

For The Fiscal Year Ended June 30, 2001



State of Connecticut DRINKING WATER FUND

Supporting the Planning, Design and Construction of
Water Quality Projects

2001 Annual Report



Keeping Connecticut Healthy

Joxel Garcia, MD, MBA
Commissioner
Department of Public Health



Denise L. Nappier
State Treasurer

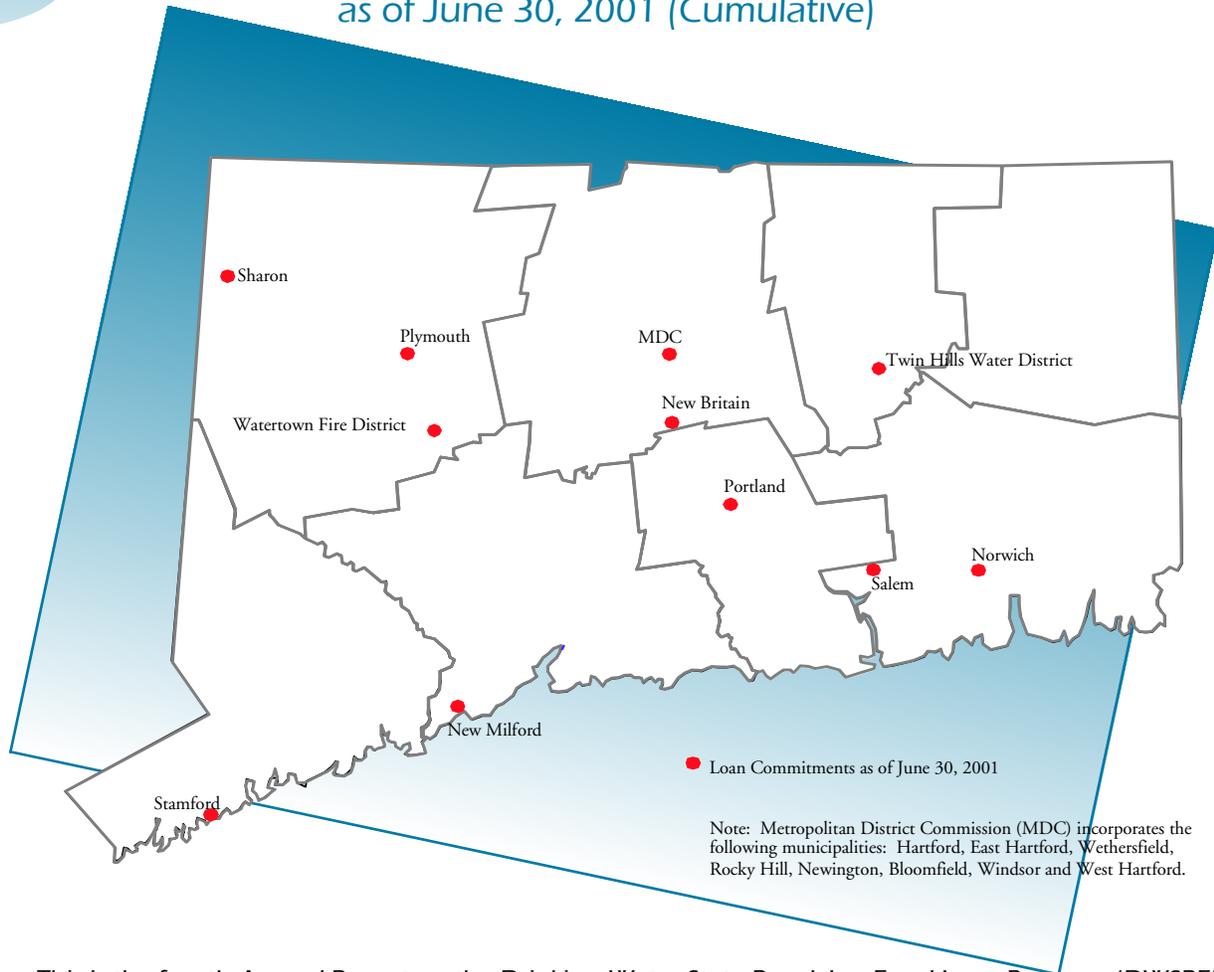


Arthur J. Rocque, Jr.
Commissioner
Department of Environmental
Protection



Donald W. Downes
Chairperson
Department of Public Utilities Control

Location of Drinking Water State Revolving Fund Projects as of June 30, 2001 (Cumulative)



This is the fourth Annual Report on the Drinking Water State Revolving Fund Loan Program (DWSRF). It has been prepared by the Office of the Treasurer, Debt Management Division and the Department of Public Health (DPH) with assistance from the Department of Environmental Protection (DEP) and the Department of Public Utilities Control (DPUC) to comply with the requirements of Connecticut General Statutes Section 22a-475(h). These agencies have a partnership role in the fiscal, financial and technical management of the Drinking Water Fund and are responsible for both the accuracy of the data and the completeness and fairness of this presentation. The State's primacy agency for DWSRF is the DPH. As the DWSRF lead agency, DPH coordinates DWSRF activities among the State agencies. A Memorandum of Understanding (MOU) details the roles and responsibilities of each agency and the agencies established an Interagency Committee to implement the MOU and to oversee the management of the DWSRF.

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Introduction

The 1996 Amendments to the Safe Drinking Water Act (SDWA) authorize the United States Environmental Protection Agency (EPA) to offer state capitalization grants for the Drinking Water State Revolving Fund (DWSRF). There is an annual federal authorization of \$1 billion for the DWSRF through 2003.

Within the parameters set by the criteria system and the EPA guidelines, the State of Connecticut exercises considerable flexibility in the type of planning, design and construction projects the DWSRF will fund. The major concern is the protection of public health and compliance with Federal and State drinking water mandates. The only limitations on project funding are exclusions for increased capacity and other non-eligible project purposes as described in the DWSRF guidance document.

The Fund's goals are to:

- Implement statewide public health initiatives in an effective and consistent manner.
- Meet the diverse needs of Connecticut's water providers through the program's lending policies.

As a recipient of federal financial assistance, the State must comply with the federal Single Audit Act of 1984 by having adequate internal controls in place to ensure and document compliance with applicable laws and regulations. The audited statements for fiscal year ended June 30, 2001 have been prepared by the firm of DiSanto Bertoline and Co., P.C., CPAs, with headquarters in Glaston-

bury, Connecticut. The audits disclosed no internal control weaknesses or violation of laws or regulations. The audited statements for the DWSRF are included in this report and are available separately upon request.

The enclosed financial information is accurate and is reported in a manner that clearly presents the financial position and results of operations of the various accounts of the State of Connecticut Drinking Water Fund.



Cook Willow Water Treatment Plant
Plymouth, Connecticut
Replacement Project—Site work and Construction.

The State of Connecticut created its Drinking Water State Revolving Fund Program within the Connecticut General Statutes 22a-475 to 22a-483, the authorizing statutes of the Clean Water Fund. This action was consistent with the intention of the federal Drinking Water program which was modeled after the state revolving fund program within the Clean Water Act.

Both programs required that each state create a revolving fund in order to accomplish the program mandates and initiatives of the Act and to accept federal capitalization grants and state provided matching funds equal to 20% of the federal capitalization grants. The Clean Water Fund provides financial assistance to municipal entities in connection with the construction, rehabilitation, expansion or improvement of publicly-owned systems for the storage, treatment, recycling and reclamation of municipal sewage.

In 1997, Connecticut received its largest grant to date, \$21 million, and began preparations to lend to municipalities and private entities in accordance with the provisions of

the state statutes. Since that time, Connecticut has applied for and received its grant and met the grant match requirements. Total funding available including the match by year are \$8,545,560 for 1998, \$8,956,560 for 1999, and \$9,380,400 for 2000. The State has applied for \$7,789,100 for the Federal fiscal year ending September 30, 2001.



Cook Willow Water Treatment Plant Replacement Project—Site work and Construction.

Program Management

The Department of Public Health (DPH) coordinates the program management. The four State agencies involved in the program have been working together to address the drinking water needs of the State. The process has been implemented with a great deal of consideration for existing regulations and procedures. The DWSRF 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:

- Connecticut Department of Public Health (DPH) - programmatic administration of DWSRF projects and programmatic and fiscal administration of set-aside projects and accounts.
- Connecticut Department of Environmental Protection (DEP) - fiscal administration of DWSRF planning, design and construction projects
- Office of the State Treasurer (Treasurer's Office) - Fiscal administration of all DWSRF accounts, oversight of project loans including the lending process and loan; and administration of DWSRF financing program which may include the issuance of bonds.
- Connecticut Department of Public Utility Control (DPUC) - programmatic and fiscal input on DWSRF projects for DPUC regulated water companies.

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 Safe Drinking Water Act gives the DPH certain statutory responsibilities with respect to the DWSRF. 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.

The DPH determines future needs and sets priorities. Based on approved state and federal appropriations, DPH prepares an annual Project Priority List identifying drinking water projects that are eligible for assistance from the DWSRF. The financing obligations with the DWSRF borrowers are signed by the DPH and the DEP. DPH establishes a compliance schedule for each step of the project, including planning, design and construction. Lastly, DPH reports the details of these and other program activities to the EPA every year.

Department of Environmental Protection

The DEP is the state agency that 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 Clean Water Act, Connecticut General Statutes 22a-475 to 22a-483, inclusive, as amended, gives DEP certain statutory responsibilities with respect to the DWSRF.

The Department's DWSRF responsibilities are similar to its Clean Water Fund responsibilities. 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, DEP reviews all project information to ensure compliance with project schedules and budgets. DEP also enters into financing obligations with borrowers and approves disbursement requests for all eligible costs incurred. DEP will initiate cash draw requests based on requisitions from borrowers and provides that information to both DPH and the Treasurer's Office. DEP maintains the financial project tracking system.

Department of Public Utilities Control

The Department of Public Utilities Control (DPUC) is the state agency that carries out the public policy and enforces the regulations of the state with regard to all its utilities including privately owned public water systems.

For the DWSRF program, DPUC provides oversight of managerial and technical capabilities, in accordance with its statutory responsibilities. As a result, DPUC plays a role in the management of the Fund as a member of the Interagency Committee.

DPUC approves all rate change requests from privately owned public water systems. DPUC reviews the capital budget requests and adjudicates over the enforcement of state laws. In addition, DPUC monitors and approves financing obligations for privately owned public water systems before any disbursements can be made.

The DPUC has no role in the DWSRF process for municipalities and small public water systems with under 49 connections.

Office of the Treasurer

The State Treasurer is primarily responsible for receiving and disbursing all money belonging to the state, superintending the collection of state taxes and the investment of state funds, administering certain state trust funds and managing state property. The State Bond Commission delegates to the Treasurer the authority and responsibility for determining the state's financial plan, including the terms and conditions of issuing state general obligation and revenue bonds.

The Treasurer's Office has responsibilities for the implementation and management of the financing plan and various financial components of the DWSRF, including:

- development of all the supporting data for the project financing, including the review of any credit-related documents submitted by the loan applicant;
- coordination of tax documentation necessary to finance the projects; and
- coordination of the independent federal audit, the audit by the State Auditors of Public Accounts, and the preparation of the annual reports to the Governor and to the EPA.

In addition to participation on the Inter-agency Committee, the financial administrator within the Treasurer's Office also:

- Evaluates the prospective and current borrowers' financial condition;
- Performs loan administration tasks;
- Coordinates with the trustee on servicing loan accounts; and
- maintains the program's data management systems, which includes a dual entry accounting system developed and maintained by the State Treasurer's Office.



The state has established management goals for the development of the DWSRF program as part of its statewide public health initiative. The following goals are part of the Operating Agreement between the state and the federal EPA.

FINANCIAL GOALS

1. Approve and disburse loans in accordance with the annual Intended Use Plan and the Project Priority list.
2. Efficiently manage the use of the DWSRF funds and enter into project funding agreements or contracts with recipients that are consistent with the program goals.
3. Performing annual review of DWSRF fiscal elements as required by EPA.

PROGRAMMATIC GOALS

1. Perform technical review of DWSRF projects.
2. Approve requests for funding from the applicants on the DWSRF priority list.
3. Monitor projects pending oversight and contract compliance.
4. Complete, implement and maintain the DWSRF Standard Operating Procedures Manual.
5. Complete and implement DWSRF State regulations.
6. Maintain the automated project tracking system.
7. Complete the annual review of DWSRF programmatic elements as required by EPA.

Five years have been spent developing the program to provide Connecticut's water providers with access to these funds. Ongoing discussions about the following issues will shape the program in the coming years:

- The amount of administrative and program set-asides allowed by the EPA and what 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.
- The Priority List of eligible projects, the amount of money available for projects and the number of potential loans.

Sources and Uses of Funds

The funding for the DWSRF comes from federal capitalization grants and state general obligation bond proceeds. During the year, the State issued revenue bonds secured by both CWF and DWF. As a result, revenue bonds are the funding source for all loans made by the federal accounts. Under this leveraged program, and similar to the management of the CWF, the federal funds are drawn monthly from a federal capitalization grant in proportion to the rate of spending on certain projects. State bond authoriza-

tions are used to provide the state match. The Treasurer's Office assesses both the debt issued and the investments made by the program. Currently, the program is investing in the State of Connecticut Short-Term Investment Fund (STIF) and guaranteed investment contracts with AAA providers including American International Group (AIG), CDC Funding, Trinity Plus Financing and Societe Generale.

Table 1: SOURCES AND USES OF DWSRF FUNDS FOR FISCAL YEAR 2001 (estimated)

SOURCES	AMOUNT	AVAILABLE PROJECT FUNDS	
		AMOUNT	AMOUNT
FY 2001 Capitalization Grant ¹	\$ 7,789,100	\$ 5,374,479	
State Match Requirement ²	1,557,820	1,557,820	
Carry-Over Monies ³	7,601,650	7,601,650	
Bond Proceeds	-	29,614,000	
TOTAL SOURCES	* \$ 16,948,570	\$ 44,147,949	
USES	AMOUNT	AMOUNT	
DWSRF Administrative Fund Set-Aside (4% max)	\$ 311,564	-	
State Program Management Set-Aside (10% max)	778,910	-	
Small Systems Tech Assistance Set-Aside (2% max)	155,782	-	
Local Assistance Set-Aside (15% max)	1,168,365	-	
TOTAL SET-ASIDE ⁴	* \$ 2,414,621	-	
Loans from Capitalized Grants	\$ 14,533,949	\$ 14,533,949	
Current and Future Program Loans	-	29,614,000	
TOTAL USES	** \$ 16,948,570	\$ 44,147,949	

1. The State has not received its award yet.
 2. The SDWA requires a minimum state match of 20 percent of each federal award.
 3. This represents the approximate amount of federal and state capitalization funds from the project funds only. Please refer to Appendix 1 for a description of the amounts appropriated and actual expenditures for set-aside monies from previous DWSRF Capitalization Grant Awards.
 4. This represents the portion of the FY 2001 Capitalization Grant that will be used for set aside purposes.
- * Total Sources + Total Set-Aside = ** Total Use (does not include unspent set-aside funds from previous fiscal years.)

Federal Capitalization Grants

The federal capitalization grants are awarded by the Federal EPA to the state and the state contributes the required 20% matching funds. If demand for the program is sustained, then management expects to issue bonds for the DWSRF secured by underlying loans. It is expected that the funding will be sufficient to meet the most critical of the state's water quality needs. The existing Intended Use Plan (IUP) covers the period from July 1, 1999 to June 30, 2001 and is based on the use of the FFY 2001 capitalization grant, the state match of 20% (\$1,557,820) of the FFY 2001 award, and any unobligated funds carried forward from previous IUPs.

Connecticut intends to reserve from the FFY 2001 capitalization grant monies the

maximum amount of set-asides allowed under the SDWA, which include the following activities: administrative, technical assistance, state program management and local assistance. In addition, unused set-aside money reserved from prior capitalization grant awards will be carried forward for future use for these activities. If at any time Connecticut determines that it will not expend all of the funds reserved for a particular set-aside activity, the money can be transferred to the DWSRF project fund after an amendment to the capitalization grant.

Connecticut has elected not to transfer funds between the DWSRF program and the Clean Water Fund Program.

Based on the FFY 2001 Priority List, projects presently earmarked for funding include approximately 37.6% of the available project fund for systems under 1,000 population, 25.6% of available project funds for systems between 1,001 and 10,000 population and 36.8% of the available project funds for systems greater than 10,001 population. Connecticut intends to fund all small and medium projects listed on its FFY 2001 Priority Ranking List. (Appendix V)

Table 2: FEDERAL CAPITALIZATION GRANT \$ BREAKDOWN

Federal Fiscal Year	Total Federal Grant	Administrative and Program Set Asides	Federal 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

State Authorizations: Match Requirements

Connecticut is allowed to earmark a maximum of 31% of the Federal allocation for each fiscal year for all set-aside activities.

The state has provided, or expects to provide, sufficient amounts of funds in the DWSRF to meet the required state matching funds for current and future federal capitalization grants. The state's match is 20% of the total federal grant. The table below indicates the amount of federal grants and the required state matching funds for the DWSRF.

Revenue Bonding Program

The State enters into loan agreements with each municipality in the program, then

uses revenue bonds to fund the project loans. Bond proceeds are disbursed on an as needed basis to municipalities with executed loan agreements, as such municipalities incur project costs.

Municipalities, in addition to those listed in the appendices, may receive funding. In all cases funding is subject to State Bond Commission approval.

This leveraged financing allows the Fund to maximize the available project funding because the revenue bond proceeds can be two times the amount of the available capitalization grants and the state match contributions. This strategy also allows the state to provide loans with a low interest rate at favorable 20-year terms to all of the municipalities with water quality issues.

Table 3: STATE AND FEDERAL FUNDS AVAILABLE FOR THE DWSRF

Federal Fiscal Year	Federal Grant	State 20% Match Requirement	Total Funds
1997	\$21,408,205	\$4,281,640	\$25,689,845
1998	\$ 7,121,300	\$1,424,260	\$ 8,545,560
1999	\$ 7,463,800	\$1,492,760	\$ 8,956,560
2000	\$7,757,000	\$1,551,400	\$9,308,400
*2001	\$7,789,100	\$1,557,820	\$9,346,920

**Grant Applications being prepared to submit to the Federal Environmental Protection Agency.*

bonds. The next revenue bond issue is expected to be in 2002.

Bond Debt Service

The repayment of the revenue bonds comes from loan payments, interest earnings on reserves and other program funds. An interest subsidy contribution comes from the State. During 2001, loan repayments were \$42.3 million. While all loan repayments are pledged to the repayment of the bonds, a portion of loan repayments are pledged and retained in the debt service fund as a cash flow cushion in conformance with rating agency default coverage guidelines. The debt service schedule for all bonds outstanding is provided in Appendix X on page 53.

Debt service on the subordinated re-funding bonds issued in 1996 and 1999 is paid after funds are released from the senior indenture. As of July 30, 2001, the subordinated debt service fund has been fully funded.

Summary of Issuance

Since 1991, ten series of revenue bonds have been issued providing \$745 million in project funding for the program and \$127 million to refund bonds. The revenue bonds are the funding source for all loans made by the federal account and are solely liabilities of the Clean Water Fund program which includes drinking and waste water.

The debt service reserves equal 50% of all outstanding senior bonds. There are no reserves on subordinate bonds, which are only issued for refunding purposes.

The tenth revenue bond series was issued in June 2001. The new money from bonds totaled \$71 million for Clean Water and an additional \$29 million for Drinking Water

**Table 4: DRINKING WATER FUND PROGRAM*
REVENUE BOND FINANCIAL SUMMARY**

		DEBT SERVICE RESERVE				
BOND SERIES	REVENUE AMOUNT	FEDERAL	GENERAL OBLIGATION BONDS	DIRECT LOAN REPAYMENTS	DSR 'FREE UP'	INTEREST SUBSIDY (GO BONDS)
WSRF	WSRF	WSRF	WSRF	WSRF	WSRF	WSRF
1991	100,000,000	37,126,619	12,873,381	0	0	19,690,000
1992	105,000,000	25,155,089	26,144,911	1,200,000	0	6,715,000
1993	50,000,000	23,600,217	0	1,399,783	0	7,200,000
1994	75,000,000	32,222,500	0	2,900,000	2,377,500	5,100,000
1996A	80,000,000	18,064,373	5,000,000	7,183,127	9,752,500	3,290,000
1997	110,000,000	20,415,930	19,000,000	4,016,570	11,567,500	5,200,000
1999A	125,000,000	25,088,408	18,000,000	5,309,093	14,022,500	4,875,000
2001	70,385,254	6,992,627	0	5,000,000	23,270,000	3,567,085
SUBTOTAL	715,385,254	188,665,763	81,018,292	27,088,573	60,990,000	55,637,085
DWSRF	DWSRF	DWSRF	DWSRF	DWSRF	DWSRF	DWSRF
2001	29,614,746	9,408,000	10,398,696	0	0	0
TOTAL	745,000,000	198,073,763	91,416,292	27,088,573	60,990,000	55,637,085

* Includes both Clean Water Fund and Drinking Water Fund.

Ratings

The Senior bonds are rated at the highest available credit rating from all three rating agencies, AAA from Fitch IBCA, Aaa from Moody's Investors' Services and AAA from Standard & Poors' Investors' Services. The CWF Subordinate bonds are rated AAA from Fitch IBCA, Aa1 from Moody's Investors' Services and AA+ from Standard & Poors' Investors' Services.



Connecticut's participation in the EPA sponsored 1999 Drinking Water Infrastructure Needs Survey placed Connecticut's total twenty-year need at \$1.01 billion. Distribution (including transmission) and treatment represent the two highest categories with the former accounting for 57% of the need and the latter 23%.

DPH has also been actively ascertaining the number of potential projects and estimated loan demand for the DWSRF. In January 1997, DPH mailed a questionnaire to more than 800 community and non-transient non-community water systems. Public water systems that responded to the questionnaire provided information on 228 possible projects with a total estimated cost of \$159.3 million. Systems serving populations more than 1,000 reported projects estimated at \$141.8 million. Systems serving populations fewer than or equal to 1,000 reported projects estimated at \$17.5 million. Based on the data in both the 1995 and 1999 Needs Surveys, the

State concluded that substantial demand exists among the public water systems for DWSRF financial assistance. The EPA 1999 Drinking Water Infrastructure Needs Survey findings were published in February 2001 and evidenced a \$340 million decrease in the need for DWSRF financial assistance.

Project Financing

Connecticut intends to continue funding a wide range of drinking water projects using careful consideration of a potential recipient's technical, managerial and financial capabilities. The DWSRF provides loans for water projects in five categories based on the criteria described below. The DWSRF has no grant program. Once a project is deemed eligible for funding, an evaluation of the applicant's capabilities is performed using a DPUC approved Economic Viability Model. The purpose of this evaluation is to ascertain if the applicant's system can support the DWSRF loan.

The DPH priority ranking system, complementing Connecticut's existing source water protection plan, is a key component of the management of the DWSRF. To ensure that DWSRF funds are used expediently where they are needed most, the ranking system incorporates procedures for emergencies and ensures that funding is available for projects that are ready to proceed, while reserving funds for other projects.

Financial Terms of Loans

The program loans are structured to be an attractive source of funding. To stimulate water providers to carry out essential improvements in a timely fashion, financing is offered based on the most recent rate paid on State of Connecticut General Obligation bonds. The rate for a specific project is based on the credit-worthiness and legal status of the recipient. Loans must be repaid over a period not to exceed 20 years from the mutually agreed-upon completion date of the pro-

ject. The State may adjust these terms based on the financial viability of the borrower.

There are several steps in the application process, as described more fully in Appendix VI.

Criteria and Method of Distribution of Project Funds

All projects are selected for financial assistance based on a priority list system created and managed by the DPH. The priority ranking system reinforces the long-term programmatic goals and is also consistent with Congressional intent for the DWSRF as it directs the highest priority to projects that protect public health and achieve compliance.

The Funds' goals are pragmatic, focusing on the development of all facets of the DWSRF program. The program funds a wide range of drinking water projects after careful consideration of a potential recipient's technical, managerial and financial capabilities. DWSRF funds are ranked and distributed based on criteria in six categories of eligibility:

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

These ranking criteria provide points for situations in which water quality impairments, water quantity deficiencies, or water system imperfections may increase risk to public health and/or result in non-compliance. Points awarded for the acquisition of an existing public water system and proactive upgrades emphasize the importance of supporting projects oriented to achieving long-term solutions to existing water quality deficiencies. Affordability points

are given to projects located in communities where the median household income (MHI) is less than 80% of the State's average MHI.

Portfolio Credit Quality

The analysis and review of the borrower's financial condition prior to awarding a project loan is essential to the long-term viability of the Fund and is required by the state regulations.

All applicants must submit documentation as proof of their ability to repay the debt and their technical and financial management capabilities. The required documentation includes, but is not limited to, financial statements, tax returns, a current operating budget, a projected budget including the

proposed debt. Most importantly, applicants must document their ability to charge rates for services and collect from their customers. Applicants may also be asked to provide information explaining the alternatives to the proposed project as well as the benefit of the project to customers.

In addition to a project-specific review including an engineering report or a feasibility study, the State reviews the capital cost repayment analysis for the project and any increases in taxes or user fees. The State will also request information on any existing or future contractual agreements.

The closed loans for the programs, during state fiscal year 2001, are as follows:

Table 4: CLOSED LOAN LISTING FISCAL YEAR 2001

	Closing Date	Borrower	Project No.	SCD	IFO	New IFO Amount
Public	9/28/00	Norwich Water Co.	9714-C	12/31/01	IFO	2,737,000
	1/19/01	Watertown Fire Dist.	9803-C	3/31/01	IFO	950,000
	Subtotal					3,687,000
Private	9/21/00	BHC	9701-C	2/28/01	IFO	391,038
	9/21/00	Cook Willow Realty	9706-C	11/30/01	IFO	705,332
	7/13/00	Crystal Lake Condo	9711-C	12/31/01	IFO	325,000
	Subtotal					1,421,370
TOTALS						\$5,108,370

Key: SCD—Scheduled Completion Date (based on loan agreement).
 IFO—Interim Funding Obligations
 (See Appendix III for Commitments by Federal Fiscal Year)

Condition of the Fund

The main features of Connecticut's DWSRF program—the ranking system, the leveraging plan and the maximization of set-aside—will continue to be implemented and managed in a prudent and responsible manner. This will allow DPH to meet the public health and compliance goals of the DWSRF while simultaneously preserving the integrity and perpetuity of the Fund itself.

Loan terms are attractive, especially to small systems, while lending procedures include safeguards structured to minimize unforeseen losses to the Fund. While maximization of set-asides reduces the corpus of the DWSRF, the set-asides are an important component of the implementation of the program. The set-asides give the State, as well as potential recipients of funding, extensive flexibility to explore and take advantage of multiple options associated with each set-aside.

The DWSRF also produces numerous opportunities for strengthening water supply mechanisms (e.g. source protection, Public Water Supply Supervision (PWSS) program) that will ultimately result in improvements to safe and adequate supplies of drinking water for Connecticut residents.

Additionally, the placement of the DWSRF within the financial structure of the Clean Water Fund guarantees that the DWSRF will benefit from the same management and financial planning mechanisms that have marked the success of Connecticut's Clean Water Program.

2001 Program Accomplishments

During 2001, the work and management of the Fund was accomplished by the Inter-agency Committee through the continued cooperation and communication among all of the agencies. The administrators coordinate their work on the projects and consult on the lending process.

During the year, policies were established in the areas of project application rollovers, reimbursements and preapproval criteria.

Five projects were closed during fiscal year 2001: Bridgeport Hydraulic Company, Cook Willow Realty, Crystal Lake Condominium Association, Norwich Water Department and Watertown Fire District. Most if not all of these projects will be completed during calendar year 2001.

Status of Loan Assistance

The backlog of project closings was substantially reduced. Several projects have initiated construction. To date, five projects have been completed.

Set-Aside Status

The following are the set-aside categories for the Drinking Water Fund:

- Administration
- Small system technical assistance
- Program management
- Source water protection

- Public Water Supply Supervision (PWSS) Program
- Capacity development
- Operator Certification

The amounts for each set-aside and the spending to date is detailed in Appendix I.

2002 Program Initiatives

The DPH and Interagency Committee will continue to develop goals for all facets of the DWSRF program. The current goals reflect obtainable outcomes for the DWSRF over the next two years. In contrast, the DWSRF long-term goals, as outlined in the Operating Agreement, express strategic principals for guiding the DWSRF into the future.

The short-term goals indicated below are benchmarks for measuring overall success and effectiveness of the program.

SHORT-TERM GOALS - FINANCIAL

1. Approve and disburse all loans on the DWSRF Project Priority List that are ready to proceed.
2. Continue to implement:
 - Effective and efficient fiscal management of DWSRF funds.
 - Routine procedures for entering into project funding agreements with recipients.
 - Plans to improve communication and information connections among State agencies .
3. Develop a leveraging plan that secures the integrity and perpetuity of the DWSRF while simultaneously meeting loan demands.

4. Complete the annual review of DWSRF financial elements as required by EPA.

SHORT-TERM GOALS - PROGRAMMATIC

1. Review and approve requests for funding for DWSRF and provide technical and financial assistance for projects funded.
2. Approve requests for set-aside funds.
3. Continue to implement:
 - Procedures for the technical review and approval of DWSRF projects.
 - Responsibilities delineated in the DWSRF Interagency MOU.
 - Routine procedures for monitoring oversight and contract compliance of DWSRF set-aside projects.
4. Update draft of the DWSRF Standard Operating Procedures (SOP) Manual.
5. Develop DWSRF State regulations.
6. Complete the automated tracking system for programmatic aspects of the DWSRF.
7. Complete the annual review of DWSRF programmatic elements as required by EPA.

The Interagency Committee intends to commit the remainder of the 1997 federal grant funds to projects on the 1997 Priority List and has already designated 1998, 1999 and 2000 project funds.

The use of set-asides will be one of the areas focused on during the year. In FFY 2000,

Connecticut intends to maximize the ceiling allowable under the SDWA for each of the set-asides.

Generally, the Department seeks to encourage use of set-asides to promote source protection efforts integral to Connecticut's nationally recognized multiple barrier approach to protection of public supplies. Additionally, the Department plans to use these funds to foster greater appreciation of drinking water among the general public and the regulated community. Both of these intended uses address proactive and preventive

measures endorsed by Congress in its authorization of SDWA.

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

Administrative funds and other set-asides not obligated in any fiscal year are being reserved for future years.

The Long Term Projections of Project Funding have not been completed. Connecticut participated in the EPA sponsored 1995 Drinking Water Infrastructure Needs Survey and is currently included in the EPA's federally mandated 1999 National Needs Survey. The new report is expected in 2001. There is significant need throughout the State for funding capital improvements.



SRF Funded Tanks, Portland, Connecticut



Clearwell, New Britain, Connecticut



FINANCIAL STATEMENTS

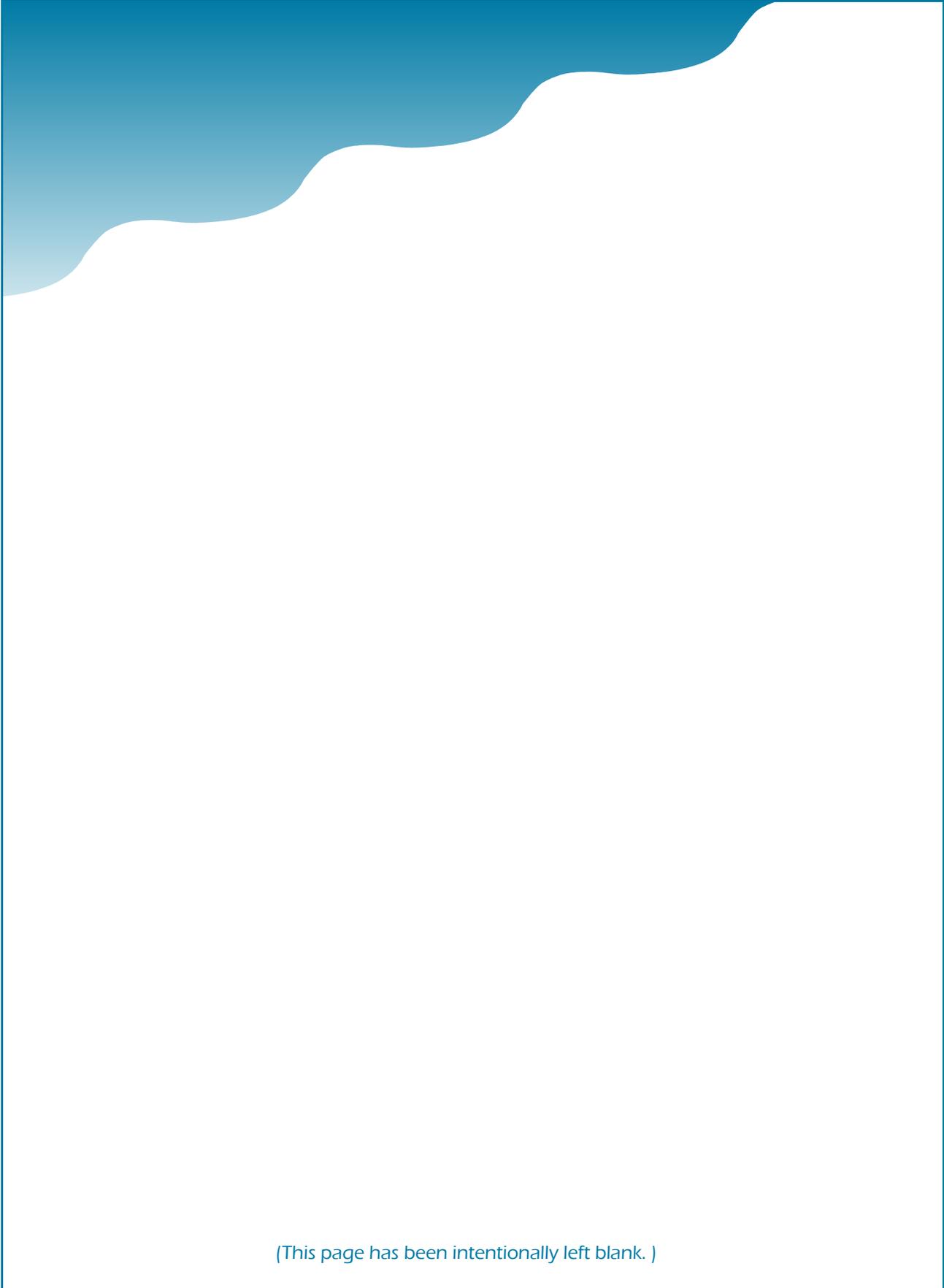
The internally prepared statements for the Fund's State Account are included in this report.
The audited statements for Federal Accounts, prepared by DiSanto & Bertoline and Co., P.C., CPAs are also included in this report.

**State Account (6867) - Unaudited
Balance Sheet**

(in thousands)	Fiscal Year Ended June 30, 2001	Fiscal Year Ended June 30, 2000
ASSETS		
Cash and equivalents	-	-
Loans receivable IFO—State	-	1,984
Loans receivable PLO—State	-	-
Interest receivable IFO Loans—State	-	23
Cost of Issuance	309	-
Total assets	309	2,007
FUND BALANCE:		
Prior fund balance	2,007	-
Net Income/(Loss)	(1,698)	2,007
Current fund balance	309	2,007
Total fund balance	309	2,007

State Account (6867)- Unaudited
Statement of Revenue and Expenses and the Statement of Change in Fund Balance

(in thousands)	Fiscal Year Ended June 30, 2001	Fiscal Year Ended June 30, 2000
REVENUE:		
Interest on IFO loans—State	28	23
	28	23
EXPENSES:		
Cost of issuance expense	22	-
	22	-
Income before Operating transfers	6	23
Operating transfers:		
Other operating transfers	(1,704)	1,984
Total Operating Transfers	(1,704)	1,984
Net Income after Transfers:	(1,698)	2,007
<u>Fund Balance</u>		
Beginning of the year	2,007	-
End of the year	309	2,007



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AUDITED FINANCIAL STATEMENTS

The audited statements provided on the following pages have been prepared by the auditors, DiSanto Bertoline, & Co, P.C. of Glastonbury, CT. for the DWSRF as of June 30, 2001. These statements are also available in a separate report dated September 6, 2001 from the auditors.

INDEPENDENT AUDITORS' REPORT ON THE GENERAL-PURPOSE FINANCIAL STATEMENTS

DISANTO BERTOLINE & COMPANY, P.C.
Certified Public Accountants and Consultants
628 Hebron Avenue, Building 3
Glastonbury, CT 06033

INDEPENDENT AUDITORS' REPORT

Ms. Denise L. Nappier, Treasurer

Mr. Joxel Garcia, M.D., Commissioner,
Department of Public Health

Mr. Arthur J. Rocque, Jr., Commissioner,
Department of Environmental Protection,
State of Connecticut

We have audited the general-purpose financial statements of the State of Connecticut Drinking Water Fund - State Revolving Fund (SRF) (a nonexpendable trust fund of the State of Connecticut) as of and for the years ended June 30, 2001 and 2000, as listed in the table of contents. These general-purpose financial statements are the responsibility of the SRF's management. Our responsibility is to express an opinion on these general-purpose 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 audits to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general-purpose financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the State of Connecticut Drinking Water Fund - State Revolving Fund as of June 30, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 6, 2001 on our consideration of the SRF's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our June 30, 2001 audit.

Di Santo Bertoline & Company, P.C.

Glastonbury, Connecticut
September 6, 2001

State of Connecticut Drinking Water Fund—State Revolving Fund
Balance Sheets
June 30, 2001 and 2000

ASSETS	2001	2000
Cash and cash equivalents <i>(Notes 2 and 3)</i>	\$ 13,458	\$ -
Interest receivable—investments	108,202	-
Interest receivable—loans <i>(Notes 2 and 4)</i>	213,641	6,490
Grant receivable	-	10,501
Loans receivable <i>(Notes 2, 4 and 11)</i>	18,787,908	1,535,637
Restricted assets (investments) <i>(Notes 2, 3, 6 and 7)</i>		
Loan Fund	14,141,641	-
Debt service reserve fund	16,285,500	
Debt service fund	13,284,668	42,470
Total restricted assets	<u>43,711,809</u>	<u>42,470</u>
Total Assets	<u><u>\$ 62,835,018</u></u>	<u><u>\$ 1,595,098</u></u>
 LIABILITIES AND FUND BALANCE		
LIABILITIES		
Revenue bonds interest payable <i>(Notes 2 and 8)</i>	\$ 116,531	\$ -
Revenue bonds payable <i>(Notes 2 and 8)</i>	29,614,747	-
Premium on revenue bonds <i>(Note 2)</i>	491,370	-
Deferred grant revenue	10,061	10,501
Total liabilities	<u>30,232,709</u>	<u>10,501</u>
 FUND BALANCE		
Reserved for loans <i>(Notes 2 and 9)</i>	14,232,670	-
Undesignated fund balance <i>(Note 9)</i>	18,369,639	1,584,597
Total fund balance	<u>32,602,309</u>	<u>1,584,597</u>
Total Liabilities and Fund Balance	<u><u>\$ 62,835,018</u></u>	<u><u>\$ 1,595,098</u></u>

The accompanying notes are an integral part of these general-purpose financial statements.

**State of Connecticut Drinking Water Fund—State Revolving Fund
Statements of Revenues, Expenses and Changes in Fund Balance
For the Years Ended June 30, 2001 and 2000**

	2001	2000
OPERATING REVENUES		
Federal grant	\$ 13,156,284	\$ 2,693,888
Interest on loans	283,778	22,925
Interest on investments	196,759	1,496
Total operating revenues	<u>13,636,821</u>	<u>2,718,309</u>
OPERATING EXPENSES		
Salaries and benefits	564,204	544,479
Employee benefits <i>(Note 7)</i>	221,508	214,677
Interest expense	114,612	-
Professional fees and other	403,945	364,055
Total operating expenses	<u>1,304,269</u>	<u>1,123,211</u>
Income before operating transfers	12,332,552	1,584,597
OPERATING TRANSFERS <i>(Note 10)</i>	<u>18,685,160</u>	<u>-</u>
Net income	31,017,712	1,584,597
FUND BALANCE, beginning of year	<u>1,584,597</u>	<u>-</u>
FUND BALANCE, end of year	<u><u>\$ 3,260,309</u></u>	<u><u>\$ 1,584,597</u></u>

The accompanying notes are an integral part of these general-purpose financial statements.

**State of Connecticut Drinking Water Fund—State Revolving Fund
Statements of Cash Flows
For the Years Ended June 30, 2001 and 2000**

	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 31,017,712	\$ 1,584,597
Adjustments to reconcile net income to net cash provided by operating activities::		
Interest expense on bonds	114,612	-
Interest income on investments	(196,759)	(1,496)
Changes in operating assets and liabilities:		
Decrease (increase) in grant receivable	10,501	(7,460)
Decrease (increase) in deferred grant revenue	(440)	7,460
Increase in interest receivable—loans	(207,151)	(6,490)
Increase in loan receivable	(17,252,271)	(1,535,637)
Net cash provided by operating activities	13,486,204	40,974
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received on investments	88,557	1,496
Increase in revenue fund (investments)	(43,669,339)	(42,470)
Net cash used in investing activities	(43,580,782)	(40,974)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from revenue bond payable	30,108,036	-
Net cash provided by non-capital financing activities	30,108,036	-
NET INCREASE IN CASH AND CASH EQUIVALENTS	13,458	-
CASH, beginning of year	-	-
CASH, end of year	\$ 13,458	\$ -

The accompanying notes are an integral part of these general-purpose financial statements.

State of Connecticut Drinking Water Fund—State Revolving Fund
Notes to General-Purpose Financial Statements
June 30, 2001 and 2000

NOTE 1— NATURE OF ORGANIZATION

The State of Connecticut Drinking Water Fund – State Revolving Fund (SRF) (a nonexpendable trust fund of the State of Connecticut), established in 1998 pursuant to Public Act 86-420, provides assistance to 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. The SRF has been established as a nonexpendable trust fund of the State of Connecticut since proceeds from the federal grant are required to be preserved.

NOTE 2— SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The general-purpose financial statements are prepared on the accrual basis of accounting, utilizing accounting principles applicable to governmental nonexpendable trust funds.

REVENUE RECOGNITION

Federal grant revenue is recognized as the SRF expenditures for administration are made and as federal funds are loaned to public water systems.

INVESTMENTS

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

There were no material investment gains or losses for the years ended June 30, 2001 and 2000.

STATEMENTS OF CASH FLOWS

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 Resolution (see Note 8), as amended and supplemented and a Series Resolution, adopted by the State Bond Commission on December 15, 2000 (collectively, the "Resolution"). The SRF had no cash equivalents as of June 30, 2001 and 2000, except as reflected in Note 6.

PREMIUM ON REVENUE BONDS

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

**State of Connecticut Drinking Water Fund—State Revolving Fund
Notes to General-Purpose Financial Statements (Continued)
June 30, 2001 and 2000**

NOTE 2— SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

REVENUE BONDS

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

Account	Nature of Expenditures
Revenue Fund - Pledged Receipts Account Receives all pledged receipts, including loan repayments, from the public water systems.	Amounts transferred to the interest and principal accounts of the debt service fund for payment of current debt service.
Revenue Fund - Earnings Account Receives all earnings on monies and investments in all funds and accounts.	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.	Expended for purposes of the State Revolving Fund program, including the financing of loans to public water systems, and to the extent that other monies are not available, for payments of principal and interest on the bonds when due.
Debt Service Fund - Interest Account Receives amounts from the revenue fund accounts sufficient to pay the interest portion due on each interest payment date.	Payment of interest on outstanding bonds.
Debt Service Fund - Principal Account Receives amounts from the revenue fund accounts sufficient to pay the principal portion due on each principal payment date or current sinking fund installments.	Payment of principal or current sinking fund installments on outstanding bonds.
Debt Service Fund – Redemption Account Receives amounts from the interest and principal accounts for the redemption of bonds.	Redemption of bonds.
Debt Service Fund - Capitalized Interest Account Receives any capitalized interest received by the trustee.	Amounts are transferred for payment of capitalized interest on outstanding bonds.
Debt Service Reserve Fund Required to be funded in an amount equal to 50% of all outstanding senior 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 ultimate payment of debt service.	Payment of principal and interest in the event of deficiencies in the debt service fund accounts.
Interest Subsidy Fund Established outside of the SRF, principal and investment income is transferred to the revenue fund for ultimate payment of debt service.	Amounts transferred to the debt service fund for payment of debt service. 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 of the SRF, investment income is transferred to the revenue fund for ultimate payment of debt service.	Payment of issuance costs on revenue bonds.
Rebate Fund Receives any earnings required to be rebated to the United States pursuant to the Tax Regulatory Agreement.	Amounts are paid to the United States as required.

**State of Connecticut Drinking Water Fund—State Revolving Fund
Notes to General-Purpose Financial Statements (Continued)
June 30, 2001 and 2000**

NOTE 2— SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

FUND BALANCE - RESERVED FOR LOANS

The fund balance reserved for loans represents amounts accumulated from federal drawdowns, less administrative expenses not exceeding 4% of the federal grant, transfers from the State representing the 20% match on federal funds and interest earned on public water system loans.

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 2.5% 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.

RECENT ACCOUNTING PRONOUNCEMENT

In June 1999, the Governmental Accounting Standards Board issued Statement No. 34, "*Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*". This statement establishes new financial reporting requirements for state and local governments, including creating new information and restructuring much of the information that governments have presented in the past, resulting in annual reports that are more comprehensive and easier to understand. This statement is effective for the State of Connecticut beginning July 1, 2001. Management does not believe that adoption of this statement will have a material effect on the SRF's general-purpose financial statements.

NOTE 3— CASH DEPOSITS AND INVESTMENTS

Governmental Accounting Standards Board Statement No. 3 requires governmental entities to categorize their cash deposits and investments into three levels of risk. Category 1 includes amounts which are insured or registered in the SRF's name or its agent in the SRF's name. Category 2 includes amounts which are uninsured or unregistered for which collateral or securities are held by a counterparty's trust department or agent in the name of the SRF. Category 3 includes amounts in which the deposits or securities are uninsured or unregistered for which collateral or securities are held by the counterparty or its trust department, but not in the name of the SRF.

CASH DEPOSITS

For purposes of this disclosure, cash deposits include cash held by the State Comptroller and U.S. Treasury and State obligations which are included in restricted assets. As of June 30, 2001, both the institution balance and carrying amount of the SRF's deposits total \$431,028, of which \$417,570 is included in restricted assets. Of the SRF's deposits, \$431,028 was registered in the SRF's name (Category 1).

**State of Connecticut Drinking Water Fund—State Revolving Fund
Notes to General-Purpose Financial Statements (Continued)
June 30, 2001 and 2000**

NOTE 3— CASH DEPOSITS AND INVESTMENTS (Continued)

INVESTMENTS

Investments consist of State General Obligation Bonds and various investment contracts which are considered to be registered in the SRF's name (Category 1).

NOTE 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:

	2001	2000
Construction in process	\$ 12,876,580	\$ 476,165
Completed projects	5,911,328	1,059,472
	<u>\$ 18,787,908</u>	<u>\$ 1,535,637</u>

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

Year ending June 30:	
2002	\$ 317,168
2003	266,691
2004	272,767
2005	279,010
2006	285,426
Thereafter	4,490,266
	<u>\$ 5,911,328</u>

NOTE 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:

	2001	2000
Awarded	\$ 43,750,300	\$ 35,993,300
Requested	16,532,948	3,376,664
Available federal letter of credit	<u>\$ 27,217,352</u>	<u>\$ 32,616,636</u>

**State of Connecticut Drinking Water Fund—State Revolving Fund
Notes to General-Purpose Financial Statements (Continued)
June 30, 2001 and 2000**

NOTE 6 - RESTRICTED ASSETS

Restricted assets as of June 30, 2001 and 2000 are comprised of the following:

	2001	2000
Cash equivalents:		
U.S. Treasury/State obligations	\$ 35,902	\$ 42,470
Investments:		
Investment Contracts	40,215,185	-
State General Obligation Bonds	3,079,054	-
	<u>\$ 43,711,809</u>	<u>\$ 42,470</u>

NOTE 7—RELATED PARTY TRANSACTIONS

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

ALLOCATION OF EXPENDITURES

Fringe benefit costs which are incurred at the State level are applied as a percentage of salaries to all State governmental units, including the SRF. For the years ended June 30, 2001 and 2000, the basic rates were 42.29% and 41.28%, respectively, of the SRF wages and the amounts charged aggregated \$221,508 and \$214,677, respectively.

INVESTMENTS

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

NOTE 8 - BONDS PAYABLE

STATE GENERAL OBLIGATION BONDS

In accordance with the Resolution, State General Obligation Bonds totaling \$3,079,054 as of June 30, 2001 are held in the Interest Subsidy Fund outside of the SRF. Principal and interest income is transferred to the debt service fund of the SRF.

REVENUE BONDS

The State of Connecticut issued Clean Water Fund, Revenue Bonds 2001 series, dated May 24, 2001. The proceeds of these bonds are to be used to provide funds to make loans to Connecticut municipalities and public water systems, for use in connection with the financing or refinancing of waste water and drinking water treatment projects. These bonds are payable solely from funds pledged pursuant to the Resolution. In accordance with the State of Connecticut ("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 (a nonexpendable trust fund of the State of Connecticut) was also established pursuant to Public Act 86-420, 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

**State of Connecticut Drinking Water Fund—State Revolving Fund
Notes to General-Purpose Financial Statements (Continued)
June 30, 2001 and 2000**

NOTE 8 - BONDS PAYABLE (Continued)

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 State Act and the Resolution permit the pledging of assets of both the SRF and the Clean Water Fund to secure these revenue bonds.

The SRF's revenue bonds payable are serial bonds, of which \$29,614,747 and \$0- was outstanding as of June 30, 2001 and 2000, respectively. The serial bonds mature on October 1, 2022 with interest rates ranging from 4% to 5.5%.

BOND MATURITIES

Principal payments begin October 1, 2003. Maturities of the SRF's bonds are as follows:

Year ending June 30:	
2004	\$ 1,199,205
2005	1,225,854
2006	1,252,503
2007	1,280,632
2008	1,307,281
Thereafter	23,349,272
	\$ 29,614,747

NOTE 9 - FUND BALANCE

The following represents an analysis of fund balance for the years ended June 30, 2001 and 2000.

	Undesignated	Reserved for Loans	Total
Balance at June 30, 1999	\$ -	\$ -	\$ -
Net Income	1,584,597	-	1,584,597
Balance at June 30, 2000	1,584,597	-	1,584,597
Net Income	16,785,042	14,232,670	31,017,712
Balance at June 30, 2001	\$ 18,369,639	\$ 14,232,670	\$ 32,602,309

**State of Connecticut Drinking Water Fund—State Revolving Fund
Notes to General-Purpose Financial Statements (Continued)
June 30, 2001 and 2000**

NOTE 10 - OPERATING TRANSFERS

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

	2001	2000
State operating transfers	\$ 2,892,949	\$ -
Transfers related to bond offerings	15,792,211	-
	<u>\$ 18,685,160</u>	<u>\$ -</u>

NOTE 11 - LOAN FUNDING COMMITMENTS

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

	2001	2000
Total funds committed to public water systems	\$ 56,712,493	\$ 10,222,750
Loan amount outstanding to public water systems	18,787,908	1,535,637
Loan commitments outstanding	<u>\$ 37,924,585</u>	<u>\$ 8,687,113</u>

NOTE 12 - RISK MANAGEMENT

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

Federal Internal Control and Compliance Reports

DISANTO BERTOLINE & COMPANY, P.C.
Certified Public Accountants and Consultants
628 Hebron Avenue, Building 3
Glastonbury, CT 06033

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF GENERAL-PURPOSE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Ms. Denise L. Nappier, Treasurer
Mr. Joxel Garcia, M.D., Commissioner,
Department of Public Health
Mr. Arthur J. Rocque, Jr., Commissioner,
Department of Environmental Protection,
State of Connecticut

We have audited the general-purpose financial statements of the State of Connecticut Drinking Water Fund - State Revolving Fund (SRF) (a nonexpendable trust fund of the State of Connecticut) as of and for the year ended June 30, 2001, and have issued our report thereon dated September 6, 2001. 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.

COMPLIANCE

As part of obtaining reasonable assurance about whether the SRF's general-purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of general-purpose financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the SRF's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general-purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general-purpose 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.

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.

DiSanto Bertoline & Company, P.C.
Glastonbury, Connecticut
September 6, 2001

FEDERAL SINGLE AUDIT REPORTS

Federal Internal Control and Compliance Reports

DISANTO BERTOLINE & COMPANY, P.C.
Certified Public Accountants and Consultants
628 Hebron Avenue, Building 3
Glastonbury, CT 06033

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. Joxel Garcia, M.D., Commissioner,
Department of Public Health

Mr. Arthur J. Rocque, Jr., Commissioner,
Department of Environmental Protection,
State of Connecticut

COMPLIANCE

We have audited the compliance of the State of Connecticut Drinking Water Fund - State Revolving Fund (SRF) (a nonexpendable trust 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, 2001. 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, 2001.

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.

Federal Internal Control and Compliance Reports

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to 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 general-purpose financial statements of the SRF as of and for the year ended June 30, 2001, and have issued our report thereon dated September 6, 2001. Our audit was performed for the purpose of forming an opinion on the general-purpose 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 general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose 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 those specified parties.

Di Santo Bertoline & Company, P.C.
Glastonbury, Connecticut
September 6, 2001

**STATE OF CONNECTICUT DRINKING WATER FUND - STATE REVOLVING FUND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2001**

<u>Federal Grantor; Program Title; Description</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
ENVIRONMENTAL PROTECTION AGENCY		
Direct:		
Capitalization Grants for Drinking Water State Revolving Fund	66.468	\$ 13,156,284
		<u><u> </u></u>

**STATE OF CONNECTICUT DRINKING WATER FUND - STATE REVOLVING FUND
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2001**

NOTE A—ACCOUNTING BASIS

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the State of Connecticut Drinking Water Fund – 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 general-purpose 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.

NOTE B—MUNICIPAL LOANS

The balance of outstanding loans to public water systems totaled \$18,787,908 as of June 30, 2001.

**STATE OF CONNECTICUT DRINKING WATER FUND – STATE REVOLVING FUND
SCHEDULE OF FEDERAL FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001**

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 ✓ None reported

Type of auditors’ report issued on compliance for major programs: 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 State Revolving Fund

Auditee qualified as low-risk auditee? _____ ✓ Yes _____ No

Dollar threshold used to distinguish between Type A and Type B program: \$394,689

**STATE OF CONNECTICUT DRINKING WATER FUND - STATE REVOLVING FUND
SCHEDULE OF FEDERAL FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2001**

SECTION II – FINANCIAL STATEMENT FINDINGS

No findings are reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No findings or questioned costs are reported.

SUMMARY SCHEDULE OF THE STATUS OF PRIOR AUDIT FINDINGS

There were no findings or questioned costs reported in the SRF's prior year federal single audit.



APPENDICES

Appendix I: State Authorizations & Federal Capitalization Grants As of June 30, 2001

Federal Funding Authorizations

		Project Funds	Administrative Funds	Total
Federal Funding	FY 97	14,771,658	6,646,542	21,418,200
Federal Funding	FY 98	4,913,697	2,207,603	7,121,300
Federal Funding	FY 99	5,150,022	2,313,778	7,463,800
Federal Funding	FY 00	5,352,330	2,404,670	7,757,000
Federal Funding	FY 01	5,374,479	2,414,621	7,789,100
Total Federal Funding		35,562,186	15,987,214	51,549,400

Federal Capitalization Grants

	CWF-DWF Revolving Loan Account 3105-6868-999	Drinking Wa- ter Revolving Loan Program Set-Aside 0000-4001-991	Drinking Wa- ter Revolving Loan Program State Manage- ment 0000-4001-992	DWSRF 2% Technical Assis- tance Set-Aside 0000-4001-993	Local Assis- tance Set – Aside Account 0000-4001-994	Total
1997 Award	14,771,658	856,328	2,140,820	428,164	3,211,230	21,408,200
Drawn thru 6/30/01	12,867,088	856,328	1,252,087	426,389	797,981	16,199,873
Balance	1,904,570	-	888,733	1,775	2,413,249	5,208,327
1998 Award	4,913,697	284,852	712,130	142,426	1,068,195	7,121,300
Drawn thru 6/30/01	-	284,852	-	-	-	284,852
Balance	4,913,697	-	712,130	142,426	1,068,195	6,836,448
1999 Award	5,150,022	298,552	746,380	149,276	1,119,570	7,463,800
Drawn thru 6/30/01	-	48,823	-	-	-	48,823
Balance	5,150,022	249,729	746,380	149,276	1,119,570	7,414,977
Total Awarded to date	24,835,377	1,439,732	3,599,330	719,866	5,398,995	35,993,300
Drawn thru 6/30/01	12,867,088	1,190,003	1,252,087	426,389	797,981	16,533,548
Total Balance	11,968,289	249,729	2,347,243	293,477	4,601,014	19,459,752

Appendix II: Credit Quality— Financial Assistance by Bond Rating

Borrower	A & above	Not Rated	Total Loans
PUBLIC			
East Hampton Water Pollution Control	1,045,000.00		1,045,000.00
East Lyme Water & Sewer Commission	995,000.00		995,000.00
City of Groton DPUC	535,000.00		535,000.00
Ledyard Senior High School (Ledyard)	510,000.00		510,000.00
Metropolitan District Commission (a, ac, b, c, m, r)	16,676,000.00		16,676,000.00
City of New Britain	12,682,987.00		12,682,987.00
Noank Water Department	268,250.00		268,250.00
Norwich Water Company	2,737,000.00		2,737,000.00
Town of Portland	2,500,000.00		2,500,000.00
Twin Hills Taxing District	223,500.00		223,500.00
Town of Sharon: Sewer & Water Comm (a, b, c)	3,389,000.00		3,389,000.00
Watertown Fire District (a)*	435,500.00		435,500.00
PRIVATE			
Bridgeport Hydraulic Company (BHC)		391,038.00	391,038.00
Cook Willow Realty		705,332.00	705,332.00
Crystal Lake Condominium Assoc.		325,000.00	325,000.00
Harrybrooke Park Condominium Assoc.		300,000.00	300,000.00
Hillside Water Corporation*		170,000.00	170,000.00
Totals	41,997,237.00	1,891,370.00	43,888,607.00
Percent of Totals	95.69%	4.31%	100%

* To be funded during State Fiscal Year 2002

APPENDIX III: Funded Loan Listing Fiscal Year 2001

Closing Date	Borrower	Project No.	SCD	IFO	IFO Amount
PUBLIC					
06/26/00	New Britain	9802-C	11/30/01	IFO	12,682,987
09/28/00	Norwich Water Company	9714-C	12/31/01	IFO	2,737,000
01/19/01	Watertown Fire District	9803-C	03/31/01	IFO	950,000
PRIVATE					
09/21/00	BHC	9701-C	02/28/01	IFO-Extension	391,038
09/21/00	Cook Willow Realty	9706-C	11/30/01	IFO-Extension	705,332
07/13/00	Crystal Lake Condo	9711-C	12/31/01	IFO-Extension	325,000

BHC Company – Stamford

BHC Company received a binding commitment of \$391,038 which will be used for the upgrading of the Vine Road Pump Station. This upgrade will eliminate minor problems in the high service areas, ensure peak demands are reliably met and adequate supplies are available for the southern section including an interconnection with Greenwich.

Cook Willow Realty

Cook Willow Realty received a binding commitment of \$705,332 on 9/21/00 to interconnect with the Connecticut Water Company. This project corrects the Department of Public Health's finding regarding the exceedence of the Lead and Copper Rule. It will also eliminate the cost of installing a corrosion control chemical feed system. Cook Willow would become a customer of Connecticut Water Company and therefore will no longer be a public water system.

Crystal Lake Condominium Association

Funding for the Crystal Lake Condominium Association's project will be used for the construction of a new public water drinking system. This project addresses system deficiencies to maintain compliance with the Public Health Code Regulations.

Norwich Water Company

The Norwich Water Company received a binding commitment of \$2,737,000 to replace asbestos cement pipe with ductile iron pipe. Asbestos cement pipe allows for a potential exposure to asbestos fibers, therefore, it is prudent to replace these pipes.

Watertown Fire District

Funding for the Watertown Fire District's project will be used for the design and construction of a distribution pump station. The existing pump station is old and undersized and needs to be replaced. The new pump station will be able to meet the demand and maintain adequate pressure at all times.

New Britain

Funding for New Britain will be used for the planning, design and construction of a new water treatment plant and the related infrastructure at the existing Shuttle Meadow Reservoir treatment plant location. This funding is part of Phase I.

APPENDIX IV: Pending Projects

BORROWER	LOCATION	COST	STATUS
Hillside Water Corporation	Marlborough	\$170,000	2000 Funding
Watertown Fire District (b)	Watertown	\$435,000	1998 Funding

Proposed Eligible Projects Potentially to be Funded in FY 2002

APPLICANT	LOCATION	ANTICIPATED LOAN AMOUNT
PUBLIC		
East Hampton Water Pollution Control	East Hampton	\$1,045,250
East Lyme Water & Sewer Commission	East Lyme	\$995,000
City Of Groton DPUC	Groton	\$1,500,000
Ledyard Senior High School	Ledyard	\$510,000
Metropolitan District Commission (ac)	West Hartford	\$750,000
Metropolitan District Commission (m)	Bloomfield	\$4,917,400
Metropolitan District Commission (r)	West Hartford	\$2,882,000
New Britain	New Britain	\$24,000,000
Noank Water Department	Groton	\$268,250
Town of Sharon: Sewer & Water Commission	Sharon	\$655,000
Unionville Water	Unionville	\$2,102,000
Watertown Fire District	Watertown	\$435,500
	TOTAL	\$40,060,400
PRIVATE		
Strawberry Park	Preston	\$1,130,000
Hillside Water Company	Marlborough	\$170,000
	TOTAL	\$1,300,000

Appendix V: DWSRF Priority Ranking List for Federal Fiscal Year 2002

#	Name	ID#	Purpose	Amount
PROJECTS FEDERAL FISCAL YEAR 2000				
Private				
1	Hillside Water Corp.—Marlborough	PDC 2000 0790021a	To replace water main and dist. system	\$ 170,000
2	Unionville Water Co.—Farmington	C 970520011b	Alternative water supply (partial payment)	67,995
Public				
1	MDC	C 20000640011o	Filter bed reconditioning - W. Hartford	586,000
2	MDC	C 20000640011m	Construct water main in Bloomfield	4,917,000
3	City of Groton DPUC	PDC 2000 0590011j	Interconnection to CT American Wtr Co.	535,000
TOTAL FFY 2000				\$6,275,995
PROJECTS TO BE FUNDED FEDERAL FISCAL YEAR 2001 - IN WHOLE OR IN PART				
Private				
1	Strawberry Park Rv Resort Inc.	PDC 2001 1140471a	System upgrade—Preston	1,130,000
2	Forest Homes Assn - Marlborough	DC 2001 0790011a	Replace holding tank in pump house	49,000
3	Crestview Condo Assn - Cheshire	C 2001 0251021a	Replace holding tank of well	20,000
Public				
1	East Hampton Wtr Pollution Contol	PDC 2001 0429031a	Construction Wtr System	1,045,250
2	Ledyard Senior High School	PDC 2001 0721133a	Connect to Highland Water System	510,000
3	East Lyme Water & Sewer Comm.	DC 2001 0450011b	Increase supply safe yield (Well #6)	995,000
4	City of Groton Dept of Utilities	DC 2001 0590011k	Interconnection to CT American Wtr Co.	535,000
5	MDC-Reservoir 6	C 2001 0640011ac	Wtr supply pipe cleaning	750,000
6	MDC-West Hartford	C 2001 0640011r	Gen. Pur. Program New London Turnpike	2,882,000
7	Noank Water Dept. - Groton	PDC 2001 0590031a	Main ext., Groton Point Road	268,250
TOTAL FFY 2001				8,184,500
TOTAL COMMITMENTS				\$14,460,495

Appendix V: DWSRF Priority Ranking List for FFY 2002

#	Name	ID#	Purpose	Amount
REMAINING ELIGIBLE PROJECTS				
9	City of Groton Dept of Utilities	C 2001 0590011l	Water main extension	\$ 675,000
10	MDC-Bloomfield	C 2001 0640011x	Duncaster Rd, Bloomfield Water Main	3,000,000
11	MDC-Portland (Phase I)	C 2001 0640011w	South Mill Village pump station	500,000
12	MDC-West Hartford	PDC 2001 0640011q	West Htfd Wtr Tr Facility Imp.	5,000,000
13	MDC-Bloomfield	PDC 2001 0640011s	Bloomfield Water Treatment Facility	5,000,000
14	MDC-West Hartford	C 2001 0640011u	Electrical system upgrade Phase II	2,425,000
15	MDC	C 2001 0640011ae	System Improvements (Assessable Water Program)	1,350,000
16	City of Groton Dept of Utilities	P 2001 0590011m	Optimization Study Phase II Water Treatment Plant	79,920
17	MDC-Bloomfield	C 2001 0640011t	Bloomfield Water Treatment Facility	2,500,000
18	MDC	C 2001 0640011z	Water storage facilities improvements	550,000
19	City of Meriden	P 2001 0800011g	Water facilities master plan	175,000
20	Sharon Sewer & Water Comm.	C 2001 1250011a	Waterman replacement project #2	995,000
21	East Lyme Water & Sewer Comm.	DC 2001 0450011a	Repaint, drain, clean, repair tank	174,500
22	East Lyme Water & Sewer Comm.	PDC 2001 0450011c	Water main replacement Corey Lane	307,000
23	MDC	C 2001 0640011v	Systems improvements var. locations	950,000
24	MDC	C 2001 0640011y	Replace roofing system var. locations	275,000
25	MDC	C 2001 0640011aa	Underground fuel storage replacement	287,730
26	MDC-West Hartford	DC 2001 0640011ab	Water main replacement (Farmington Avenue)	2,500,000
27	MDC-West Hartford	C 2001 0640011ad	Equipment replacement & refurbish	287,500
28	City of Meriden	D 2001 0800011a	Distribution system water quality monitoring	70,000
29	City of Meriden	PDC 2001 0800011b	Rehab of raw water pipeline	500,000
30	City of Meriden	PDC 2001 0800011d	Water main improvement & maintenance program	1,000,000
31	City of Meriden	DC 2001 0800011f	Installation system-wide Scada sys.	2,500,000
32	City of Meriden	DC 2001 0800011i	Water storage tank rehabilitation	200,000
33	City of Meriden	DC 2001 0800011j	Install emergency generator	100,000
34	Southeastern CT Wtr Auth-Ledyard	P 2001 0720011a	Water supply plan for Southeastern Connecticut	150,000
35	City of Meriden	2001 0800011e	Watershed acquisition program	250,000
36	City of Meriden	P 2001 0800011h	Update water supply plan	100,000
37	City of Meriden	C 2001 0800011k	Merimere Dike repairs	300,000
38	City of Meriden	PD 2001 0800011c	Level "A" mapping project	575,000
TOTAL				\$32,776,650

APPENDIX VI: Application Process

To qualify for funding, the project must be listed on 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 Department 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, DPH prepares an environmental assessment of all activities to be undertaken in order to insure that the project is consistent with the State Plan of Conservation and Development. The assessment report is submitted to the Physical Resource Planning Section of OPM for final concurrence.
- **Credit Review (Treasurer's Office, DPUC and the Interagency Committee):** The applicant must be creditworthy, and the DWSRF 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 VII: Summary of Project Grant and Loan Agreements

In accordance with the State's Clean Water Fund and Drinking Water program, as required by the Connecticut General Statutes 22a-475-483, the mechanism by which financial assistance is provided to the municipality is the Project Loan Agreement, between the municipality and the State. Under each loan agreement, the State agrees to make loans for eligible project costs incurred by the Municipality, upon the terms and in the maximum amount specified. Funds are disbursed to a municipality 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 which 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 a municipal obligation for which each municipality pledges its full faith and credit and/or a dedicated source of revenue. In 1996, the first loan agreement secured only with a dedicated source of revenue was closed.

Principal and interest payments on loans are payable (i) in equal monthly installments commencing one month after the scheduled completion date, or (ii) in a single annual installment representing the first years principal and interest not later than one year after the scheduled completion date and thereafter in monthly installments.

Loans made under loan agreements entered into prior to July 1, 1989 are repayable in annual installments. Borrowers may elect to make level debt service payments or level principal payments. Municipalities may prepay their loans at any time prior to maturity and there is no penalty for prepayment of loans.

Below is a summary of the details covered by the Project Loan Agreement.

1.Loan Provisions

Loan Clauses [Section 4.1] and [Sections 4.3 and 4.5]
Prepayment by Municipality [Section 4.6]
Disbursement of Loan Proceeds [Sections 4.4 and 7.5]
Reimbursement of the State [Section 4.5]
Remedies [Section 9.2]

2.The Project

Construction and Maintenance of the Project [Sections 7.1 and 7.3]

3.Compliance with Law [Section 6.8]

4.Tax Compliance [Section 7.7]

5.Modifications and Amendments [Section 10.10]

Appendix VIII: Summary of the General Bond Resolution

Sections

1. Accounts and Reports (Section 905)
2. Agreement of the State (Section 915)
3. Bond Anticipation Notes (Section 208)
4. Compensation of Trustee (Section 805)
5. Covenant with Respect to Clean Water Fund Revenue Bond Program (Section 916)
6. Debt Service Fund (Section 505)
7. Debt Service Reserve Fund (Section 506)
8. Establishment of Funds and Accounts (Section 502)
9. Federal Tax Covenant (Section 913)
10. Interest Subsidy Fund (Section 507)
11. Issuance of Additional Obligations Other than Refunding Bonds (Section 209)
12. Loan Fund (Section 504)
13. Payment of Bonds (Section 901)
14. Pledge (Section 501)
15. Power to Issue Bonds and Make Pledges (Section 903)
16. Resolution to Constitute Contract [Section 202]
17. Revenue Fund [Section 503]
18. State Tax Covenant (Section 914)

Appendix IX: Drinking Water Fund Accounts with Trustee

For the first time, with the June 2001 issuance, proceeds from a Clean Water Fund revenue bond will provide funding for Drinking Water Fund municipal projects. Information on the bonds, the General Resolution under which the bonds are issued and the accounts and investment of the Fund are provided below. The following funds are created under the General Bond Resolution:

Revenue Fund. The Trustee deposits all pledged loan repayments into the Pledged Receipts Account. The Revenue Fund also includes an Earnings Account, Rebate Fund, Federal Letter of Credit and Undesignated Accounts. 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.

Then to the extent funds in the Pledged Receipts Account are available therefore 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.

Upon the delivery of a cash flow sufficiency certificate from the Fund Administrator, the State will withdraw these funds free and clear of the lien of the General Bond Resolution. Although these funds may be used for any SRF purpose, the State is required to apply such excess funds first to pay debt service on the Subordinate Refunding Bonds.

Loan Fund. The 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.

Debt Service Fund. Amounts on deposit in the Debt Service Fund will be used for the payment of debt service on the Bonds when due. 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; second, from the Interest Subsidy Fund; and third, 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 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

The Trustee will pay out of the Redemption Account of the Debt Service Fund on each Redemption date (as set forth in a Series Resolution) for any Bonds for which there has not been made Sinking Fund Installments, the amounts required for the payment of such Redemption Price on the Redemption Date.

Debt Service Reserve Fund (DSRF). The DSRF 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,
2. State general obligation bonds and,
3. other amounts provided by the State and received by the Trustee for deposit therein.

Interest Subsidy Fund. The Interest Subsidy Fund has been established outside of the SRF for only the Clean Water portion of the program, and will be funded in an amount equal to the aggregate debt service payable on Outstanding Bonds minus (a) earnings on investments held in the Debt Service Reserve Fund,

Appendix IX: Drinking Water Fund Accounts with Trustee (Continued)

(b) repayments of Municipal Obligations, (c) amounts on deposit in the Revenue Fund at the beginning of the applicable period, (d) earnings on certain funds or on such amounts expected to be transferred or received during the applicable period and (e) earnings on the Drinking Water portion of the Debt Service Reserve. Funds in the Interest Subsidy Fund will be used to pay the interest, principal, and Sinking Fund Installments due on Bonds, as provided in the General Bond Resolution. The Interest Subsidy Fund will be funded from maturing principal and interest on state general obligation bonds held in such fund.

Investment of Funds

The State may invest funds under the Resolution in Investment Obligations.

The State currently invests a significant portion of the funds and accounts created under the General Bond Resolution in investment agreements with financial institutions. The General Bond Resolution requires that such 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 Investor Service or any rating service recognized by the State banking commissioner, provided that such institutions will have a rating from Standard & Poor's and Moody's Investors Service at least equal to the rating on the Bonds. Certain funds currently held in the Debt Service Reserve Fund are invested pursuant to investment agreements, collateralized with securities issued or guaranteed by the U.S. Government or agencies or instrumentalities thereof whose market value is at least 100% of the funds invested. Currently the Fund has guaranteed investment contracts with the following entities: AIG, Societe Generale, CDC Funding Group.

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 - AIG
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.	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 principal on outstanding bonds.	Trustee	Yes - AIG
c. Redemption Account	Receives amounts from the interest and principal accounts for the redemption of bonds. Used for redemption of bonds.	Trustee	Yes - AIG
d. Capitalized Interest Account	Receives any capitalized interest received by the trustee. Amounts in the account are transferred for payment of capitalized interest on outstanding bonds	Trustee	Yes - SSB
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.	Trustee	Yes - SSB
Administrative Fund: Cost of Issuance Account	Established outside the SRF, receives a portion of the revenue bond proceeds. Investment income is transferred to the revenue fund for debt service payments. Used to pay issuance cost on revenue bonds.	Trustee	Yes - SSB
Rebate Fund	Receives any earnings required to be rebated to the United States pursuant to the Tax Regulatory Agreement. Used for IRS obligations as required.	Trustee	Yes - SSB

Appendix X: Notes to the Financial Statements For the Fiscal Year Ended June 30, 2001

NOTES TO THE FINANCIAL STATEMENTS: FEDERAL ACCOUNT

These are the internally prepared statements for the federal account. An audit of the federal account has been performed by DiSanto, Bertoline & Company, P.C. and the internally prepared statements are consistent with the audited statements. For the second consecutive year, the DWF Federal account has received a clean audit.

DEBT SERVICE SCHEDULE FOR THE REVENUE BONDS

The following table sets forth the annual debt service requirements for both the CWF and the DWF for the Outstanding Bonds together with the Subordinate Refunding Bonds:

Period Ending June 30	Debt Service on Outstanding Bonds	Debt Service on 2001 Bonds	Outstanding Total Debt Service on Bonds	Aggregate Debt Service on Subordinate Refunding Bonds	Debt Service on Bonds and Subordinate Refunding Bonds
2002	\$ 49,799,383	\$ 3,934,894	\$ 53,734,277	\$ 7,570,748	\$ 61,305,025
2003	44,203,649	4,721,873	48,925,522	7,610,594	56,536,116
2004	43,322,044	8,690,873	52,012,917	12,424,988	64,437,905
2005	42,385,931	8,617,073	51,003,004	17,048,778	68,051,782
2006	36,062,969	8,539,673	44,602,642	11,646,310	56,248,952
2007	35,204,881	8,463,573	43,668,454	11,558,008	55,226,462
2008	34,360,947	8,378,773	42,739,720	16,774,789	59,514,509
2009	33,461,124	8,290,373	41,751,497	16,448,198	58,199,695
2010	30,952,176	8,208,173	39,160,349	16,266,034	55,426,383
2011	28,397,694	8,117,268	36,514,962	15,831,020	52,345,982
2012	27,545,631	8,015,155	35,560,786	10,260,050	45,820,836
2013	24,867,375	7,908,828	32,776,203	11,561,969	44,338,172
2014	22,344,070	7,777,470	30,121,540	11,548,413	41,669,953
2015	21,831,186	7,620,613	29,451,799	4,408,656	33,860,455
2016	21,173,307	7,460,624	28,633,931	4,560,650	33,194,581
2017	20,554,698	7,288,730	27,843,428	1,400,825	29,244,253
2018	20,025,688	7,114,775	27,140,463		27,140,463
2019	14,816,863	6,946,745	21,763,608		21,763,608
2020	13,825,456	6,777,220	20,602,676		20,602,676
2021	7,502,650	6,593,875	14,096,525		14,096,525
2022	7,309,197	6,410,318	13,719,515		13,719,515
2023	7,109,163	6,235,040	13,344,203		13,344,203
TOTAL	\$ 587,056,082	\$ 162,111,939	\$ 749,168,021	\$ 176,920,030	\$ 926,088,051

NOTES TO THE FINANCIAL STATEMENTS: STATE ACCOUNT

These are the internally prepared statements for the state account.

Appendix XI Cumulative Projects Funded by the Drinking Water Fund As of June 30, 2001

APPLICANT	ID #	TOWN	DESCRIPTION	FEDERAL FUNDS	STATE FUNDS	LOAN AMOUNT
BRIDGEPORT HYDRAULIC COMPANY	PDC971350011a	STAMFORD	UPGRADING VINE ROAD PUMP STATION	\$391,038		\$391,038
COOK WILLOW REALTY	DC971110111a	PLYMOUTH	INTERCONNECT WITH CONNECTICUT WATER COMPANY	\$705,332		\$705,332
CRYSTAL LAKE CONDOMINIUM ASSOCIATION	C97121002131a	SALEM	CONSTRUCT NEW WATER SYSTEM	\$325,000		\$325,000
HARRYBROOKE PARK CONDOMINIUM ASSOCIATION	PDC970960131	NEW MILFORD	INTERCONNECT WITH UNITED WATER COMPANY	\$300,000		\$300,000
METROPOLITAN DISTRICT COMMISSION (a)	DC970640011a	BLOOMFIELD	NUMEROUS IMPROVEMENTS	\$2,093,000		\$2,093,000
METROPOLITAN DISTRICT COMMISSION (b)	DC970640011b	WEST HARTFORD	SYSTEM REPAIRS & UPGRADES	\$3,996,250		\$3,996,250
METROPOLITAN DISTRICT COMMISSION (c)	DC970640011c	BLOOMFIELD, HARTFORD, WEST HARTFORD	WATER MAIN REPLACEMENT	\$2,038,000		\$2,038,000
CITY OF NEW BRITAIN	PDC980890011a	NEW BRITAIN	NEW WATER TREATMENT PLANT - PHASE I	\$10,865,967	\$1,817,020	\$12,682,987
NORWICH WATER COMPANY	DC971040011a	NORWICH	REPLACE ASBESTOS PIPE WITH DUCTILE IRON PIPE	\$955,360	\$1,781,640	\$2,737,000
TOWN OF PORTLAND	DC971130011	PORTLAND	INTERCONNECT WITH METROPOLITAN DISTRICT COMMISSION (a)	\$2,500,000		\$2,500,000
TOWN OF SHARON: SEWER & WATER COMMISSION (a)	DC971250011a	SHARON	PUMP STATION	\$210,000		\$210,000
TOWN OF SHARON: SEWER & WATER COMMISSION (b)	DC971250011b	SHARON	INTAKE & PIPELINE UPGRADE, WATER FILTRATION TREATMENT PLANT, STORAGE TANK (REFINANCE)		\$1,100,000	\$1,100,000
TOWN OF SHARON: SEWER & WATER COMMISSION (a98)	C981250011a	SHARON	WATER MAIN REPLACEMENT	\$1,084,010		\$1,084,010
TWIN HILLS TAXING DISTRICT	C970320061a	COVENTRY	DISTRIBUTION & SOURCE IMPROVEMENTS	\$223,500		\$223,500
WATERTOWN FIRE DISTRICT	DC981530011a	WATERTOWN	NEW DISTRIBUTION PUMP STATION	\$950,000		\$950,000
CUMULATIVE TOTALS				\$24,137,457	\$7,198,660	\$31,336,117

This report is submitted to supplement the information in the State of Connecticut Drinking Water Fund EPA SRF Report for the fiscal year ended June 30, 2001, which meets the biannual reporting requirements of the Fund. The information in this supplement concerns only the State Drinking Water Fund Federal account which has been designated the State Revolving Fund (SRF). This account includes the federal capitalization grant and the required state match in compliance with federal statutes.

Financial Ratio Analysis Federal Account

Using the final EPA Guidance relating to the Financial Assessment of the State Revolving Fund (SRF) Program, management of the Drinking Water Fund performed a ratio analysis for the fiscal years ending June 30, 1999, 2000 and 2001. The results are detailed on the attached worksheet. Of note are the following:

1. The Fund shows more than sufficient liquidity since the Fund has just begun to leverage.
2. With regard to the quality of the Drinking Water Fund assets, as of June 30, 2001, the Drinking Water Fund federal account had assets totaling \$62.8 million composed mainly of loans receivable, investments held in the debt service reserve fund, the debt service fund and the loan fund.
3. There was a 12.2% increase in loans outstanding over fiscal year 2000, indicating a dramatic growth in the Fund.
4. Total fund balance was \$32.6 million of which \$14.2 million was reserved for loans.
5. Liabilities totaled \$30.2 million in outstanding revenue bonds.

The Fund has a strong capitalization with asset to liability ratio of 1.04% in fiscal year 2001. Total fund balance increased to 2 times the cumulative capitalization grants reflecting State overmatch.

Appendix XII (Continued)
Supplement to the EPA SRF Annual Report
For the Fiscal Year Ended June 30, 2001

FINANCIAL RATIO ANALYSIS	PREPARED FOR FEDERAL EPA		
(1) CURRENT RATIO:	FY 1999	FY 2000	FY 2001
Current Assets:			
Cash & Equivalents	\$0	\$0	\$13,458
Int/rcvble Investments	\$0	\$0	\$108,202
Due from other state fund	\$3,041	\$10,501	\$0
Grant Receivable	\$0	\$0	\$0
Loans Receivable current portion	\$0	\$1,535,637	\$17,252,271
Loan Fund	\$0	\$0	\$14,141,641
Debt Service Fund	\$0	\$0	\$13,284,668
Free-up from reserve fund	\$0	\$0	\$0
Total Current Assets	\$3,041	\$1,546,138	\$44,800,240
Current Liabilities:			
Revenue bond interest payable	\$0	\$0	\$116,531
Due to other state fund	\$0	\$0	\$0
Deferred grant revenue	\$3,041	\$10,501	\$10,061
Revenue bonds payable(current)	\$0	\$0	\$0
Total Current Liabilities	\$3,041	\$10,501	\$126,592
CA/CL	0	147.24%	353.89%
(2) ASSET/LIABILITY RATIO			
Long term assets:			
Interest Receivable	\$0	\$6,490	\$213,641
Loans recble-less current portion	\$0	\$0	\$1,535,637
Reserve fund(less free-up)	\$0	\$0	\$16,285,500
Short term assets convertible:			
Federal Cap grant	\$682,776	\$2,683,387	\$13,156,284
Total	\$682,776	\$2,689,877	\$31,191,062
Long Term Debt:			
Rev bonds pyble-less current portion	\$0	\$0	\$29,614,747
Deferred grant revenue	\$3,041	\$10,501	\$10,061
Premium on revenue bonds	\$0	\$0	\$491,370
Total	\$3,041	\$10,501	\$30,116,178
A/L	224.52%	256.15%	1.04%
(3) EQUITY GROWTH			
Capitilization Grants	\$21,408,200	\$35,993,300	\$43,750,300
State Match Contribution	\$0	\$1,984,002	\$2,573,420
Overmatch Contribution	\$0	\$0	\$7,824,580
Retained Earnings	\$0	\$1,584,597	\$32,602,309
Total Equity	\$21,408,200	\$39,561,899	\$86,750,609
Equity/Cap grant	1.00%	1.10%	1.98%
(4) BINDING COMMITMENT			
Binding Cmtments or closings	\$0	\$1,535,637	\$18,787,908
Cap Grants	\$21,408,200	\$35,993,300	\$43,750,300
Binding Commitment Ratio	0.00%	0.04%	0.43%
(5) PROJECT COMPLETION			
Projects Completion	\$0	\$1,059,472	\$5,911,328
Cap Grants	\$21,408,200	\$35,993,300	\$43,750,300
Project Completion Ratio	0.00%	0.03%	0.14%
(6) DEFAULT RATIOS			
There have been no defaults			
(7) QUALITY OF INVESTMENTS			
Total Loans	\$0	\$1,535,637	\$18,787,908
Total Assets	\$3,041	\$1,595,098	\$62,835,018
TL/TA	0.00%	0.96%	0.30%



