

# State of Connecticut



## State Revolving Fund Programs: DRINKING WATER FUND

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

### **2006 Annual Report**

# State of Connecticut

## DRINKING WATER FUND



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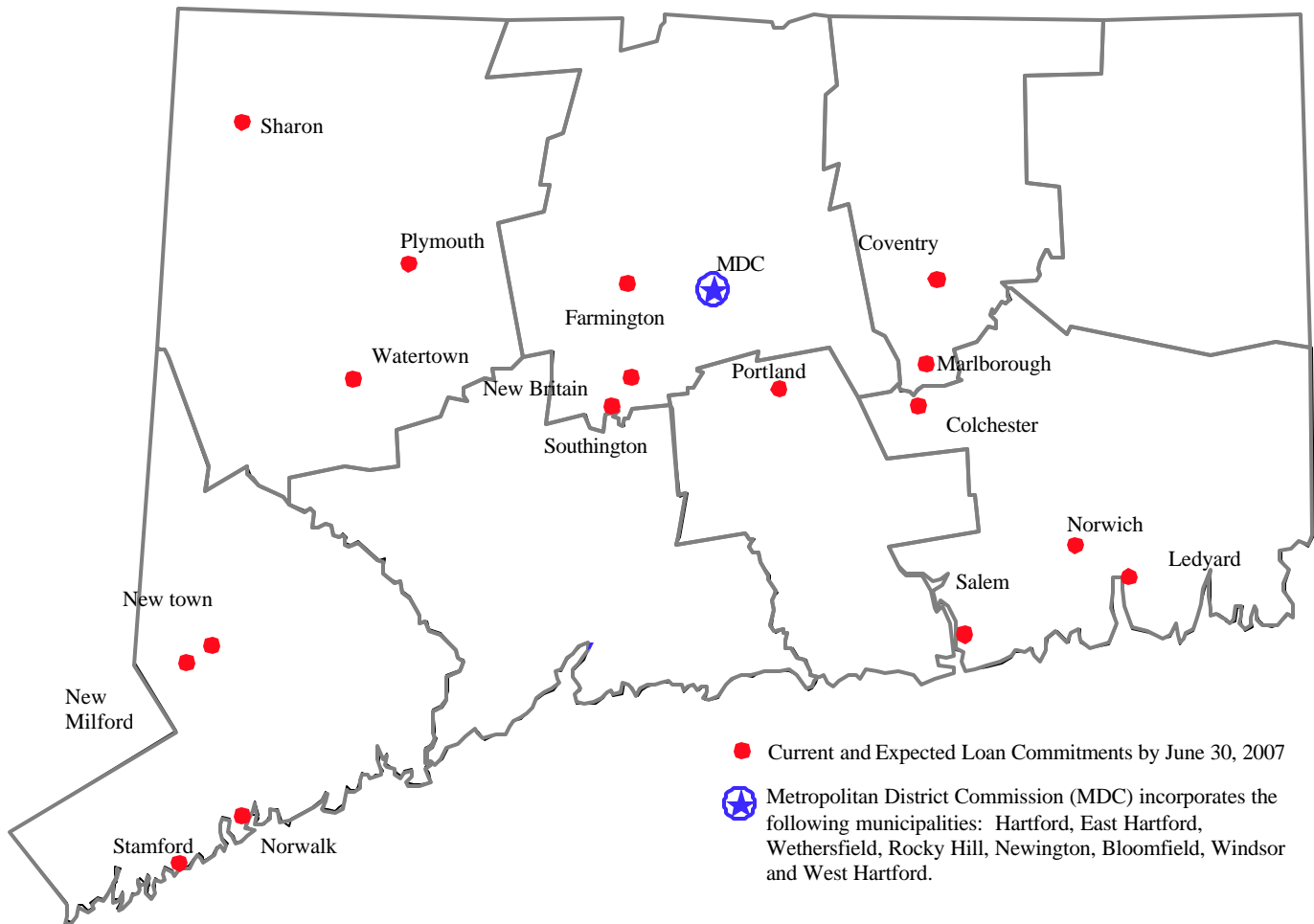


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# Location of Drinking Water Projects



This report for the fiscal year ending June 30, 2006, is the eighth Annual Report to the Governor on the Drinking Water State Revolving Fund (DWF) program. It has been prepared jointly by the Department of Public Health Drinking Water section (DPH) and the State Treasurer's Office Debt Management Division (OTT) with assistance from the Department of Environmental Protection (DEP).

Included in this report is the history of the DWF, a review of operations and project financing during state fiscal year 2006, descriptions of the Revenue Bond Program, projections of future project funding and the management initiatives for the fiscal year ending 2007. As a recipient of more than \$500,000 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, 2006 provided in these reports, have been prepared by a firm of independent certified public accountants.

While this report includes some references to the Clean Water Fund (CWF), a separate annual report is available for the CWF. Copies of this and previous annual reports of the DWF and the CWF are available at the State Treasurer's Office during regular business hours. The annual reports for fiscal years 2001 through 2006 are available on the Treasurer's website at [www.state.ct.us/ott](http://www.state.ct.us/ott).

# History

The State of Connecticut State Revolving Funds (SRFs) provide financial assistance to municipalities or private entities for the construction, rehabilitation, expansion or improvement of systems for the storage, treatment, recycling and reclamation of water and waste water. The State's SRF programs consist of: (1) the waste water pollution control revolving fund program, or the Clean Water Fund (CWF), established by the State under the federal Water Quality Act of 1987, and (2) the Drinking Water Revolving Fund (DWF), established by the State under the 1996 amendments to the Federal Safe Drinking Water Act (SDWA). These amendments to the SDWA authorize the federal Environmental Protection Agency (EPA) to offer state capitalization grants for the DWF. Nationwide, there have been federal authorizations of \$1 billion annually for the SDWA through federal fiscal year 2003 and Connecticut has received annual appropriations of approximately \$8.3 million. The Connecticut General Statutes Sections 22a-475 to 485 inclusive, authorize the SRF programs to apply for and receive federal funds and to provide low-cost financing. The DWF provides up to 100% project financing with below market rate loans.

The Department of Public Health (DPH) is responsible for compliance with federal and state drinking water mandates. Within 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."

The Drinking Water Section works closely with and provides technical assistance to local town land use decision makers concerning development and management of Public Water and Water drainage areas. As part of its mission, over the last fifteen years the staff of DPH and the Drinking Water Section have advised local land use boards concerning proposed projects that may affect public drinking water sources.

# Summary of Activities and Accomplishments in 2006

The Drinking Water Section of the DPH is responsible for the management of the DWF federal capitalization grants. The State uses the grant to assist public water system operators in meeting federal water quality mandates. Major activities and accomplishments during the 2006 fiscal year in the program areas of the DWF are described below..

## Projects and Administrative Set-Aside - 4%

A \$24.7 million project loan was executed for the Second Taxing District of the City of Norwalk. The loan is for the upgrade of an existing ten million gallon per day water treatment plant from conventional treatment to one utilizing immersed membrane filtration.

The Town of Newtown completed the Middle Gate Elementary School Project, which was designed to improve water quality and eliminate the need for both a radon removal system and an ion exchange system for uranium removal. The school had a history of violations for the presence of coliform bacteria in the water system.

## Small Systems Technical Assistance Set-Aide - 2%

The Drinking Water Section uses this set-aside to provide assistance to small public water systems serving fewer than 1,000 people. In 2006, emphasis was placed on security and emergency response. Staff supported by this set-aside played a lead role in security workshops and consulted with facility operators on security issues.

## Local Assistance and Other State Programs Set-Aside - 15%

The Drinking Water Section uses this set-aside for capacity development of public water system operators and source water protection.

### Capacity Development

The staff funded under this set-aside is responsible for assessing compliance with state regulation and the SDWA. The staff also assesses the managerial and technical capacities of public water systems and their operators by conducting and reviewing sanitary surveys . As of June 30, 2006, there were 1,211 systems required to have certified operators and 27 systems without certified operators. The Drinking Water Section issued 45 notifications to systems informing them of the requirement to have certified operators and issued 183 violation letters for failure to have certified operators

As enforcement actions are initiated, staff also assesses the cause or trigger of any violations and assists the systems to recognize corrective measures to return the system to compliance with the regulations. Systems that do not correct existing violations through technical assistance are referred for formal enforcement actions including possible take-over proceedings. During the year, the number of surveys and compliance meetings were as follows:

- 976 sanitary surveys conducted at public water systems
- 32 compliance meetings held for all public water systems
- 30 non-viable public water systems consolidated with other systems

Additional staff with responsibility for capacity development are funded under the State Program Management Set-aside.

## Source Water Protection

The Drinking Water Section developed a drinking water sources protection program to use the Source Water Assessment Program (SWAP) survey information compiled in April 2003 to further public health protection. In 2006, the Department established a five-year strategic plan for drinking water source protection and the Source Water Protection (SWP) Unit initiated or completed the following actions:

Redevelopment of the Budget and Budget Work Plan Four full-time staff of the Drinking Water Section have been funded by the DWF source water protection set-aside to support the implementation of the strategic planning goals. Two additional full-time employees are state funded and provide a systematic approach to educating local land use decision makers about source water land protection permitting. The budget work plan and budget spreadsheets for the SWP Unit have been updated to link the initiatives with measurable data. The plan has been shared with all stakeholders in forums and presentations across the state. The goals and objectives are closely linked to the EPA's five-year strategic planning goals for drinking water source protection. The plan will be updated and enhanced at least on an annual basis.

Development of a Drinking Water Quality Management Plan Process Staff assisted Groton Utilities and the town planners of Groton, Ledyard and Preston to develop legislation concerning the development of a drinking water quality management planning process. Special Act 06-6 (available online at <http://www.cga.ct.gov/2006/ACT/SA/2006SA-00006-R00HB-05470-SA.htm>) mandates a plan for the Groton Utilities Reservoir system and a review of this plan by various state agencies. The Commissioner of Public Health is also mandated to submit the DPH's findings and recommendations concerning needed statutory changes to the joint standing committees of the General Assembly having cognizance of matters relating to public health, environment, energy and technology and planning and development.

DPH Sponsored Legislation—Proactive Project Reviews The DPH highlighted the need to protect sensitive source water areas that drain into public drinking water supplies by supporting legislation that requires DPH notification when a proposed development is planned within a public water supply drainage area. Effective October 1, 2006, Public Act 06-53 modifies existing laws to require an applicant to either an inland wetland agency or a planning and zoning board to notify the DPH of the application. Prior to this law, the applicant was required to notify the water company that owned and controlled the public drinking water supply. Public Act 06-53 may be found under the following web-site address <http://www/cga.ct.gov/2006/ACT/PA/2006PA-00053-R00SB-00313-PA.htm>. The DPH is creating a new standard notification form that will be mailed to towns. The form will also be available on the DPH web-site in September 2006.

Enhancement of the Drinking Water Information Geographical System During fiscal year 2006, an operations and maintenance manual and standard operating procedures for the system were finalized. An internal group met to discuss new technology upgrades that will closely link water quality, sanitary survey and source water protection related information.

Semi-annual Meetings of the Drinking Water Source Protection Stakeholders Group Utilizing the SWAP technical and citizen advisory group members as a base, a Drinking Water Source Protection Stakeholders Group was formed. Forty-five stakeholder groups are members of this group. Two stakeholder group meetings were held in 2006 and both meetings had over twenty participants. This year new participants that represent town land use decision makers were added to the stakeholders group.

Initiation of the Education and Training Strategy Working with the stakeholders group, the SWP Unit developed an educational outreach plan to focus local decision makers on source water protection and the need to review potential effects of proposed development on existing sources of supply. This strategic plan focuses on educating local decision makers and targets town planners and local health directors. Specific training is planned for the fall of 2006. The staff also developed a source water protection training program for certified water treatment operators and provided source water protection training presentations.

Workshops on Drinking Water Quality Management Planning Planned and developed a series of four workshops in Southeastern Connecticut on drinking water quality management planning for Groton Utilities drinking water supply. Representatives from state agencies, the EPA, regional planning organizations, town planners, local town land use boards and commissions, environmental groups and other stakeholders are expected to attend the workshops. This initiative was developed in response to overwhelming positive reviews of the May 2005 Source Water Protection Forum on local involvement in public drinking water supply protection.

Redevelopment of a Standard Local Project Review Process The SWP unit developed standard forms and standard review procedures for the review of proposed development projects. The standard review process includes a determination of project location versus SWAP delineated source water areas. This process links state and local agencies with projects to protect source water.

Source Water Assessment Reviews During the year, the SWP Unit Conducted forty-two assessment reviews. The reviews included a number of large proposed development projects and staff provided comments and recommendations directly to municipal governments including the towns of New Hartford, Ridgefield, Stamford, North Branford, Bethany, Woodstock, and Simsbury.

Review and Oversight of DEP Pesticide Permits Operating under a 1994 Memorandum of Agreement (MOA) with the DEP, the SWP unit reviewed and provided oversight for sixty-five aquatic use pesticide permits in fiscal year 2006 for the use of pesticides within public water supply source water areas. Staff initiated discussions with the EPA and the DEP to develop greater linkages between the two agencies concerning the potential study of the cause and effect of pesticide use within drinking water supply source protection areas.

Development of an Enforcement Procedure for Source Water Protection Using public health



source protection laws that have existed since the early 1900's the SWP Unit developed an enforcement initiative concerning the protection of drinking water quality for all sources of public drinking water. Two department orders were issued during the summer of 2004 for activities that threatened public health and drinking water quality and both orders are still active. One public water system complied without challenge and the other negotiated a consent order to complete a drinking water quality management plan for the town park site. The SWP Unit identified a new area of concern for the protection of drinking water sources in the town of Woodbury and expects to determine whether to issue an order in 2007.

New Process for Siting of Proposed Wells A formal standard process was initiated, with a formal standard operating procedure finalized in the fall of 2005. The SWP Unit continues to review the well siting process and refine the procedures in place for the protection of public health. The SWP Unit reviewed twenty-two proposed well sites during state fiscal year 2006. A number of reviews involved numerous site visits and referrals to other units for follow-up.

Presentations at Forums and Meetings The SWP Unit presented the new drinking water source protection mission and strategic plan concepts at numerous forum and meetings throughout the state during 2006. The SWP Unit also worked on two key outreach programs. A program was developed in 2004 and continued into 2006 to verify the most highly susceptible small community bedrock well sources of supply. An agriculture initiative involved the use of the SWAP assessment reports in the development of watershed management planning for source water supplies.

Redevelopment of the SWP Unit's Website A new web-site, set to be launched in the fall of 2006, will include a tool-box for local decision makers. A web page site map was developed that outlines the restructuring. This will include links to all related programs and other information that would be useful for local land use decision makers.

New Links Between the SWP Unit and the Septic System Regulation Program The Environmental Engineering Program within the Drinking Water Section has oversight of the Drinking Water Section's on-site subsurface sewage disposal program. During the year, a newly hired Environmental Sanitarian focused on decentralized sewage system management. In late 2006, a grant was received from the DEP to provide improved site investigation (soil assessment) training for local health officials. This program conducted outreach efforts to groups such as homeowners, realtors, local officials, etc. on managing decentralized systems and provided educational and training materials on:

- decentralized sewage treatment systems,
- establishing decentralized wastewater management districts and local ordinances for the upgrade and monitoring of decentralized systems, and
- proper siting and design of decentralized systems to ensure protection of public health and the environment

## State Program Management (10%)

These funds are used to augment the Operator Certification Program and the State Public Water Supply Supervision Program. During the year, activities included

1. Management of the State Drinking Water Information System
2. Development of fact sheets, brochures pamphlets and electronic public informational services (e-mail, internet and DPH's Health Alert Network).
3. Preparation, review and issuance of formal enforcement actions on 385 non-compliant water systems.
4. The Operator Certification Program achieved 98% system compliance with operator certification requirements, with 103 systems achieving compliance as a result of formal and informal enforcement during the year. The Drinking Water Section took the following formal enforcement actions against systems for failure to have a certified operator:
  - 35 Administrative Orders and 10 Notices of Violation with Civil Penalties.
  - 27 of these systems are now in compliance. Of the remaining 18 systems, 13 have not reached their compliance due date and 5 will be referred for further enforcement. .
5. The OCP completed a link between the Safe Drinking Water Information System and the Department of Public Health Licensure databases. This provides more automated processing, and includes queries and reports that improved tracking of operator issues by the OCP . As a result of this link, the OCP has posted system compliance information, related to operator certification regulations, on the DWS intranet for improved staff accessibility.
6. An OCP staff person attends monthly meetings of various external organizations including the Connecticut Section–American Water Works Association Operator Certification Committee. This committee serves as an advisory group to the OCP and provides input on many areas including regulation development, exams, and program administration.

## Project Financing

The purpose of the DWF is to protect the public health and to achieve or maintain compliance with Federal and State laws. The drinking water revolving fund loans are 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 major limitations on project funding are exclusions for increased capacity. Other non-eligible project purposes are described in the DWF guidance document available from the DPH and the EPA.

## Available Financing

Financing tools available through the DWF include low interest rates on loans at one-half of the market rate with a 20-year repayment period and additional technical assistance and training 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. The priority ranking system reinforces long-term goals of the state and reflects the DPH's philosophy of encouraging public health protection through the distribution of adequate and safe drinking water.

The DWF has no state funded grant program. Once a project is deemed eligible for funding, the applicant's capabilities are evaluated by the Drinking Water Section engineering staff, the DEP and the Treasurer's Office to ascertain if the applicant's system can support the DWF loan. A Department of Public Utilities Control (DPUC) approved economic viability model may also be used to evaluate systems with more than 50 service connections.

## Needs Survey

The total nationwide need reported in the third Drinking Water Infrastructure Needs Survey and Assessment Report released in June 2005 was \$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 through 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 EPA conducted the survey and mailed questionnaires 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 infrastructure needs at approximately \$653 million.

In both the 1999 and the 2005 Drinking Water Needs Survey, transmission and distribution and treatment (\$336 million and \$176 million in 2005) represented the bulk of the dollars. The 2005 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' needs, 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 EPA will conduct training for the 2007 survey in October 2006. The surveys will be mailed to participating public water system operators by December 2006.

## 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 during the year and maintains a comprehensive priority list of eligible projects for funding in future years. Priority for the use of funds will be designated to those projects that address one or more of the following:

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

The ranking criteria is used to award points for situations in which water quality impairments, water quantity deficiencies, or water system imperfections may increase risk to public health or result in non-compliance. The highest points are assigned to projects that are designed to bring systems into compliance with quality and quantity regulations of the Connecticut Public Health Code. Points are also awarded for the acquisition of an existing public water system and upgrades to emphasize the importance of supporting projects that achieve long-term solutions to existing water quality or quantity deficiencies. Affordability points are given to projects located in communities where the median household income is less than 80% of the state's average.

In each fiscal year, the 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 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 Drinking Water Section's website and the 2006 Priority List is shown in Appendix VI.

## Borrowers

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

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

participating varies in conferences and workshops.

## 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 documents include financial statements, tax returns, capital budget, a current operating budget, a projected budget including the proposed debt and economic data. Applicants must document their ability to charge rates for services and collect from their customers. Applicants may also be asked to provide information explaining the alternatives to the proposed project as well as the benefit of the project to customers. The project specific review includes an engineering report or a feasibility study, a project capital cost repayment analysis including any projected need for increases in user fees and a review of any management contracts.

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

## 2006 Projects

One new loan commitment was made during fiscal year 2006

### Second Taxing District of Norwalk

From the existing 10 million gallon a day surface water treatment plant from conventional treatment to utilizing immersed membrane filtrations. The original facility was constructed in 1968 and had not undergone any major upgrades. The plant has experienced taste and odor problems, which will be addressed as part of the upgrade plan.

# Program Funding

The 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) earnings on the assets of the Fund. The State uses 31% of the federal capitalization grant to administer the program and provide managerial and technical assistance to public water systems. There are no state funded grant programs associated with the DWF. To maintain flexibility within its programs, the State has created the following separate accounts to accept federal capitalization grants and state matching funds.

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.

## Federal Statutory Framework

The 1996 amendments to the Safe Drinking Water Act (SDWA), established State DWF programs. Federal authorizations continue to be through 2003 Federal appropriations continue to be made annually to the states for capital funding of drinking water projects although the program authorization under the SDWA ended in 2003. As of June 30, 2006, the SDWA for drinking water state revolving funds has not yet been reauthorized by Congress, although there have been discussions on funding the program through 2018.

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, 2006 was \$91.1 million.

## Federal Capitalization Grants

Each year Connecticut is allocated 1% of the federal funds available for state DWF Programs. The federal drinking water capitalization grant awards from 1987 through 2004 totaled \$75.9 million. The State DWF Programs have up to two years to apply for an allocated grant. Connecticut's allocated grant award for 2005 is approximately \$8.3 million and the DPH plans to apply for this grant by December 2006.

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 are approved purposes which can represent up to 31% of the capitalization grant. The Intended Use Plan, a document required by the EPA for grant applications, describes the State's intended uses for set-aside and project funds.

Federal capitalization grants are paid to the State as cash draws under the federal payment system which are initiated when a written payment request is submitted by the DPH.

The periodic cash draws by the State are based on the amount of incurred costs for eligible projects or activities by either all or a specific group of projects receiving loans, as elected by the State from time to time. The state has elected to base its cash draws on the costs incurred by a specified group of projects on a dollar-for-dollar basis.

The federal capitalization grants and state contributions have been used to make loans to public and private borrowers, to provide credit and interest support for revenue bonds and to pay administrative costs and other set-aside activities. Information on the required state matching funds, the amount of federal grants for the DWF and a description of the programs funded with the set asides can be found in Appendices I and II.

## State Authorizations

The State has demonstrated a significant commitment to high water quality for its citizenry through its support of the CWF and DWF Programs. The State created its DWF as part of the CWF due to the similarities between the federal programs. 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 general obligation (GO) bonds. To date, revenue and GO bond authorizations of \$87.4 million for projects and \$10.3 million for match of the capitalization grant have been made available to the DWF.

## State Match of Federal Capitalization Grants

To receive federal capitalization grants, the State must provide matching funds equal to 20% of the grant. To date, Connecticut's match has been made in the form of taxable state GO bonds deposited in the DWF. Up to \$5 million of current and future match requirements will be provided with cash contributions from the State. The State Bond Commission approved the use of excess funds from previously issued GO bonds for this purpose on June 9, 2006.

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

# Revenue Bonding Program

Prior to the initial issuance of the bonds, the DWF loans to municipalities and private entities were made from the federal capitalization grants. To date there have been twelve (12) series of revenue bonds issued by the CWF providing a total of \$863 million in total project funding including \$62.7 million since 2001 for DWF projects. Bond proceeds are allocated to each program and distributed on a first-come, first-served basis to those borrowers that have executed loan agreements, as the borrowers incur project costs. Borrowers in addition to those listed in the appendices may receive funding. In all cases funding is subject to State Bond Commission approval.

The bonds for DWF projects are liabilities solely of the DWF. 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.

On July 27, 2006, a new series of bonds was issued. Series 2006 A for \$150 million included \$5 million for the DWF. Of the \$5 million, \$537,625 had been spent prior to the issue.

## 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 for the CWF or the DWF.

## Bond Debt Service

Repayment of the revenue bonds comes from available money in the fund including capitalization grants, match, loan repayments and interest earnings on assets. While all loan repayments are available for the payment of the bonds, a portion is retained in the debt service fund as a cash flow cushion in conformance with rating agency default coverage guidelines. The 2002 Resolution provides for a Support Fund that ensures that debt service requirements are met. A Support Fund was created for the 2003 issue. 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 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 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. 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 with AA providers which are collateralized with securities issued or guaranteed by the U.S. Government or agencies or instrumentalities whose market value is at least 100% of the funds invested. 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 2006, the Drinking Water Fund made commitments totaling \$86.4 million to water systems. The listing in Appendix XI of projects funded by the DWF as of June 30, 2006, 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 DPH, DEP and the Treasurer's Office.

The DPH, the DEP 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 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 responsible for the DWF, DPH monitors approximately 1,249 public water systems in Connecticut that are eligible for funding. The DPH emphasizes the importance of reaching these potential applicants through the implementation of its public outreach initiatives simultaneously with the development of the DWF program. The DPH determines future needs and sets priorities with the preparation of an annual project priority list. The DPH distributes applications and project information to the DEP and Treasurer's Office for review and approval. Once approved, the loans 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. The DPH reports the details of these and other program activities to the EPA quarterly and annually each year. The DPH also conducts the annual Public Hearing and open forum on the priority list of projects. Representatives of all three state agencies as well as the EPA attend the meeting with potential borrowers.

## Department of Environmental Protection

The 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 loans with DWF borrowers and approves disbursement requests for all eligible costs incurred.

## Department of Public Utilities Control

The (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 formal 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 general credit issues for water system borrowers.

## State Treasurer's Office

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

The State Bond Commission delegates to the 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. The Treasurer and the DEP and the DPH entered into a Memorandum of Agreement in 1996, which delegates to the Treasurer certain responsibilities with respect to the implementation and management of the DWF. A Financial Administrator, appointed by the Treasurer, manages and coordinates the various financial components of the CWF and DWF programs on a day-to-day basis. The activities of the financial administrator are coordinated with those of the DPH, DEP and State Office of Policy and Management (OPM). OPM manages the state's capital budget and oversees the bond allocation process. The financial administrator is also responsible for:

- The review of supporting data for financing of DWF projects and credit related documents submitted by the borrowers;
- Investment of bond proceeds and other funds to maximize the yield and meet programmatic requirements;
- Management of the bond financing for the DWF program including documentation of the projects to meet IRS requirements;
- Coordination of the independent audit of the state's federal account and the audit of all program accounts by the State Auditors of Public Accounts and the preparation of the annual report;
- Ongoing procedures including: surveillance of the borrowers' financial condition; compliance with secondary market disclosure regulations; loan administration, including preparation of loan schedule information and coordination with the trustee on billing and collection of loan payments; and
- Participation as a member of the DWF Interagency Committee.

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

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

- Develop a new project funding and accounting system for the DWF;
- 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 DWF; and
- Maintain both the federal tax-exempt status and the high credit ratings of the program's publicly issued debt.

## **2007 Program Activities and Initiatives**

The DPH and the interagency committee continue to develop goals for all facets of the DWF program. Major activities in 2007 will be focused on source water protection, operator certification and capacity development programs.

### **Source Water Protection Program**

Consistent with the DPH's 5 year strategic plan for source water protection, the following items will be emphasized in the state fiscal year 2007:

- Continued development of the Drinking Water Quality Management Planning Process in procedures within the Drinking Water Section. Hold at least four regional workshops to train and interact with local land use officials concerning drinking water source protection and new source development;
- Provide training to certified operators;
- Develop formal and informal linkages within DPH between relevant programs and develop procedures to work together to incorporate SWAP information in decision making;
- Enhance the existing Drinking Water Geographical Information System (DWGIS) system to closely track source water protection measures and facilitate SWAP updates;
- Integrate SWAP with public water system sanitary surveys;
- Enhance wellhead protection regulations, working with a broad based stakeholders subcommittee workgroup for well siting, well protection, water company land, easements and water quality monitoring; and
- Integrate the Drinking Water Quality Management Program process into all Related departmental processes including water company land permitting, recreation permitting, environmental assessment reviews and CGS 25-32f reviews; work closely with local land use committees toward plan development for new project proposals; complete all necessary project review, permits, and well site certifications, as required.

# Operator Certification Program

In fiscal year 2007, management will focus on training and staff development, and will:

- Implement regulations, revised to clarify certification requirements, improve operator certification enforcement, certify backflow personnel, and clarify cross connection control requirements, after the regulation revisions are adopted;
- Develop pamphlets on operator duties and responsibilities;
- Expand operator training to include other courses, such as a regulations course and a basic operator course for school water system operators;
- Develop and provided training on water systems for local health departments;
- Streamline the review process for cross connection control survey reports;
- Fully implement the process of performing on-site reviews of cross connection control programs;

## Capacity Development

Consistent with the Drinking Water Section's EPA approved capacity development strategy activities in 2007 will include.

- One-day training session in October 2006 for various local officials on the creation of a new Public Water System in conjunction with the SWP unit-training including topics on source water protection;
- Development and finalization of the Sanitary Survey Manual;
- Incorporate the Sanitary Survey Manual into routine and consistent capacity assessments of existing PWS during sanitary surveys and provide engineering staff to follow-up on sanitary survey violations;
- Engineering reviews for public water system water works projects, including DWSRF projects, submitted to the DWS for review and approval;
- Refinement of a formal process for capacity evaluations of new and existing public water systems;
- Develop additional technical guidelines to educate of operators and contractors of public water systems on regulatory requirements and industry standards during the planning, design and construction of water works projects;
- Participate as an instructor at the DPH-offered water system operator classes;
- Meet with the Rural Community Assistance Program (RCAP) in July 2006 to determine the services they can offer to Connecticut's public water systems and determine how these services can be utilized in the areas of financial and managerial capacity including asset management planning;

# Small Systems Technical Assistance

In 2007, the priority activities relating to technical assistance to small systems are to:

- Develop additional application forms to assist public water systems in the submission of water works projects requiring DWS review and approval;
- Improve the DWS project tracking database for all projects; and
- Perform engineering reviews for public water system water works projects, including DWSRF projects, submitted to the DWS for review and approval.

## Program Management

The Drinking Water Section will be involved in the following Program Management Activities in 2007:

- Preparing, reviewing and formalizing enforcement actions; and
- Tracking compliance of public water systems and providing tools and forms to public water systems to accomplish a high level of compliance.

## Long Term Projections

The State has established management goals for the SRF program as part of its statewide public health initiative. The condition of the 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:

- Coordination within the DPH and continued collaboration with other state agencies where possible and advantageous, to maximize the effectiveness of the program and meet the state's water quality goals;
- Addressing areas of decentralized system management over the next several years including sewage system assessments as part of real estate transaction, and facilitating the abandonment of large capacity cesspools based on new EPA rules;
- 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 last projection of future needs was completed in 2005. The Drinking Water Section is in the process of updating the long term projections and a report is expected by December 2007.



# FINANCIAL STATEMENTS

# State Account (21017) - Unaudited Balance Sheet

(in thousands)	Fiscal Year Ended June 30, 2006	Fiscal Year Ended June 30, 2005
<b>ASSETS</b>		
Cash and equivalents	\$ 0	\$ 0
Interest receivable— Loans	0	0
Cost of Issuance	<u>0</u>	<u>0</u>
Total assets	<u>0</u>	<u>0</u>
<b>FUND BALANCE:</b>		
Prior fund balance	0	0
Net Income/(Loss)	<u>0</u>	<u>0</u>
Current fund balance	<u>0</u>	<u>0</u>
Total fund balance	<u>\$ 0</u>	<u>\$ 0</u>



# State Account (21017)- Unaudited Statement of Revenue and Expenses and the Statement of Change in Fund Balance

(in thousands)	Fiscal Year Ended June 30, 2006	Fiscal Year Ended June 30, 2005
<b>REVENUE:</b>		
Interest on Loans	\$ 0	\$ 0
Interest Income	0	0
		<hr/> 0
<b>EXPENSES:</b>		
Cost of issuance expense	0	0
		<hr/> 0
Income before Operating transfers	0	0
		<hr/>
Operating transfers:		
Other operating transfers	0	0
Total Operating Transfers		<hr/> 0
		<hr/>
Net Income after Transfers:	0	0
		<hr/>
<u>Fund Balance</u>		
Beginning of the year	0	0
End of the year	\$ 0	\$ 0

# Notes to the Financial Statements

1. These are the internally prepared statements for the State account.
2. The State created its DWF as part of the CWF due to the similarities between the federal programs. 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. Similarly, as bonds are issued, proceeds are allocated to the DWF. Account 21017 was created to mirror the State account 21014 in the CWF. It has been determined that there is no need for this account because the State does not provide state-funded grants to program participants and has not provided interest subsidy payments for the bonds issued for the benefit of this program. No transactions were posted in account 21017 during 2005 or 2006.
3. No bonds were issued during fiscal year 2006.

**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, 2006 AND 2005**

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**STATE OF CONNECTICUT CLEAN WATER FUND –  
DRINKING WATER FEDERAL REVOLVING  
LOAN ACCOUNT (STATE REVOLVING FUND)  
JUNE 30, 2006 and 2005**

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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, 2006 and 2005, 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, 2006 and 2005, 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, 2006 and 2005, 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 29, 2006 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 29, 2006

STATE OF CONNECTICUT  
OFFICE OF THE TREASURER  
STATE OF CONNECTICUT  
DRINKING WATER FUND  
FISCAL YEAR ENDED JUNE 30, 2006

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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, 2006. Readers are encouraged to review it in conjunction with the Fund's financial statements that follow.

### **Financial Highlights**

Changes in Net Assets - Fund net assets under management in the Drinking Water Fund at the close of fiscal year 2006 were \$63,529,391 (including assets of \$115,108,431 offset by liabilities of \$51,579,040) compared to fiscal year 2005 Fund net assets of \$59,326,083 (including assets of \$113,190,656 offset by liabilities of \$53,864,573). Fund net assets increased by \$4,203,308 or 7.1% primarily reflecting lower debt outstanding. The Statement also shows restricted fund net assets of \$52,262,388 at the close of fiscal year 2006, an increase of \$5,263,750 or 11.2% above the 2005 balance.

Statement of Cash Flows - The Statement of Cash Flows shows no cash balances at year end.

Bonds Outstanding - No new bonds were issued during the fiscal year. The Fund's total bonds outstanding decreased during the fiscal year by \$1,838,889 to \$47,732,681 due to scheduled amortization.

Loans Receivable - Total loans receivable decreased by \$1,547,148 from \$49,316,850 to \$47,769,702 due to loan repayments. One loan commitment was executed in June 2006.

Capitalization Grants - During the year, drawdowns were \$6,535,797 compared to \$2,482,179 in fiscal year 2005. As of June 30, 2006, \$53,088,721 has been drawn from the federal EPA against the total of \$75,899,100 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:

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

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

## **Net Assets**

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

Restricted – includes net assets that have been restricted in use in accordance with the terms of an award, agreement or by state law.

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. Construction loan draws totaled \$2,656,137 in 2006. There was one loan origination 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 in the State's Short Term Investment Fund (STIF) and in guaranteed investment agreements with financial institutions. The 2002 bond resolution requires that the investment agreements be with, or be guaranteed by, institutions with ratings in the two top rating categories given by Standard & Poor's and Moody's Investors Service or any rating service recognized by the State Banking Commissioner. Certain moneys held in the Fund are invested pursuant to investment agreements with AA providers which are collateralized with securities issued or guaranteed by the U.S. Government or agencies or instrumentalities whose market value is at least 100% of the funds invested.

### The Bond Program

The 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 2006 however, as indicated in the subsequent event note to the financial statements, the state issued bonds totaling \$180,070,000 after the end of fiscal year 2006.

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.

Auditor - Seward & Monde CPAs

Trustee - US Bank

Loan Repayment Collection Services - US Bank

Arbitrage Calculation Services – AMTEC and Nixon Peabody

Verification Services - AMTEC

General Counsel - Attorney General of the State of Connecticut

## SELECTED FINANCIAL INFORMATION

	<u>2006</u>	<u>2005</u>	<u>Increase (Decrease)</u>	<u>% Change</u>
<b>Change in Net Assets</b>	\$ 4,203,308	\$ 1,347,023	\$ 2,856,285	212.0%
<b>Operating Revenues</b>	\$ 1,310,728	\$ 1,422,669	(\$ 111,941)	(7.9)%
<b>Federal Capitalization Grants</b>	\$ 6,535,797	\$ 2,482,179	\$ 4,053,618	163.3%
<b>Interest on Investments</b>	\$ 2,136,862	\$ 1,851,281	\$ 285,581	15.4%
<b>Operating Expenses</b>	\$ 3,390,224	\$ 1,743,096	\$ 1,647,128	94.5%
<b>Interest Expense</b>	\$ 2,067,440	\$ 2,130,066	(\$ 62,626)	(2.9)%

## ECONOMIC CONDITIONS AND OUTLOOK

During fiscal year 2006, the State's economic and financial situation improved over the prior year. The state recovered jobs and the overall State Budget showed a surplus at the end of 2006 for a third year in a row. The State continued to enjoy the highest per capita income in the nation, while challenged with relatively high costs (housing, taxes, electricity, gasoline), traffic congestion, an aging population and a widening disparity in economic prosperity between our urban and suburban residents.

Economic growth may be slower in the coming year. Rapidly increasing construction costs will mean greater pressure on the Fund to provide financial assistance for water system upgrades and improvements.

The major concern for the Drinking Water Fund will be the capacity to provide financing for critical work. Outreach efforts designed to educate and inform potential borrowers will continue to be an important part of the Drinking Water Fund program in the coming year. DPH and the Office of the Treasurer will continue to assist public water system operators in determining the most cost effective and efficient way to meet their water quality needs.

## 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  
Debt Management Division  
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  
Drinking Water Section  
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, 2006 and 2005**

	2006	2005
<b>ASSETS</b>		
Current assets:		
Interest receivable - investments	\$ 313,123	\$ 322,582
Interest receivable - loans	66,045	11,608
Other assets	14,591	146,635
Grant receivable	1,137,380	1,238,087
Loans receivable	5,273,347	2,728,732
Total current assets	6,804,486	4,447,644
Noncurrent assets:		
Loans receivable	42,496,355	46,588,118
Revolving fund	15,997,684	13,013,662
Deferred loss on early retirement of bonds	799,630	882,600
Restricted assets:		
Bond proceeds fund	11,493,334	13,645,960
Debt service reserve fund	21,145,057	21,982,914
Debt service fund	10,409,274	6,725,963
Support fund	5,962,611	5,903,795
Total restricted assets	49,010,276	48,258,632
Total noncurrent assets	108,303,945	108,743,012
Total assets	\$ 115,108,431	\$ 113,190,656
<b>LIABILITIES</b>		
Current liabilities:		
Interest payable on revenue bonds	\$ 492,254	\$ 507,712
Due to other funds	486,403	714,481
Revenue bonds payable	3,121,838	1,559,304
Refunding bonds payable	87,636	279,585
Total current liabilities	4,188,131	3,061,082
Noncurrent liabilities:		
Premium on revenue and refunding bonds	2,867,702	3,070,810
Revenue bonds payable	37,737,957	40,859,795
Refunding bonds payable	6,785,250	6,872,886
Total noncurrent liabilities	47,390,909	50,803,491
Total liabilities	51,579,040	53,864,573
<b>FUND NET ASSETS</b>		
Unrestricted	11,267,003	12,327,445
Restricted for loans	52,262,388	46,998,638
Total fund net assets	63,529,391	59,326,083
Total liabilities and fund net assets	\$ 115,108,431	\$ 113,190,656

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, 2006 and 2005**

	<u>2006</u>	<u>2005</u>
<b>OPERATING REVENUES</b>		
Interest on loans	<u>\$ 1,310,728</u>	<u>\$ 1,422,669</u>
<b>OPERATING EXPENSES</b>		
Salaries	1,452,381	1,018,998
Employee benefits	813,666	491,754
Other	<u>1,124,177</u>	<u>232,344</u>
Total operating expenses	<u>3,390,224</u>	<u>1,743,096</u>
Operating loss	<u>( 2,079,496)</u>	<u>( 320,427)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest on investments	2,136,862	1,851,281
Amortization of bond premium	203,108	206,303
Interest expense	<u>( 2,067,440)</u>	<u>( 2,130,066)</u>
Total nonoperating revenues (expenses)	<u>272,530</u>	<u>( 72,482)</u>
Loss before federal capitalization grants and transfers	<u>( 1,806,966)</u>	<u>( 392,909)</u>
<b>FEDERAL CAPITALIZATION GRANTS</b>		
Project funds	2,645,863	-
Set-aside activities	<u>3,889,934</u>	<u>2,482,179</u>
Total federal capitalization grants	<u>6,535,797</u>	<u>2,482,179</u>
<b>OPERATING TRANSFERS</b>	<u>( 525,523)</u>	<u>( 742,247)</u>
Change in fund net assets	<u>4,203,308</u>	<u>1,347,023</u>
<b>FUND NET ASSETS</b> , beginning	<u>59,326,083</u>	<u>57,979,060</u>
<b>FUND NET ASSETS</b> , ending	<u>\$ 63,529,391</u>	<u>\$ 59,326,083</u>

**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, 2006 and 2005**

	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Interest received on loans	\$ 1,256,291	\$ 1,516,925
Loan originations	( 2,656,137)	( 136,104)
Principal paid on loans receivable	4,203,285	3,814,724
Payments to employees for salaries and benefits	( 2,134,003)	( 1,629,433)
Other payments	( 1,124,177)	( 232,344)
Net cash provided (used) by operating activities	( 454,741)	3,333,768
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Federal capitalization grants	6,636,504	1,694,186
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Repayment of revenue bonds payable	( 1,559,304)	( 1,226,050)
Repayment of refunding bonds payable	( 279,585)	( 286,779)
Interest paid on revenue bonds	( 1,999,928)	( 2,058,949)
Operating transfers	( 753,601)	( 55,964)
Net cash used by noncapital financing activities	( 4,592,418)	( 3,627,742)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received on investments	2,146,321	1,858,799
Increase in revolving fund	( 2,984,022)	( 174,326)
Increase in restricted assets	( 751,644)	( 3,308,239)
Net cash used by investing activities	( 1,589,345)	( 1,623,766)
Net decrease in cash and cash equivalents	-	( 223,554)
<b>CASH AND CASH EQUIVALENTS, beginning</b>	-	223,554
<b>CASH AND CASH EQUIVALENTS, ending</b>	\$ -	\$ -
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Operating loss	(\$ 2,079,496)	(\$ 320,427)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Changes in assets and liabilities:		
(Increase) decrease in interest receivable - loans	( 54,437)	94,256
(Increase) decrease in other assets	132,044	( 118,681)
Decrease in loans receivable	1,547,148	3,678,620
Net cash provided (used) by operating activities	(\$ 454,741)	\$ 3,333,768

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, 2006 and 2005**

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**1 - NATURE OF ORGANIZATION**

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

**2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

Basis of Accounting

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

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

Estimates

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

## Operating and Nonoperating Revenues and Expenses

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

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

## Revenue Recognition

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

## Cash and Cash Equivalents

For purposes of the statements of cash flows, the SRF considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. However, the SRF's policy is to exclude restricted assets from cash and cash equivalents for purposes of the statements of cash flows due to the limitations imposed on their use by the Clean Water Fund Revenue Bond Program General Bond Resolutions, adopted by the State Bond Commission on December 15, 2000 as amended and supplemented on December 17, 2002 (collectively, the "Resolution"). The SRF had no cash equivalents as of June 30, 2006 and 2005, 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 a comparison of other CT bonds. 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, 2006 and 2005.

## Loans, Allowance for Loan Losses and Credit Risk

The SRF makes loans to public water systems in the State of Connecticut to finance the costs of infrastructure needed to achieve or maintain compliance with the SDWA. Interest rates on the loans range from 2.04% to 4.68% and interest income is recognized as it is earned. The loans are secured by the full faith and credit or revenue pledges of the public water systems, or both. No allowance for loan losses is considered necessary based on management's



evaluation of the 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:

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

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

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

### Fund Net Assets – Restricted for Loans

The fund net assets reserved for loans represents amounts accumulated from federal draw-downs, 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, 2006 and

2005 funds held by the State Comptroller was \$665,599 and \$670,243, respectively. 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, 2006 funds held by STIF were \$27,491,018, of which \$15,997,684 is included in the revolving fund and \$11,493,334 is included in the loan fund on the Balance Sheet. 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, 2006, 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	\$ 10,409,274	\$ 10,409,274	\$ -	\$ -	\$ -	AAA
Guaranteed Investment Contracts	18,000,495	-	-	-	18,000,495	AAA
Connecticut General Obligation Bonds	9,107,173	-	-	-	9,107,173	AA
	<u>\$ 37,516,942</u>	<u>\$ 10,409,274</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 27,107,668</u>	

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>2006</u>	<u>2005</u>
Construction in process	\$ 2,549,641	\$ 65,242
Completed projects	<u>45,220,061</u>	<u>49,251,608</u>
	<u>\$ 47,769,702</u>	<u>\$ 49,316,850</u>

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

<u>Year ending June 30</u>	
2007	\$ 2,734,059
2008	2,742,455
2009	2,756,449
2010	2,770,862
2011	2,785,710
Thereafter	<u>31,430,526</u>
	<u>\$ 45,220,061</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>2006</u>	<u>2005</u>
Awarded	\$ 75,899,100	\$ 67,596,000
Requested	<u>53,088,721</u>	<u>46,452,217</u>
Available federal letter of credit	<u>\$ 22,810,379</u>	<u>\$ 21,143,783</u>

## 6 - RESTRICTED ASSETS

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

	<u>2006</u>	<u>2005</u>
Cash equivalents:		
Money market funds	\$ 11,493,334	\$ 13,645,960
Investments:		
Federated Treasury Repurchase Agreements	10,409,274	6,725,963
Guaranteed Investment Contracts	18,000,495	18,339,668
Connecticut General Obligation Bonds	<u>9,107,173</u>	<u>9,547,041</u>
	<u>\$ 49,010,276</u>	<u>\$ 48,258,632</u>

## 7 - RELATED PARTY TRANSACTIONS

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

### Investments

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

### Allocation of Expenses

Fringe benefit costs which are incurred at the State level are applied as a percentage of salaries to all State governmental units, including the SRF. For the years ended June 30, 2006 and 2005, the actual rates were 56.0% and 48.26%, respectively, of the SRF wages and the amounts charged aggregated \$813,666 and \$491,754, respectively.

## 8 - BONDS PAYABLE

A summary of changes in bonds payable during the year ended June 30, 2006 is as follows:

	Balance June 30, 2005	Principal Paydown	Balance June 30, 2006
Revenue bonds payable	\$ 42,419,099	\$ 1,559,304	\$ 40,859,795
Refunding bonds payable	<u>7,152,471</u>	<u>279,585</u>	<u>6,872,886</u>
	<u>\$ 49,571,570</u>	<u>\$ 1,838,889</u>	<u>\$ 47,732,681</u>

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

	Balance June 30, 2004	Principal Paydown	Balance June 30, 2005
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>

### Revenue Bonds

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

The State of Connecticut issued Clean Water Fund, Revenue Bonds 2001 series, dated May 24, 2001. These bonds are payable solely from funds pledged pursuant to the General Bond Resolution adopted December 7, 1990. 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 General Bond Resolution adopted December 7, 1990 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 pursuant to the General Bond Resolution adopted December 17, 2002. 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 bond proceeds fund, the support fund and the debt service fund pursuant to the Resolution.

The SRF's revenue bonds payable are serial bonds, of which \$40,859,795 and \$42,419,099 was outstanding as of June 30, 2006 and 2005, 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, 2006, the outstanding principal balance of the Refunded Bonds was \$6,872,886.

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, 2006 and 2005 totaled \$82,969 and \$85,169, respectively.



## Bond Maturities

Requirements at June 30, 2006 to retire the SRF's revenue and refunding bonds are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
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	3,131,051	1,546,207
2012-2016	13,784,418	5,923,283
2017-2021	9,356,200	3,145,459
2022-2026	8,916,601	838,112
	<u>\$ 47,732,681</u>	<u>\$ 18,611,887</u>

## 9 - FUND NET ASSETS

The following represents an analysis of fund net assets for the years ended June 30, 2006 and 2005.

	<u>Unrestricted</u>	<u>Restricted for Loans</u>	<u>Total</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	12,327,445	46,998,638	59,326,083
Change in fund net assets	<u>( 1,060,442)</u>	<u>5,263,750</u>	<u>4,203,308</u>
Balance at June 30, 2006	<u>\$ 11,267,003</u>	<u>\$ 52,262,388</u>	<u>\$ 63,529,391</u>

## 10 - OPERATING TRANSFERS

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

	<u>2006</u>	<u>2005</u>
Operating expenses transfer	<u>(\$ 525,523)</u>	<u>(\$ 742,247)</u>
	<u>(\$ 525,523)</u>	<u>(\$ 742,247)</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>2006</u>	<u>2005</u>
Total funds committed to public water systems	\$ 76,911,571	\$ 56,902,452
Loan amount outstanding to public water systems	<u>47,769,702</u>	<u>49,316,850</u>
Loan commitments outstanding	<u>\$ 29,141,869</u>	<u>\$ 7,585,602</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.

## 13 - SUBSEQUENT EVENTS

2006 Series A & B Bonds:

On July 27, 2006 the State of Connecticut State Revolving Fund, which consists of the Clean Water Fund and the Drinking Water Fund, issued \$180,070,000 in General Revenue Bonds. The Series A bonds were issued to fund \$145,000,000 of clean water and \$5,000,000 of drinking water projects. The Series B bonds were issued in the amount of \$30,070,000 to refund \$34,065,000 of previously issued bonds. The Series A bonds are subject to redemption prior to maturity and Series B bonds are not subject to redemption prior to maturity.

The \$150,000,000 in new money bonds were issued with interest rates from 3.75% to 5.00%, maturing from 2007 through 2027.

The \$30,070,000 Series B bonds were issued with interest rates from 3.61% to 5.00%, maturing from 2007 through 2012. The State used the proceeds and \$3,813,641 in cash to defease all the outstanding 1996 Series A and 1996 Series B bonds totaling \$34,065,000. The refunding portion of the transaction will achieve present value savings of approximately \$801,200.

Reassignment of 2003 Bond Proceeds:

The proceeds of the 2003 Series A bonds were initially allocated between the Clean Water Fund and the Drinking Water Fund. Since the July 2003 bond issue, the Clean Water Fund expenditures far exceeded its \$90,000,000 allocation and the Drinking Water Fund did not expend its total \$35,000,000 allocation.

After a review of the total expenditures from both programs since 2003, as of July 1, 2006, the

State transferred \$10,210,105 in 2003 bond proceeds from the Drinking Water Fund to the Clean Water Fund. An equal principal amount of 2003 bonds will now be designated Clean Water bonds and will be payable from Clean Water revenues for their remaining term. The 2003 Support Fund balances for each program are similarly impacted by the reassignment. Available money equal to \$1,734,740 in the Clean Water Fund's General Revenue Revolving Fund has been deposited in the Clean Water Fund's 2003 Support Fund and \$1,734,740 in the Drinking Water 2003 Support Fund has become available money in the Drinking Water Fund's General Revenue Revolving Fund.

SEWARD AND MONDE

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON  
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS

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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, 2006, and have issued our report thereon dated August 29, 2006. 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 29, 2006

# SEWARD AND MONDE

CERTIFIED PUBLIC ACCOUNTANTS  
296 STATE STREET  
NORTH HAVEN, CONNECTICUT 06473-2165  
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## 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, 2006. 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, 2006.

#### 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, 2006, and have issued our report thereon dated August 29, 2006. 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 29, 2006

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, 2006

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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>\$ 6,535,797</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, 2006

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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 \$47,769,702 as of June 30, 2006

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, 2006

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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  No

Reportable condition(s) identified not considered to be material weaknesses?  Yes  None reported

Noncompliance material to financial statements noted?  Yes  No

Federal Awards

Internal control over major programs:

Material weakness(es) identified?  Yes  No

Reportable condition(s) identified not considered to be material weaknesses?  Yes  No 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  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?  Yes  No

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

SECTION II - FINANCIAL STATEMENT FINDINGS



# APPENDICES

## Appendix I: State Match for Federal Capitalization Grants

Fiscal Year	State 20% Match Requirement
1997	\$4,281,640
1998	\$1,424,260
1999	\$1,492,760
2000	\$1,551,400
2001	\$1,557,820
2002	\$1,610,500
2003	\$1,600,820
2004*	\$1,660,620
2005**	
Total	\$15,179,820

\*Match approved by State Bond Commission on June 9, 2006  
 \*\*Match Requirement for 2005 is expected to be \$1,657,100

## Appendix II: Federal Capitalization Grants

(as of June 30, 2006)

	Total Federal Grant Awarded	Program Set Asides	Project Funds
1997	\$21,408,200	\$6,636,542	\$14,771,658
1998	\$7,121,300	\$2,207,603	\$4,913,697
1999	\$7,463,800	\$2,313,778	\$5,150,022
2000	\$7,757,000	\$2,404,670	\$5,352,330
2001	\$7,789,100	\$2,414,621	\$5,374,479
2002	\$8,052,500	\$2,496,275	\$5,556,225
2003	\$8,004,100	\$2,481,271	\$5,522,829
2004	\$8,303,100	\$2,573,961	\$5,729,139
2005*			
Total	\$75,899,100	\$23,528,721	\$52,370,379

\*DPH expects that the 2005 award will be \$8,285,500

# Appendix II: Federal Capitalization Grants (Continued)

## 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. 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 are approved purposes which can represent up to 31% of the capitalization grant. The Intended Use Plan, a document required by the EPA for grant applications, describes the State's intended uses for set-aside and project funds. The following descriptions include the set-aside categories, percentages of the federal capitalization grant taken and the use of the funds:

### 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 and meeting with applicants as needed;
- Processing loan agreements including loan closings;
- Reviewing and approving project cost;
- Determining if the applicants possess adequate financial, technical and managerial capabilities to ensure long-term compliance with applicable state and federal regulations;
- Receiving and processing payment requests;
- Preparing and submitting funding request to the State Bond Commission; and
- Assisting in the preparation of the capitalization grant and various DWF reports.

### Local Assistance and Other State Programs 15% Set-Aside—(21088)

#### Capacity Development

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

As a requirement of the Safe Drinking Water Act Amendments of 1996, the EPA developed Final Guidelines for the Certification and Recertification of the Operators of Community and Nontransient Non-Community Public Water Systems. Connecticut's program, approved by the EPA in 2001 and established as a separate Drinking Water Section program in January 2003, enforces the state's requirements for operator certification. There were 1,211 systems required to have certified operators and 932 systems eligible for "conditional operator" status in Connecticut's regulations or "grandfathering" at the beginning of the program.

The Drinking Water Section uses several 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.

### Source Water Protection

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

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

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

These funds are designated for technical assistance to small systems.

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

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

- Developing, tracking and submitting grant applications to the Environmental Protection Agency
- Continue implementing electronic reporting of water systems.
- Managing State Drinking Water Information System (SDWIS)
- Web-page development and management.
- Develop and coordinate reports to the Environmental Protection Agency.
- Develop fact sheets, brochures pamphlets and electronic public informational services (e-mail, internet and DPH’s Health Alert Network).
- Coordinate with public water systems, businesses, trade associations etc. to provide speakers to and/or initiate conferences and workshops.
- Prepare, review and submit formal enforcement actions on non-compliant water systems for processing.



# Appendix II: Federal Capitalization Grants (Continued)

## Set-Asides Management

	Administration Set-Aside - 4%	State Management Set-Aside - 10%	Small Systems Technical Assistance Set-Aside - 2%	Local Assistance Set - Aside - 15%	
	21076	21081	21085	21088	
	0000-4001-991	0000-4001-992	0000-4001-993	0000-4001-994	Total Set Asides
1997 Award	856,328.00	2,140,820.00	428,164.00	3,211,230.00	6,636,542.00
Drawn thru 6/30/06	856,328.00	2,140,820.00	428,164.00	3,211,230.00	6,636,542.00
Balance	-	-	-	-	-
1998 Award	284,852.00	712,130.00	142,426.00	1,068,195.00	2,207,603.00
Drawn thru 6/30/06	284,852.00	712,130.00	142,426.00	1,068,195.00	2,207,603.00
Balance	-	-	-	-	-
1999 Award	298,552.00	746,380.00	149,276.00	1,119,570.00	2,313,778.00
Drawn thru 6/30/06	298,552.00	746,380.00	149,276.00	1,119,570.00	2,313,778.00
Balance	-	-	-	-	-
2000 Award	310,280.00	775,700.00	155,140.00	1,163,550.00	2,404,670.00
Drawn thru 6/30/06	310,280.00	775,700.00	155,140.00	840,315.00	2,081,435.00
Balance	-	-	-	323,235.00	323,235.00
2001 Award	311,564.00	778,910.00	155,782.00	1,168,365.00	2,414,621.00
Drawn thru 6/30/06	311,564.00	551,147.00	155,782.00	-	1,018,493.00
Balance	-	227,763.00	-	1,168,365.00	1,396,128.00
2002 Award	322,100.00	805,250.00	161,050.00	1,207,875.00	2,496,275.00
Drawn thru 6/30/06	322,100.00	-	161,050.00	-	483,150.00
Balance	-	805,250.00	-	1,207,875.00	2,013,125.00
2003 Award	320,164.00	800,410.00	160,082.00	1,200,615.00	2,481,271.00
Drawn thru 6/30/06	311,424.00	-	202,018.00	-	513,442.00
Balance	8,740.00	800,410.00	(41,936.00)	1,200,615.00	1,967,829.00
2003 Award	332,124.00	830,310.00	166,062.00	1,245,465.00	2,573,961.00
Drawn thru 6/30/06	-	-	-	-	-
Balance	332,124.00	830,310.00	166,062.00	1,245,465.00	2,573,961.00
					-
<b>Total Awarded to date</b>	<b>3,035,964.00</b>	<b>7,589,910.00</b>	<b>1,517,982.00</b>	<b>11,384,865.00</b>	<b>23,528,721.00</b>
Drawn thru 6/30/06	2,695,100.00	4,926,177.00	1,393,856.00	6,239,310.00	15,254,443.00
Total Balance	340,864.00	2,663,733.00	124,126.00	5,145,555.00	8,274,278.00

## Appendix III: Financial Assistance by Bond Rating

Borrower	Total Commitments	AAA	A & AA	B to Baa	Not Rated	Total Loans
<u>Public</u>						
Ledyard	987,000		987,000			987,000
MDC	6,130,620		6,130,620			6,130,620
New Britain	30,476,469		30,476,469			30,476,469
Newtown	619,054		619,054			619,054
Norwich	1,538,540		1,538,540			1,538,540
Portland	1,808,832		1,808,832			1,808,832
Second Taxing District- City of Norwalk	24,715,165		24,715,165			24,715,165
Sharon	2,070,727		2,070,727			2,070,727
Southington	5,518,030		5,518,030			5,518,030
Watertown Fire District	1,016,280				1,016,280	1,016,280
<b>Subtotal</b>	<b>74,880,717</b>		<b>73,864,437</b>		<b>1,016,280</b>	<b>74,880,717</b>
<u>Private</u>						
Aquarion Water (BHC)	308,622				308,622	308,622
Cook Willow	566,893				566,893	566,893
Crystal Lake	299,523				299,523	299,523
Harrybrook Park Condo	172,755				172,755	172,755
Hillside Water Corp	129,784				129,784	129,784
Twin Hills	147,302				147,302	147,302
Unionville	405,000				405,000	405,000
<b>Subtotal</b>	<b>2,029,879</b>		<b>73,864,437</b>		<b>2,029,879</b>	<b>2,029,879</b>
<b>Total</b>	<b>76,910,596</b>		<b>73,864,437</b>		<b>3,046,159</b>	<b>76,910,596</b>
			96%		4%	100%

## Appendix IV: DWF Closed Loans—Fiscal Year 2006

Closing Date	Entity	Project No	SCD	IFO/ PLO	Amount	New PLO Amount	New IFO Amount
6/24/2006	Newtown	200402-C	12/31/2005	PLO	\$171,738	\$171,738	
6/30/2006	Second Taxing District — City of Norwalk	200202-C	12/31/2008	IFO	\$24,715,165		\$24,715,165
<b>Totals</b>						<b>\$171,738</b>	<b>\$24,715,165</b>

Total New IFO Loans	<b>1</b>
Total Dollar Value on New IFO Loans	<b>\$24,715,165</b>
Total Dollar Value on PLO Loans	<b>\$171,738</b>

**Key:**

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

IFO—Interim Funding Obligations

PLO— Permanent Loan Obligation

## Appendix V: Pending Projects

	Project Number	Total IFO/PLO Unpaid Balance 06/30/06	Undrawn IFO Commitments	Additional Loan Commitments anticipated Through 6/30/07	Outstanding Loan Balances Undrawn Commitments and additional Commitments
Aquarion Water (BHC)	9701-C	308,622			308,622
Cook Willow	9706-C	565,820	1,073		566,893
Crystal Lake	9711-C	181,409			181,409
Crystal Lake	9711-C-D1	118,114			118,114
Harrybrook Park Condo	9703-C	172,755			172,755
Hillside Water Corp	2000B-DC	129,784			129,784
Ledyard	200401-C			987,000	987,000
MDC	200105-C	2,001,940			2,001,940
MDC	9704-C	624,111			624,111
MDC	9704-DC-D1	1,898,090			1,898,090
MDC	9709-C	146,553			146,553
MDC	9709-C-D1	813,442			813,442
MDC	9710-C	646,484			646,484
New Britain	2000A-DC	20,700,000			20,700,000
New Britain	9802-PDC	9,776,469			9,776,469
Newtown	200101-C	447,316			447,316
Newtown	200402-C	171,738			171,738
Norwich	9714-C	1,538,540			1,538,540
Portland	9708-C	1,808,832			1,808,832
Second Taxing District- City of Norwalk	200601-C		24,715,165		24,715,165
Sharon	2000d-DC	389,831			389,831
Sharon	9705-C	156,139			156,139
Sharon	9713-C	736,958			736,958
Sharon	9801-C	787,799			787,799
Southington	200202-C	2,484,399	2,158,631		4,643,030
Southington	200201-C			875,000	
Twin Hills	9707-C	147,302			147,302
Watertown Fire District	200104-C	389,940			389,940
Watertown Fire District	9803-C	626,340			626,340
Woodlake Taxing District				405,000	405,000
		<b>\$47,768,726</b>	<b>\$26,874,869</b>	<b>\$2,267,000</b>	<b>\$76,910,560</b>

## Appendix VI: Priority List of Projects for 2006

APPLICANT	ID#	DESCRIPTION	AMOUNT
TOWN OF HAMPTON	PDC 2005 0429031a	PHASE 1 WATER TREATMENT PLANT	\$32,000,000
TOWN OF NEW FAIRFIELD—MIDL & H.S.	DC 2005 0429031a	CONSOLIDATE WATER SYSTEM FOR THREE PUBLIC SCHOOL	\$1,573,634
TOWN OF BROOKFIELD	DC 2006 0189043a	WATER MAIN EXTENSION—SILVERMINE ROAD	\$2,271,000
TOWN OF NORTH STONINGTON	DC 2006 1020424a	WATER MAIN EXTENSION	\$303,000
CANDLEWOOD TRAILS ASSOCIATION	PDC 2005 0960091a	NEW WELL PUMPING STATION	\$565,000
COLCHESTER COURTYARDS/BALABAN	PDC 2003 0280011a	INTERCONNECTION TO COLCHESTER COURTYARD	\$350,000
WOODLAKE TAX DISTRICT	PDC 2003 1680031a	LAND PURCHASE / CONSTRUCT WELL	\$404,500
TOWN OF LEDYARD	PDC 2005 0727031a	ROUTE 117 WATER MAIN EXTENSION	\$5,696,000
COLCHESTER SEWER & WTER	C 2004 0280111a	TAINTOR HILL ROAD TREATMENT PLANT UPGRADE	\$1,942,550
SPRAGUE WATER & SEWER AUTHORITY	CT 2006 1330021a	LOCATE & ACTIVATE SECONDARY WATER SUPPLY & TREATMENT SYSTEM	\$1,500,000
OLD FARMS CONDOMINIUM TAX DISTRICT	C 2006 0640011b	INTERCONNECTION TO UNITED WATER CT	\$1,091,000
METROPOLITAN DISTRICTCOMMISSION	LRG 2006 0640011b	RESERVOIR NO. 6 WATER TREATMENT FACILITY FILTER REHABILITATION	\$4,500,000
METROPOLITAN DISTRICTCOMMISSION	LRG 2006 0640011c	REMOVAL AND REPLACEMENT OF TRAVELING SCREENS AT INTAKE BLDG	\$103,000
METROPOLITAN DISTRICTCOMMISSION	LRG 2006 0640011d	RAW WATER BYPASS ELIMINATION—W. HTFD	\$1,000,000
		TOTAL	\$53,399,684

## 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 ensure that the project is consistent with the State Plan of Conservation and Development. The assessment report is submitted to the Physical Resource Planning Section of OPM for final concurrence.
- Credit Review (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 CWF and DWF and as required by the Connecticut General Statutes, the mechanism by which financial assistance is provided to the borrower is the Project Loan Agreement between the borrower and the State. Under each 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 municipality, 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 (2) in a single annual installment representing the first year's principal and interest not later than one year after the scheduled completion date and thereafter in monthly installments.

Below is a summary of the Project Loan Agreements.

## SECTION I DEFINITIONS

## SECTION II THE PROJECT

Project Description including Eligible Project Costs

## SECTION III THE GRANT

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

## SECTION IV THE LOAN

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

## SECTION V REPRESENTATIONS AND WARRANTIES

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

## SECTION VI CONDITIONS PRECEDENT

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

## SECTION VII AGREEMENTS OF THE MUNICIPALITY

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

## SECTION VIII AGREEMENTS OF THE STATE

Loan, Termination, Notice of Approval, Audit

## SECTION IX DEFAULTS

Events of Default and Remedies

## SECTION X MISCELLANEOUS

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

Exhibit I Form Of Interim Funding Obligation

Exhibit II Form Of Project Loan Obligation

Exhibit III Form Of Opinion Of Bond Counsel

Exhibit IV Form Of Signature No Litigation Certificate

Exhibit V Continuing Disclosure Agreement

Exhibit VI Budget

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

Exhibit VIII Form Of Request For Advance

EXHIBIT IX Closing Statement

Exhibit X Conditions precedent

Attachment I Insurance Requirements



# Appendix 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 the trustee under each resolution are discussed in this appendix.

## Summary

<b>Bond Resolution</b>	<b>Security</b>	<b>Fund Name</b>	<b>Accounts Restricted/Unrestricted</b>
2002 General Revenue	Available Money,	Loan Fund	R
Resolution adopted Dec. 17, 2002	Assets of the Fund	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;

- 4) 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 and 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.
- 5) 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.
- 6) 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.
- 7) 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.
- 8) 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 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.

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 - USB
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 - USB
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 - USB

Under the Resolution, the Revolving Fund is operated in a manner similar to a general fund for the CWF and DWF programs and the Revolving Fund is the repository for all available moneys that are not held to another fund. 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 Fund Type	Description & Use	Held By	Invested
<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 and hold by the State, 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 - USB
<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 - USB

## Appendix X: 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	C 970640011b	WEST HARTFORD	SYSTEM REPAIRS & UPGRADES	\$3,086,188.44
MDC	C 97 0640011a	BLOOMFIELD	VARIOUS IMPROVEMENTS	\$1,163,888.62
NEW BRITAIN	PDC 98 0890011a	NEW BRITAIN	NEW WATER TREATMENT PLANT - PHASE I	\$12,682,987.00
NORWICH	DC 97 1040011a	NORWICH	REPLACE ASBESTOS PIPE WITH DUCTILE IRON PIPE	\$1,898,651.36
MDC	C 97 0640011c	BLOOMFIELD/ HARTFORD/ W. HARTFORD	WATER MAIN REPLACEMENT	\$861,978.47
WATERTOWN FIRE DISTRICT	DC 98 1530011a	WATERTOWN	NEW DISTRIBUTION PUMP STATION	\$717,731.37
CRYSTAL LAKE CONDOS	C 97 1210021/31a	SALEM	CONSTRUCT NEW WATER SYSTEM	\$359,202.19
HARRYBROOKE PARK CONDO	PDC 97 0960131a	NEW MILFORD	INTERCONNECT WITH UNITED WATER COMPANY	\$231,327.45
BHC - STAMFORD (AQUARION)	PDC 97 1350011a	STAMFORD	UPGRADE PUMP STATION	\$391,038.00
COOK WILLOW REALTY	DC 97 1110111a	PLYMOUTH	INTERCONNECT WITH CONNECTICUT WATER COMPANY	\$704,259.24
HILLSIDE WATER	PDC 00 0790021a	MARLBOROUGH	WATER MAIN & DISTRIBUTION IMPROVEMENTS	\$149,052.00
SHARON SEWER & WATER	DC 98 1250011a	SHARON	INTAKE & PIPELINE UPGRADE, WATER FILTRATION TREATMENT PLANT, STORAGE	\$1,100,000.00
TOWN OF PORTLAND	C 97 1180081a	PORTLAND	INTERCONNECT WITH METROPOLITAN DISTRICT COMMISSION	\$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	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 COMMISSION	\$1,646,970.16
TOWN OF NEWTOWN	D 03 0970422a	NEWTOWN	CONNECTION TO TOWN WATER	\$171,738.00
TOWN OF SOUTHINGTON	D 03 1310011a	SOUTHINGTON	WELLHEAD PROTECTION	\$4,643,030.00
SECOND TAXING DISTRICT	DC 04 1030021a	Norwalk	WATER TREATMENT PLANT UPGRADE	\$24,715,165.00
<b>TOTAL 1999 to 2006</b>				<b>\$86,571,747.41</b>

# Appendix XI: EPA Ratio Analysis

## FINANCIAL RATIO

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
<b>CURRENT RATIO :</b>					
Cash & Equivalents	\$59,106	\$1,144,853	\$13,062,890	\$13,160,297	\$16,012,275
Int/receivable Investments	\$999,576	\$282,709	\$330,100	\$322,582	\$313,123
Due from other state fund	\$24,775	\$0	\$0	\$0	\$0
Grant Receivable	\$0	\$0	\$449,850	\$1,238,087	\$1,137,380
Loans Receivable current portion	\$8,081,678	\$22,724,735	\$3,773,468	\$2,728,732	\$5,273,347
Loan Fund	\$6,261,027	\$0	\$13,486,329	\$13,645,960	\$11,493,334
Debt Service Fund	\$18,383,265	\$24,129,646	\$2,987,693	\$6,725,963	\$10,409,274
Free-up from reserve fund	\$0	\$0	\$0	\$0	\$0
<b>Total Current Assets</b>	<b>\$33,809,427</b>	<b>\$48,281,943</b>	<b>\$34,090,330</b>	<b>\$37,821,621</b>	<b>\$44,638,733</b>
Revenue bond interest payable	\$349,593	\$349,593	\$521,764	\$507,712	\$492,254
Due to other state fund	\$13,503	\$0	\$0	\$714,481	\$486,403
Deferred grant revenue	\$118,585	\$437,170	\$0	\$0	\$0
Revenue bonds payable(current)	<u>\$0</u>	<u>\$1,199,397</u>	<u>\$1,512,830</u>	<u>\$1,838,889</u>	<u>\$3,209,474</u>
<b>Total Current Liabilities</b>	<b>\$481,681</b>	<b>\$1,986,160</b>	<b>\$2,034,594</b>	<b>\$3,061,082</b>	<b>\$4,188,131</b>
<b>Current Assets /Current Liabilities</b>	<b>70.19%</b>	<b>24.31%</b>	<b>16.76%</b>	<b>12.36%</b>	<b>9.38%</b>
<b>ASSET/LIABILITY RATIO</b>					
Interest Receivable	\$287,936	\$364,691	\$105,864	\$11,608	\$66,045
Loans recble-less current portion	\$18,672,996	\$19,869,588	\$49,222,002	\$46,588,118	\$42,496,355
Reserve fund(less free-up)	\$16,289,526	\$23,609,209	\$28,476,371	\$27,886,709	\$27,107,668
Short term assets convertible:					
Federal Cap grant	\$6,730,236	\$16,527,779	\$4,966,468	\$1,693,942	\$6,636,504
<b>Total Loans, Grants and Reserves</b>	<b>\$41,980,694</b>	<b>\$60,371,267</b>	<b>\$82,770,705</b>	<b>\$76,180,377</b>	<b>\$76,306,572</b>
Rev bonds pyble-less current portion	\$29,614,747	\$28,415,350	\$49,571,569	\$47,732,681	\$44,523,207
Deferred grant revenue	\$118,585	\$0	\$0	\$0	\$0
Premium on revenue bonds	<u>\$468,337</u>	<u>\$445,304</u>	<u>\$3,277,113</u>	<u>\$3,070,810</u>	<u>\$2,867,702</u>
<b>Total Long term Debt</b>	<b>\$30,201,669</b>	<b>\$28,860,654</b>	<b>\$52,848,682</b>	<b>\$50,803,491</b>	<b>\$47,390,909</b>
<b>Total Assets/ Total Liabilities</b>	<b>1.39%</b>	<b>2.09%</b>	<b>1.57%</b>	<b>1.50%</b>	<b>1.61%</b>
<b>NET ASSETS</b>					
Cumulative Capitilization Grants	\$51,539,400	\$59,591,900	\$67,596,000	\$67,596,000	\$75,899,100
State Match Contribution	\$3,919,467	\$7,147,364	\$7,955,487	\$13,519,200	\$15,179,820
Overmatch Contribution	\$0	\$0	\$0	\$0	\$0
Retained Earnings	<u>\$38,495,120</u>	<u>\$61,278,617</u>	<u>\$57,979,060</u>	<u>\$59,326,083</u>	<u>\$63,529,391</u>
<b>Total Net Assets</b>	<b>\$93,953,987</b>	<b>\$128,017,881</b>	<b>\$133,530,547</b>	<b>\$140,441,283</b>	<b>\$154,608,311</b>
Net Assets/Cap Grant	1.82%	2.15%	1.98%	2.07%	2.03%
Binding Cmtments or closings	\$26,754,674	\$42,594,323	\$52,995,470	\$49,316,850	\$47,769,702
Cap Grants	\$51,539,400	\$59,591,900	\$67,596,000	\$67,596,000	\$75,899,100
<b>Binding Commitment Ratio</b>	<b>0.52%</b>	<b>0.71%</b>	<b>0.78%</b>	<b>0.73%</b>	<b>0.63%</b>
<b>PROJECT COMPLETION</b>					
<b>Projects Completion</b>	<b>\$20,017,177</b>	<b>\$20,967,545</b>	<b>\$49,222,002</b>	<b>\$46,588,118</b>	<b>\$53,088,721</b>
<b>Cap Grants</b>	<b>\$51,539,400</b>	<b>\$59,591,900</b>	<b>\$67,596,000</b>	<b>\$67,596,000</b>	<b>\$75,899,100</b>
<b>Project Completion Ratio</b>	<b>0.39%</b>	<b>0.35%</b>	<b>0.78%</b>	<b>0.69%</b>	<b>0.70%</b>
<b>DEFAULT RATIO</b>					
	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>
Total Loans	\$26,754,674	\$42,594,323	\$52,995,470	\$49,316,850	\$47,769,702
Total Assets	\$69,059,885	\$92,125,431	\$112,862,336	\$113,190,656	\$115,108,431
<b>Total Loans /Total Assets</b>	<b>0.39%</b>	<b>0.46%</b>	<b>0.47%</b>	<b>0.44%</b>	<b>0.41%</b>

