Drinking Water Division in January 2003. At that time, changes recommended by the EPA were adopted regarding Small Water System Operator qualifications.

There were 932 systems eligible for “conditional operator” status in Connecticut’s regulations or “grandfathering” at the time of program submittal. The OCP reviewed 659 applications for conditional operator certification and approved 569 during the application period. The OCP rejected 90 applications for reasons such as ineligibility or compliance history. The deadline for conditional operator applications was July 26, 2002 and no further applications are being accepted. A total of 390 systems have conditional operator status as of June 30, 2005.

The OCP is in the process of migrating operator certification data into the Safe Drinking Water Information System (SDWIS) and the Department's licensure database. When this process is complete, the DWD will utilize these databases to perform its day to day functions.

The OCP has 4 full time staff persons. An OCP staff person attends monthly meetings of the Connecticut Section-American Water Works Association Operator Certification Committee, an advisory group that provides input on many areas including regulation development, exams, and program administration. The OCP holds meetings twice per year with trainers that review exam results and provide input on various certification issues. The OCP also receives periodic input from the Association of Boards of Certification (ABC) and the New England Water Works Association's Operator Certification Committee. The Drinking Water Advisory Council and the Small Town Drinking Water Advisory Council.

Staff has presented information on operator certification to various industry groups such as water system owners and operators, and well drillers. The program is continually reviewed to improve usability and reflect current regulations.

### **Wellhead Protection - 5% of the 15% Local Assistance and Other State Programs Set-Aside (21088)**

These funds are designated for source water protection activities. Delineate and assess source water protection areas. Provide loans to systems to acquire land or conservation easements. Provide loans to systems to assist in voluntary, incentive-based source water protection measures. Make expenditures to establish and implement wellhead protection programs. Provide assistance to systems as part of a capacity development strategy. No more than 10% per activity per capitalization grant.

### **Small Systems Technical Assistance - 2% (21085)**

Technical assistance to small systems.

### **State Program Management - 10% (21081)**

Administer the State Public Water Supply Supervision Program. Provide technical assistance through source water protection programs. Develop and implement a capacity development strategy or an operator certification program.

## Appendix III: Financial Assistance by Bond Rating

<b>Borrower</b>	<b>Total Commitments</b>	<b>AAA</b>	<b>A &amp; AA</b>	<b>B to Baa</b>	<b>Not Rated</b>	<b>Total Loans</b>
<u>Public</u>						
Ledyard	987,000		987,000			987,000
MDC	6,532,614		6,532,614			6,532,614
New Britain	32,310,618		32,310,618			32,310,618
Newtown	918,986		918,986			918,986
Norwich	1,616,943		1,616,943			1,616,943
Portland	1,910,026		1,910,026			1,910,026
Sharon	2,198,664		2,198,664			2,198,664
Southington	6,147,530		6,147,530			6,147,530
Watertown Fire District	1,066,301				1,066,301	1,066,301
<b>Subtotal</b>	<b>53,688,682</b>		<b>52,622,381</b>		<b>1,066,301</b>	<b>53,688,682</b>
<u>Private</u>						
Aquarion Water(BHC)	329,664				329,664	329,664
Cook Willow	593,932				593,932	593,932
Crystal Lake	314,904				314,904	314,904
Harrybrook Park Condo	182,391				182,391	182,391
Hillside Water Corp	135,429				135,429	135,429
Twin Hills	156,496				156,496	156,496
Unionville	1,500,953				1,500,953	1,500,953
<b>Subtotal</b>	<b>3,213,770</b>				<b>3,213,770</b>	<b>3,213,770</b>
<b>Total</b>	<b>56,902,452</b>		<b>52,622,381</b>		<b>4,280,071</b>	<b>56,902,452</b>
			92.48%		7.52%	100%

## Appendix IV: DWF Closed Loans—Fiscal Year 2005

Closing Date	Entity	Project No	SCD	IFO/ PLO	Amount	New PLO Amount	New IFO Amount
6/24/2005	Newtown	200402-C	12/31/2005	IFO	\$450,000.00		\$450,000.00
6/30/2005	Southington (Wellhead)	200202-C	12/31/2006	IFO	\$4,643,030.00		\$4,643,030.00
<b>Totals</b>						<b>\$0.00</b>	<b>\$5,093,030.00</b>

Total New IFO Loans	2
Total Dollar Value on New IFO Loans	\$5,093,030.00
Total Dollar Value on PLO Loans	\$0.00

**Key:**

SCD—Scheduled Completion Date (based on loan agreement).

IFO—Interim Funding Obligations

PLO— Permanent Loan Obligation

## Appendix V: Cumulative Projects - Fiscal Year 2005

	Project Number	Total IFO/PLO as of 06/30/05	Undrawn Loan Commitments	Additional Loan Commitments Through 6/30/06	Total Commitments
Aquarion Water(BHC)	9701-C	329,664			329,664
Cook Willow	9706-C	65,242	1,073		66,315
Cook Willow	9706-C	527,617			527,617
Crystal Lake	9711-C	190,725			190,725
Crystal Lake	9711-C-D1	124,179			124,179
Harrybrook Park Condo	9703-C	182,391			182,391
Hillside Water Corp	2000b-DC	135,429			135,429
Ledyard	200401-C			987,000	987,000
MDC	200105-C	2,119,127			2,119,127
MDC	9704-C	667,153			667,153
MDC	9704-DC-D1	2,028,992			2,028,992
MDC	9709-C	156,898			156,898
MDC	9709-C-D1	870,861			870,861
MDC	9710-C	689,583			689,583
New Britain	2000A-DC	21,900,000			21,900,000
New Britain	9802 PDC	10,410,618			10,410,618
Newtown	200101-C	468,986			468,986
Newtown	200402-C		450,000		450,000
Norwich	9714-C	1,616,943			1,616,943
Portland	9708-C	1,910,026			1,910,026
Sharon	2000d-DC	407,546			407,546
Sharon	9705-C	165,268			165,268
Sharon	9713-C	794,497			794,497
Sharon	9801-C	831,353			831,353
Southington	200202-C		4,643,030		4,643,030
Southington	200201-C			1,504,500	1,504,500
Twin Hills	9707-C	156,496			156,496
Unionville	200103-C	1,500,953			1,500,953
Watertown Fire District	200104-C	405,932			405,932
Watertown Fire District	9803-C	660,369			660,369
		<b>49,316,850</b>	<b>5,094,103</b>	<b>2,491,500</b>	<b>56,902,453</b>



## Appendix VI: Priority List of Projects for 2005

APPLICANT	ID#	DESCRIPTION	AMOUNT
TOWN OF DURHAM	PDC 2004 0380021a	ADDRESS WATER QUALITY & INFRA-STRUCTURE UPGRADES	\$750,000
LEDYARD WPCA - HIGHLAND SYSTEM	PDC 2003 0727031a	INTERCONNECT WITH ELEMENTARY SCHOOL	\$1,026,500
TOWN OF NEWTOWN- PUBLIC SCHOOL	DC 2003 0970422a	INTERCONNECT MIDDLE SCHL WITH UNITED WATER—Closed	\$500,000
LEDGEWOOD CONDOMINIUM WATER SYSTEM	2004 0181431a	WATER SYSTEM RENOVATIONS	\$500,000
HARTLAND ELEMENTARY SCHOOL & TOWN BUILDINGS	PDC 2004 0650102a	SYSTEM UPGRADE INCL WELL RE-DELVLMT	\$144,500
EAST HAMPTON WATER & SEWER	PDC 2003 0429031a	MAIN EXT. SYSTEM UPGRADE INTER-CONNECTION	\$385,000
TOWN OF COLCHESTER - COURTYARD	PDC 2003 0280011a	INTERCONNECTION TO COLCHESTER COURTYARD	\$350,000
CROMWELL FIRE DISTRICT WATER DIVISION	2004 0330011a	CAPITAL IMPROVEMENTS	\$4,611,000
TOWN OF LEDYARD WPCA	PDC 2004 0720031a	CONSTRUCT WATER TOWER	\$1,195,000
WOODLAKE TAX DISTRICT	PDC 20031680031a	LAND PURCHASE/CONSTRUCT WELL	\$404,500
COLCHESTER SEWER & WATER COMMISSION	C 2004 0280111a	TAINTOR HILL ROAD TREATMENT PLANT UPGRADE	\$1,000,000
SECOND TAXING DISTRICT WATER DEPARTMENT	2004 1030021a	FILTRATION PLANT UPGRADE	\$21,500,000
METROPOLITAN DISTRICT COMMISSION	C 2004 0640011h	ASSESSABLE WATER PROGRAM	\$1,800,000
CTWC-SHORELINE REGION - POINT O' WOODS	DC 2004 1050752a	REPLACE SEASONAL WATER SUPPLY SYSTEM	\$1,616,808
CHIPPANYDALE WATER ASSOCIATION	PDC 2004 0176021a	UPGRADE PUMPING FACILITY	\$21,500
METROPOLITAN DISTRICT COMMISSION-BLOOMFIELD	C 2004 0640011f	ELECTRICAL UPGRADES RESERVIOR 6 WATR TRMT PLANT	\$1,565,000
METROPOLITAN DISTRICT COMMISSION	C 2004 0640011a	SECURITY RELATED IMPROVEMENTS TO WATER FACILITIES	\$1,880,000
METROPOLITAN DISTRICT COMMISSION- W. HTFD	C 2004 0640011d	CHEMICAL FEED SYSTEM	\$375,000
METROPOLITAN DISTRICT COMMISSION-BLOOMFIELD	C 2004 0640011e	FILTER EXPANSION	\$300,000
CITY OF DANBURY	2004 0340011a	WEST LAKE WATER TREATMENT PLANT UPRGDE	\$227,500
CITY OF DANBURY	2004 0340011b	DISTRIBUTN SYSTM PIPE CLEANING AND LINING PROGRAM	\$600,000
CITY OF DANBURY	2004 0340011c	DISTRIBUTN SYSTM HYDRAULIC MODEL & WATER QUALITY	\$250,000
CITY OF DANBURY	2004 0340011d	REPLACEMENT WATER MAINS-FIELD & CREST ROADS	\$568,000
CITY OF DANBURY	2004 0340011e	REPLACEMENT WATER MAINS-RIDGEVIEW GARDENS SYSTM	\$180,000
CITY OF DANBURY	2004 0340011f	WEST SIDE HIGH SERVICE STORAGE TANK & PIPING UPRGDS	\$2,500,000
CITY OF DANBURY	2004 0340011g	MARGERIE HIGH SERVICE STORAGE TANK AND PIPING UPRGD	\$2,500,000
METROPOLITAN DISTRICT COMMISSION-BLOOMFIELD	C 2004 0640011b	ROOF REPAIRS AT VARIOUS WATR TREATMENT& SUPPLIES	\$345,000
METROPOLITAN DISTRICT COMMISSION-BLOOMFIELD	C 2004 0640011c	SIMSBURY ROAD WATER PUMP STATION UPGRADE	\$650,000
METROPOLITAN DISTRICT COMMISSION-SOUTH MILL	C 2003 0460011ca	UPGRADE SOUTH MILL PUMP STATION	\$600,000
METROPOLITAN DISTRICT COMMISSION-W. HTFD	C 2003 0460011cd	REPLACE WATERMAIN	\$1,000,000
PIERCE MEMORIAL BAPTIST HOME INC (BROOKLYN)	C 2003 0190101a	INTERCONNECT WITH TOWN WATER	\$60,000
LYME ACADEMY OF FINE ARTS	PDC 2004 1059043a	UPGRADE CURRENT WELLS & WATER SERV	\$599,062
METROPOLITAN DISTRICT COMMISSION	C 2004 0640011g	VARIOUS SYSTEM IMPROVEMENTS	\$1,000,000
		TOTAL REQUEST BY SIZE	\$51,004,370
SOUTHINGTON WATER DEPARTMENT	2003 1310011ca	WATER MAIN EXTENSION	\$5,304,500
SOUTHINGTON WATER DEPARTMENT	2003 1310011a	WELLHEAD PROTECTION PROJECT	\$4,643,030
		Additional Projects	\$9,947,530
		TOTAL REQUEST BY SIZE	\$60,951,900

## **Appendix VII: 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 (DEP): 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 insure 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 (Treasurer's Office, DPUC and the interagency committee): The applicant must be creditworthy, and the DWF underwriting standards must be met. The Treasurer's Office 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 Treasurer's Office. The Project Loan Agreement is then executed and signed first by the borrower, then by the DPH Commissioner and the DEP 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 VIII: Summary of Project Grant and Loan Agreements**

In accordance with the State's Clean Water Fund and Drinking Water program, 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 loan 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 borrower, and the amount of a municipality 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.

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 borrowers 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 (ii) 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, 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; Official Statement.

## SECTION VIII AGREEMENTS OF THE STATE

## 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

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 Municipal Continuing Disclosure Agreement

Exhibit VI Budget

Exhibit VII Certification Of System Of Charges, Assessments And Other Revenues

Exhibit VIII Form Of Request For Advance

Attachment I Insurance Requirements

## Appendix IX: Summary of the General Bond Resolutions

There are two Program Resolutions under which bonds are outstanding for the Drinking Water Fund Program. The flow of funds, security provisions and the accounts held by trustee under each resolution is discussed in this appendix.

### Summary

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

### Flow of Funds

The following is the flow of funds created under the bond resolution adopted in 1990 (1990 Bond Resolution):

The Trustee deposits all pledged loan repayments into the Pledged Receipts Account in the Revenue Fund.

The Trustee deposits all earnings on funds and investments (except for earnings on amounts held within the Debt Service Reserve Fund) into the earnings account.

Upon deposit, amounts in the Pledged Receipts Account and the Earnings Account are immediately transferred to the Debt Service Fund for the payment of principal of and interest on the bonds to the extent required to meet the debt service payments due from January 2 through the next succeeding January 1. The order of priority is as follows:

- 1) first to the Interest Account for the payment of interest,
- 2) then to the Principal Account for the payment of principal and Sinking Fund Installments, if any.
- 3) Then to the extent funds in the Pledged Receipts Account are available, they will be transferred to the Debt Service Reserve Fund in the amount necessary to restore the Debt Service Reserve Fund to the Debt Service Reserve Fund Requirement.

The payment of debt service on the bonds when due is made from the Debt Service Fund. Earnings on amounts in the Federal Letter of Credit and Undesignated Accounts are deposited into the Debt Service Fund Earnings Account and applied to pay debt service on the bonds prior to the application of other pledged receipts and revenues for such purpose. Whenever the funds in the Debt Service Fund are insufficient to pay the interest, principal on outstanding bonds, the Trustee will apply amounts from

the following funds to the extent necessary to make good the deficiency in the following order of priority:

(a) In the event of deficiencies in the Interest Account, after all transfers from the Revenue Fund have been made pursuant to the General Bond Resolution, funds will be transferred: first, from the Debt Service Reserve Fund and second, from the Principal Account of the Debt Service Fund.

(b) In the event of deficiencies in the Principal Account, after all transfers from the Revenue Fund have been made pursuant to the General Bond Resolution, and there are on deposit in the Interest Account of the Debt Service Fund amounts sufficient to pay the next interest payment coming due, funds will be transferred: first, from the Debt Service Reserve Fund; and second, from the Interest Subsidy Fund.

Revenues generated under the 1990 Resolution include repayments of pledged loans, earnings on the debt service reserve fund. The Debt Service Reserve Fund was originally funded with federal capitalization grants invested in guaranteed investment contracts. As principal of such Prior Bonds is repaid, a pro rata portion of the debt service reserve fund is released. Surplus revenues in excess of the amount required to pay the Prior Bonds can be released from the 1990 Resolution to be used for SRF program purposes at the discretion of the State.

All proceeds of the Bonds are deposited into the Loan Fund and expended only for the purposes of the SRF program, including the financing of loans to municipalities.

Upon the delivery of a cash-flow sufficiency certificate from the Fund Administrator, the State can withdraw these funds free and clear of the lien of the General Bond Resolution for program purposes.

The Debt Service Reserve Fund is required to be funded in an amount equal to 50% of all outstanding bonds. The State chose to fund the DSRF with 1) federal capitalization grant payments made pursuant to federal capitalization grant agreements, and 2) other amounts provided by the State and received by the Trustee for deposit therein.

This is accomplished with the following funds created under the Resolution:

General Bond Resolution			
Fund Type	Description & Use	Held By	Invested
Revenue Fund a. Pledged Receipts Account	Receives all pledged receipts including loan repayments from the municipalities. Out flows include amounts transferred to the interest and principal accounts of the debt service fund for payment of current debt service.	Trustee	Yes - AIG
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.	Trustee	Yes - AIG
Loan Fund	Received proceeds from the sale of revenue bonds as specified and determined by the Resolution. Funds expensed for purposes of the State Revolving Fund program, including the financing of loans to municipalities.	State	Yes
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 . 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.	Trustee	Yes - AIG
Debt Service Fund a. Interest Account	Receives amounts from the Revenue Fund accounts sufficient to pay the interest portion due on each interest payment date. Pays interest on outstanding bonds.	Trustee	Yes - AIG
b. Principal Account	Receives amounts from the Revenue Fund accounts sufficient to pay the principal or current sinking fund installments. Pays off principal on outstanding bonds.	Trustee	Yes - AIG
c. Redemption Account	Receives amounts from the interest and principal accounts for the redemption of bonds. Used for redemption of bonds.	Trustee	Yes - AIG
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.	Trustee	Yes - SSB
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.	Trustee	Yes - SSB
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.	Trustee	Yes - SSB

## General Revenue Revolving Fund

The General Revenue Bond Resolution was approved by the State Bond Commission on December 17, 2002. The 2003 Series A, B & C are the first bonds issued under the Resolution. Under the Resolution, the Revolving Fund is the repository for all available moneys that have not been transferred to another fund.

The Revolving Fund is operated in a manner similar to a general fund for the Clean Water and Drinking Water programs and although the other amounts in the Revolving Fund are available to pay debt service on the bonds, these amounts are: 1) not pledged to the bonds, 2) are not necessary or expected to be used for the payment of debt service on the bonds, and 3) are available for any purposes allowed under the Act, including to make loans to borrowers and to subsidize loans made to borrowers.

General Revenue Bond Resolution	Description & Use	Held By	Invested
Fund Type			
<b>Revolving Fund</b>	The Revolving Fund from which the bonds are repaid consists of amounts in the water pollution control federal revolving loan account and drinking water federal revolving loan account. The State will maintain the Revolving Fund in accordance with the Federal Act. Not later than one business day prior to any payment date, 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 coming due on such payment date and any amounts payable from the Debt Service Fund related to Other financial assistance and related program obligations.	Trustee	Yes - AIG
<b>Bond Proceeds Fund</b>	The proceeds of the 2003A Bonds were deposited into the Bond Proceeds Fund as specified and determined by the Supplemental Resolution. Moneys in the Bond Proceeds Fund are expended only for the purposes of the Wastewater Program or the Drinking Water Program, including the financing of Loans to Borrowers, and to the extent that other moneys are not available, for payments of principal of and interest on the bonds when due and to redeem bonds at the direction of the	Trustee	Yes - AIG
<b>Debt Service Fund</b>	Amounts deposited in the Debt Service Fund may include accrued interest and capitalized interest, if any, and amounts transferred from the Revolving Fund, the Support Fund and the Bond Proceeds Fund. Amounts on deposit in the Debt Service Fund will be used for the payment of debt service on the bonds when due and amounts due on other financial assistance and related program obligations.	State	Yes
<b>Support Fund</b>	The Support Fund, and accounts therein, shall be funded in the amounts and in the manner set forth in a supplemental resolution. Moneys 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.	Trustee	Yes - AIG
<b>Administrative Fund: Cost of Issuance Account</b>	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.	Trustee	Yes - SSB
<b>Rebate Fund</b>	Receives any earnings required to be rebated to the United States pursuant to the Tax Regulatory Agreement. Used for IRS obligations as required.	Trustee	Yes - SSB



**DEBT SERVICE RESERVE\*\***

BOND SERIES	REVENUE AMOUNT*	FEDERAL	GENERAL OBLIGATION BONDS	DIRECT LOAN REPAYMENTS	DSR "FREE UP"	INTEREST SUBSIDY GO
CWSRF	CWSRF	CWSRF	CWSRF	CWSRF	CWSRF	CWSRF
1991	100,000,000.00	37,126,619.00	12,873,381.00	-	-	19,690,000.00
1992	105,000,000.00	25,155,089.00	26,144,911.00	1,200,000.00	-	6,715,000.00
1993	50,000,000.00	23,600,217.00	-	1,399,783.00	-	7,200,000.00
1994	75,000,000.00	32,222,500.00	-	2,900,000.00	2,377,500.00	5,100,000.00
1996	80,000,000.00	18,064,373.00	5,000,000.00	7,183,127.00	9,752,500.00	3,290,000.00
1997	110,000,000.00	20,415,930.00	19,000,000.00	4,016,570.00	11,567,500.00	5,200,000.00
1999	125,000,000.00	25,088,408.00	18,000,000.00	5,389,093.00	14,022,500.00	4,875,000.00
2001	70,385,254.00	3,124,857.88	-	5,000,000.00	23,270,000.00	3,605,000.00
2003	85,021,200.00	-	-	-	-	-
SUBTOTAL	800,406,454.00	184,797,993.88	81,018,292.00	27,088,573.00	60,990,000.00	55,675,000.00
DWSRF	DWSRF	DWSRF	DWSRF	DWSRF	DWSRF	DWSRF
2001	\$29,614,746.00	\$13,206,447.12	\$10,398,696.00	\$0.00	\$0.00	\$0.00
2003	\$33,063,800.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
SUBTOTAL	\$62,678,546.00	\$13,206,447.12	\$10,398,696.00	\$0.00	\$0.00	\$0.00
TOTAL	\$863,085,000.00	\$198,004,441.00	\$91,416,988.00	\$27,088,573.00	\$60,990,000.00	\$55,675,000.00

\* may include premium and excludes refunding bonds

\*\* includes restricted accounts except Loan Fund and Debt Service Fund

## **Appendix X: Revenue Bond SWAP Information**

There are two interest rates swap agreements with Goldman Sachs Mitsui Marine Derivative Products (“GSMMDP”). The swaps were initiated to lock-in a fixed rate for the State Revolving Fund General Revenue Bonds, 2003 Series C issue, 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 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.

## Appendix XI: Cumulative Projects of the Drinking Water Fund

APPLICANT	ID	TOWN	BRIEF DESCRIPTION	PLO 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)	\$1,084,010.00
SHARON SEWER & WATER	DC 97 1250011a	SHARON	PUMP STATION	\$210,000.00
MDC (b)	C 970640011b	WEST HARTFORD	SYSTEM REPAIRS & UPGRADES	\$3,086,188.44
MDC(a )	C 97 0640011a	BLOOMFIELD	VARIOUS IMPROVEMENTS	\$1,163,888.62
NEW BRITAIN	PDC 98 0890011a	NEW BRITAIN	NEW WATER TREATMENT PLANT - PHASE I	\$12,682,987.00
NORWICH	DC 97 1040011a	NORWICH	REPLACE ASBESTOS PIPE WITH DUCTILE IRON PIPE	\$1,898,651.36
MDC(C)	C 97 0640011c	BLOOMFIELD/ HARTFORD/ W. HARTFORD	WATER MAIN REPALCEMENT	\$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	\$359,902.19
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	\$391,038.00
COOK WILLOW REALTY	DC 97 1110111a	PLYMOUTH	INTERCONNECT WITH CONNECTICUT WATER COMPANY	\$639,018.00
HILLSIDE WATER	PDC 00 0790021a	MARLBOROUGH	WATER MAIN & DISTRIBUTION IMPROVEMENTS	\$149,052.00
SHARON SEWER & WATER	DC 98 1250011a	SHARON	INTAKE & PIPELINE UPGRADE, WATER FILTRATION TREATMENT PLANT, STORAGE TANK	\$1,100,000.00
TOWN OF PORTLAND	C 97 1180081a	PORTLAND	INTERCONNECT WITH METROPOLITAN DISTRICT COMMSN	\$2,500,000.00
NEW BRITAIN PHASE II	PDC 98 0890011a	NEW BRITAIN	NEW WATER TREATMENT PLANT - PHASE II	\$24,000,000.00
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	\$516,000.00
MDC(x)	C 01 0640011x	BLOOMFIELD	CONSTRUCTION OF WATER MAINS	\$2,343,735.00
WATERTOWN FIRE DISTRICT	DC 98 1530011b	WATERTOWN	UPGRADE CHEMICAL FEED EQUIPMENT	\$435,500.00
UNIONVILLE WATER COMPANY	C 97 0520011b	FARMINGTON	INTERCONNECT WITH METROPOLITAN DISTRICT COMMSN	\$1,646,970.16
<b>TOTAL 1999 to 2004</b>				<b>\$56,663,552.41</b>
TOWN OF NEWTOWN (CLEAR, Schl	D 603	NEWTOWN	CONNECTION TO TOWN WATER	\$450,000.00
TOWN OF SOUTHINGTON	D 603	SOUTHINGTON	WELLHEAD PROTECTION	\$4,643,030.00
<b>FY 2005 Total</b>				<b>\$5,093,030.00</b>
<b>TOTAL 1999 to 2005</b>				<b>\$61,756,582.41</b>

## Appendix XII: EPA Ratio Analysis

### FINANCIAL RATIO

	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
<b>CURRENT RATIO:</b>					
Cash & Equivalents	\$13,458	\$59,106	\$1,144,853	\$13,062,890	\$13,160,297
Int/recvable Investments	\$108,202	\$999,576	\$282,709	\$330,100	\$322,582
Due from other state fund	\$0	\$24,775	\$0	\$0	\$0
Grant Receivable	\$0	\$0	\$0	\$449,850	\$1,238,087
Loans Receivable current portion	\$17,252,271	\$8,081,678	\$22,724,735	\$3,773,468	\$2,728,732
Loan Fund	\$14,141,641	\$6,261,027	\$0	\$13,486,329	\$13,645,960
Debt Service Fund	\$13,284,668	\$18,383,265	\$24,129,646	\$2,987,693	\$6,725,963
Free-up from reserve fund	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Total Current Assets	\$44,800,240	\$33,809,427	\$48,281,943	\$34,090,330	\$37,821,621
Revenue bond interest payable	\$116,531	\$349,593	\$349,593	\$521,764	\$507,712
Due to other state fund	\$0	\$13,503	\$0	\$0	\$714,481
Deferred grant revenue	\$10,061	\$118,585	\$437,170	\$0	\$0
Revenue bonds payable(current)	<u>\$0</u>	<u>\$0</u>	<u>\$1,199,397</u>	<u>\$1,512,830</u>	<u>\$1,838,889</u>
Total Current Liabilities	\$126,592	\$481,681	\$1,986,160	\$2,034,594	\$3,061,082
<b>Current Assets /Current Liabilities</b>	353.89%	70.19%	24.31%	16.76%	12.36%
<b>ASSET/LIABILITY RATIO</b>					
Interest Receivable	\$213,641	\$287,936	\$364,691	\$105,864	\$11,608
Loans recble-less current portion	\$1,535,637	\$18,672,996	\$19,869,588	\$49,222,002	\$46,588,118
Reserve fund(less free-up)	\$16,285,500	\$16,289,526	\$23,609,209	\$28,476,371	\$27,886,709
Short term assets convertible:					
Federal Cap grant	<u>\$13,156,284</u>	<u>\$6,730,236</u>	<u>\$16,527,779</u>	<u>\$4,966,468</u>	<u>\$1,693,942</u>
Total Loans, Grants and Reserves	\$31,191,062	\$41,980,694	\$60,371,267	\$82,770,705	\$76,180,377
Rev bonds pyble-less current portion	\$29,614,747	\$29,614,747	\$28,415,350	\$49,571,569	\$47,732,681
Deferred grant revenue	\$10,061	\$118,585	\$0	\$0	\$0
Premium on revenue bonds	<u>\$491,370</u>	<u>\$468,337</u>	<u>\$445,304</u>	<u>\$3,277,113</u>	<u>\$3,070,810</u>
Total Long term Debt	\$30,116,178	\$30,201,669	\$28,860,654	\$52,848,682	\$50,803,491
Assets/Liabilities	1.04%	1.39%	2.09%	1.57%	1.50%
<b>EQUITY GROWTH</b>					
Cumulative Captilization Grants	\$43,750,300	\$51,539,400	\$59,591,900	\$67,596,000	\$67,596,000
State Match Contribution	\$2,573,420	\$3,919,467	\$7,147,364	\$7,955,487	\$1,356,123
Overmatch Contribution	\$7,824,580	\$0	\$0	\$0	\$1,699,317
Retained Earnings	<u>\$32,602,309</u>	<u>\$38,495,120</u>	<u>\$61,278,617</u>	<u>\$57,979,060</u>	<u>\$59,326,083</u>
Total Equity	\$86,750,609	\$93,953,987	\$128,017,881	\$133,530,547	\$129,977,523
Equity/Cap grant	1.98%	1.82%	2.15%	1.98%	1.92%
Binding Cmtments or closings	\$18,787,908	\$26,754,674	\$42,594,323	\$52,995,470	\$49,316,850
Cap Grants	\$43,750,300	\$51,539,400	\$59,591,900	\$67,596,000	\$67,596,000
Binding Commitment Ratio	0.43%	0.52%	0.71%	0.78%	0.73%
<b>PROJECT COMPLETION</b>					
<b>Projects Completion</b>	\$5,911,328	\$20,017,177	\$20,967,545	\$49,222,002	\$46,588,118
<b>Cap Grants</b>	\$43,750,300	\$51,539,400	\$59,591,900	\$67,596,000	\$67,596,000
<b>Project Completion Ratio</b>	0.14%	0.39%	0.35%	0.78%	0.69%
<b>DEFAULT RATIO</b>					
	0	0	0	0	0
Total Loans	\$18,787,908	\$26,754,674	\$42,594,323	\$52,995,470	\$49,316,850
Total Assets	\$62,835,018	\$69,059,885	\$92,125,431	\$112,862,336	\$113,190,656
Total Loans /Total Assets	0.30%	0.39%	0.46%	0.47%	0.44%

