

STATE OF CONNECTICUT



State Revolving Fund Programs:

DRINKING WATER FUND

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

2007 ANNUAL REPORT

State of Connecticut

DRINKING WATER FUND



Keeping Connecticut Healthy

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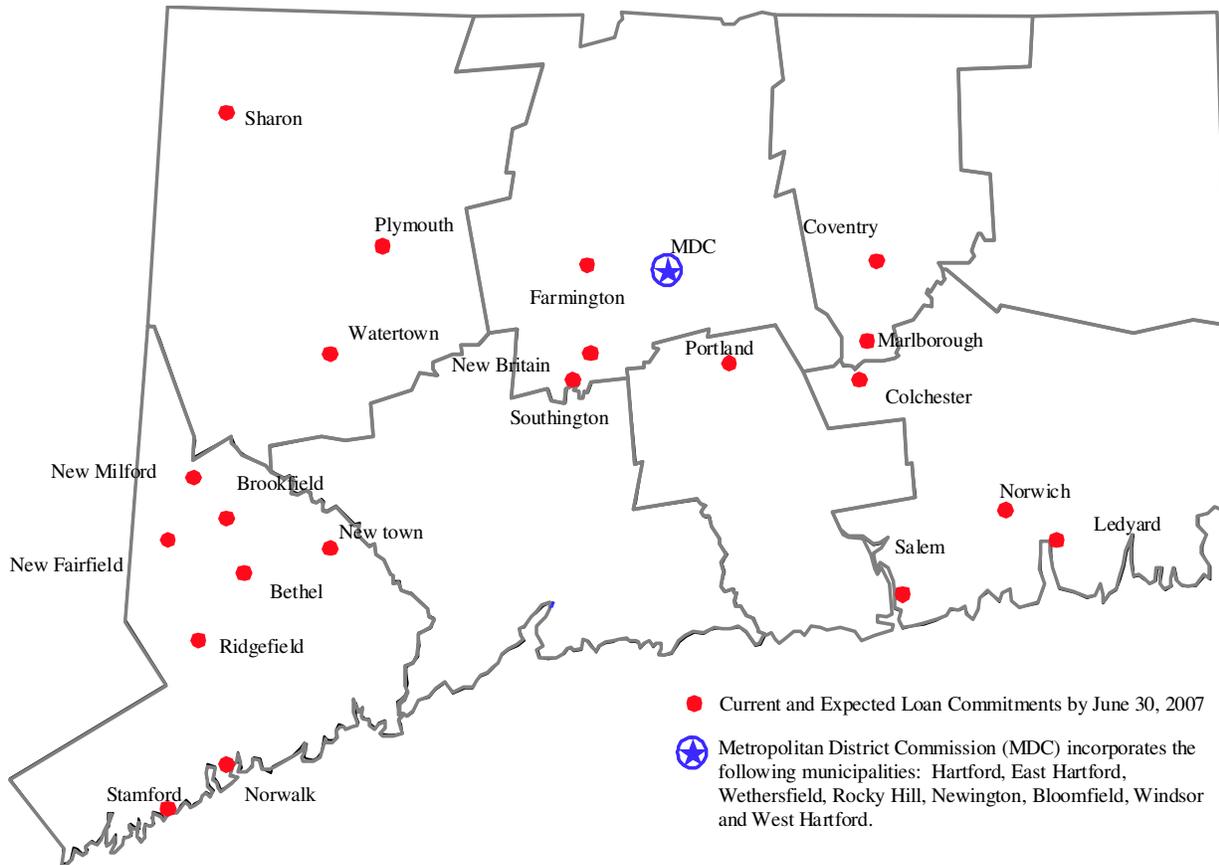
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Location of Drinking Water Projects



This report for the fiscal year ending June 30, 2007, is the ninth Annual Report to the Governor on the Drinking Water Fund. It has been prepared jointly by the Department of Public Health Drinking Water Section (DPH) and the State Treasurer's Office's Debt Management Division (OTT) with assistance from the Department of Environmental Protection (DEP). Included in this report is the history of the Drinking Water Fund, a review of the program during fiscal year 2007, descriptions of the revenue bond program, projections of future project funding, and the management initiatives for fiscal year 2008. As a major recipient of federal financial assistance, the State must provide audited statements and comply with the federal Single Audit Act of 1984. The audited statements for fiscal year ending June 30, 2007, provided in this report, have been prepared by a firm of independent certified public accountants.

This report includes some references to the Clean Water Fund, and information on the Clean Water Fund is available in a separate annual report. Copies of this and previous annual reports since 2001 are available on the State Treasurer's Office website at www.state.ct.us/ott.

Connecticut Drinking Water Fund Annual Report 2007

Executive Summary

The Connecticut Drinking Water Fund is a collaborative effort of five state agencies and the U.S. Environmental Protection Agency (EPA). The Department of Public Health (DPH), the primary agency responsible for ensuring the quality of the state's drinking water, oversees the administrative, programmatic, and technical components of the Drinking Water Fund. The DPH works closely with the Department of Environmental Protection (DEP), the State Treasurer's Office, the Department of Public Utility Control, and the Office of Policy and Management, all of which provide administrative, technical, or financial assistance to the DPH, contributing to the success of Connecticut's drinking water initiatives.

The Drinking Water Fund program provides low interest rate loans to eligible public water systems for drinking water infrastructure improvements, as well as funding for set-aside activities. The DPH Drinking Water Section also utilizes 31% of each of the federal grant to fund various initiatives that would not have been otherwise funded by either state or federal funds.

To date, the state has executed 26 loans for over \$87 million. One project loan was executed during fiscal year 2007, and two loans are expected to close in the first quarter of 2008.

The DPH is currently working with the EPA on how to enhance the loan program for small public water systems that need low-cost loans, generally for under \$100,000. The department also is developing a marketing strategy to inform those smaller public water systems about the Drinking Water Fund program.

Pertaining to career and outreach efforts, the DPH held training sessions for the operators and staff of local water companies and it launched a career fair for high school students and their guidance counselors. The training sessions provided the water company operators and employees an opportunity to gain insight about the drinking water industry and to network with their industry peers from other states. The agency's inaugural career fair, held during the week of May 6-12 to coincide with the national observance and celebration of the 33rd anniversary of the Safe Drinking Water Act, was focused on prospective careers in the water quality industry. Based upon the positive response to the fair, the DPH plans to conduct another fair in 2008.

2007 Activities and Accomplishments

The Drinking Water Fund program achieved a number of accomplishments in fiscal year 2007. Below is a list of the highlights:

- Conducted 751 water quality sanitary surveys at public water systems to address water quality issues and meet consumer demand.

- Consolidated 41 nonviable public water systems, which had significant unresolved financial, managerial, and technical issues with other systems.
- Conducted 403 reviews of public water systems and their water works projects that were submitted for permitting or approval.
- Reviewed 43 applications for new public water supply wells, and approved 38.
- Worked with numerous stakeholders to continue implementation of the state's Drinking Water Quality Management Plan, which is designed to support the collection, generation, compilation, analysis, evaluation, and use of environmental and public health data to meet the water quality goals of the state.
- Achieved 99% system compliance with operator certification requirements, with 78 systems achieving compliance as a result of formal and informal enforcement during the reporting period.
- Prepared guidance documents, work plans and long-term strategies for Drinking Water Fund program management and EPA required reports.
- Coordinated, conducted, and participated in several training initiatives for local officials, including a training session on the procedures for conducting the water quality sanitary surveys, which was held at the 2006 Atlantic States Rural Water and Wastewater Conference. The DPH also expanded its operator training to include additional courses, such as a regulations and a basic operator course for school water system operators.

Background

The State of Connecticut State Revolving Funds provide financial assistance to municipalities and private entities for the construction, rehabilitation, expansion, or improvement of systems for the storage, treatment, recycling, and reclamation of water and wastewater. The Connecticut General Statutes Sections 22a—475 to 485 inclusive, authorize the state revolving fund programs to apply for and receive federal funds and to provide low-cost financing. The state's revolving fund programs consist of: (1) the wastewater pollution control revolving fund program, or the Clean Water Fund, established by the state under the federal Water Quality Act of 1987, and (2) the Drinking Water Fund, established by the state under the 1996 amendments to the Federal Safe Drinking Water Act (SDWA).

These amendments to the SDWA authorize the U.S. Environmental Protection Agency (EPA) to offer state capitalization grants for the Drinking Water Fund. Nationwide, there have been federal authorizations of \$1 billion annually for the SDWA through federal fiscal year 2003. From federal fiscal year 2004 to the present, Connecticut has received annual appropriations of approximately \$8.3 million.

The DPH is responsible for compliance with federal and state drinking water mandates. As part of the DPH, the Drinking Water Section's mandate is to protect public health through regulatory oversight of public water systems throughout the state.

In the course of a day, the majority of Connecticut residents and most visitors to the state come into contact with drinking water provided by a public water system. Connecticut has worked diligently to recognize that water resources are not limitless, and that responsible planning and conservation are essential elements to maintaining a sufficient safe drinking water supply.

The Drinking Water Section is responsible for the administration of the Drinking Water Fund. It is the Department's mission to "influence, through regulation and communication, the behavior of public water systems so that they take all necessary precautions to protect and preserve sources and systems of drinking water supply."



Today, Connecticut maintains some of the best drinking water in America.

Summary Of Activities And Accomplishments In 2007

The state through the Drinking Water Section of the DPH uses the Drinking Water Fund federal capitalization grants to assist public water system operators in meeting federal water quality mandates. Major activities and accomplishments during the 2007 fiscal year in the program areas of the Drinking Water Fund are described below.

Projects and Administrative 4% Set-Aside

The City of Norwalk Second Taxing District's project to upgrade an existing ten million gallon per day water treatment plant to a new and improved technology of immersed membrane filtration is under construction. This project received one of the largest Drinking Water Fund loans of \$24.7 million which was closed at the end of fiscal year 2006.



One new project loan was executed during the 2007 fiscal year. The Town of Ledyard's project loan for \$926,006 provided funding for the installation of a water main extension to the center of town and water pressure modifications at the Gallup Hill

Pumping Station. This area was served by a single well that historically had water quality problems. The modifications to the pumping station will provide adequate water pressure to the water main.

During the fiscal year the Drinking Water Public Hearing/Open Forum was held to review the 2007 draft priority list of projects. Also during the year, two projects were approved by the State Bond Commission: 1). a \$285,000 project for Candlewood Trails Association in New Milford for well and water system modifications and improvements due to E. coli bacteria in its water storage tanks and pumps; and 2) a \$2.6 million project for the Town of Colchester, Sewer and Water Commission for the upgrading of the existing pump and treatment facility.

Small Systems Technical Assistance 2% Set-Aside

The Drinking Water Section uses this set-aside to provide assistance to small public water systems serving fewer than 1,000 people. In 2007, emphasis was placed on development of technical guidelines for various water works projects to help with the planning, design, and construction of these projects. Some of the activities for the year included:

- Preparing guidelines for the design and construction of water storage tanks, pumping facilities, chlorination, filtration, and chemical feed treatment systems.
- Improving the project database that tracks the progress of infrastructure improvement projects for small water systems.
- The project tracking database was also redesigned to allow for tracking specific milestones for loan applications.
- Leading efforts to review projects and provide technical assistance to facility operators as projects were submitted.

Local Assistance and Other State Programs 15% Set-Aside

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

Capacity Development

The staff funded under this set-aside is responsible for assessing compliance with state regulations and the SDWA. As enforcement actions are initiated, staff assesses the causes or triggers of any violations and assists the systems in recognizing corrective measures to return the system to compliance with the regulations. Systems that do not correct existing violations through technical assistance are referred for formal enforcement actions including possible takeover proceedings. Some of the activities performed by staff under this set-aside included:

- Conducted 751 water quality sanitary surveys at public water systems.

- 14 compliance meetings held for all public water systems that have long histories of violations or infrastructure deficiencies that could pose a risk to public health protection.
- 41 nonviable public water systems which had unresolved managerial, financial, and technical issues were consolidated with other systems.
- Held 24 technical assistance meetings for community public water systems including 12 for towns or communities, and 5 for public schools.
- Coordinated and participated in several training initiatives including:
 - Two one-day training sessions for local officials (including town planners, local health staff, and local planning & zoning commission members). This training was developed in conjunction with the Source Water Protection Unit and covered the creation of new public water systems and topics on source water protection.
 - Participation as capacity development instructors in classes coordinated by the Operator Certification unit for water system operators and school water system operators. Also provided instruction for a class on state drinking water regulations for local officials.
 - A training session on the sanitary survey process at the 2006 Annual Atlantic States Rural Water & Wastewater conference.
 - Education and training for local land use officials including 3 major and over 30 minor training sessions to emphasize source water protection.
- Added specific financial and managerial capacity assessment criteria to the checklist for routine sanitary survey inspections of existing public water systems. This has improved the consistency of our capacity assessments during sanitary surveys.
- Conducted 403 environmental reviews of water works projects submitted by public water systems for permitting or approval.
- Provided comprehensive technical, financial, and managerial capacity assistance to six small community water systems, based on weaknesses determined during routine capacity assessments conducted as part of water quality sanitary survey inspections.
- One capacity evaluation for the sale of a water company was completed. Standardized financial and managerial capacity assessments are included with the review of permit applications for sale or transfer of a water company.
- Developed a standard operating procedure for water quality sanitary surveys to promote consistency among field staff. Surveys were also expanded to include

water system viability and the assessment of critical infrastructure replacement needs.

Training of Local Health Officials in January 2007



Source Water Protection

The Drinking Water Section continued to develop a proactive approach toward source water protection. In 2007, building on the Source Water Protection reports completed in 2003 and following the established five-year strategic plan for drinking water source protection, the Source Water Protection Unit completed the following items:

- Enhanced, oversaw, and enforced existing public health source protection laws.
- Reviewed 43 and approved 38 new public water supply wells.
- Reviewed and approved 18 water company land applications.
- Reviewed and approved 9 recreational permits.

- Completed work on new regulations and statute changes to enhance source water protection under CGS 25-32d, 25-32f, and Special Act 06-6.
- Initiated incorporation of water supply planning into source water group. Oversaw 60 DEP aquatic pesticide permits within Source Water Protection areas.
- Received and reviewed over 120 sewage bypass reports.
- Reviewed and commented on 33 watershed sanitary surveys under Public Health Code Section 19-13-B102(b).
- Enhanced the watershed approach strategy by development of drinking water quality management plans.
- Working with numerous stakeholders, implemented the Drinking Water Quality Management Plan under SA 06-6.
- Integrated the Drinking Water Quality Management Plan concept into pilot plans in the communities of Weston, East Lyme, New Britain, Tolland, and Danbury.
- Link to related programs to emphasize proactive public health protection through source water protection:
 - Continued to work with state and federal agencies such as Departments of Transportation, Environmental Protection, Public Utility Control, Agriculture, and Economic and Community Development, the Office of Policy and Management, the USDA, and the USGS to emphasize source water protection.
 - Provided comments and recommendations on over 40 proposed projects.
 - Held two stakeholder forums in September and May to discuss initiatives in source water protection.

State Program Management 10% Set-Aside

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

- Preparation of guidance documents, work plans, and long-term strategies for Drinking Water Fund program management and EPA required program management reports. Completion of contracts related to technical assistance to Public Water Systems to assist the Drinking Water System in capacity development efforts.

- Provision of direct technical assistance to Public Water Systems regarding the required reporting of water quality and inventory/facility data utilized in the Safe Drinking Water Information System and the electronic data interchange.
- Provision of capacity development training to certified operators of small Public Water Systems.
- Provision of capacity development guidance documents, work plans, standard operating procedures, and long-term strategies; conduct outreach programs to educate Public Water Systems staff, certified operators, the general public, and other stakeholders on capacity and state drinking water program administration issues.
- Provision of legal assistance to the Drinking Water Section regarding the Drinking Water Fund.
- Administration and provision of technical assistance to public water systems regarding capacity topics involved in water planning.
- Provision of technical assistance to the Water Planning Council's technical review in the areas of the Water Utility Coordinating Committee water supply planning, and assistance to the Connecticut Drought Advisory Committee.
- Worked with the Laboratory Certification Program in assisting public water systems regarding water quality testing issues.
- Revision of approval processes and other regulatory mechanisms and provision of direct technical assistance to public water systems to better address capacity development concerns.
- Provision of direct capacity development technical assistance to public water systems and education of public water systems on capacity development issues. Duties also included identifying water systems that would most benefit from collaboration or regionalization and assisting in developing and evaluating processes to aid in the success of public water systems capacity development efforts.
- Provision of support for Drinking Water Sections Program Management activities by performing a wide variety of general clerical functions including basic processing, reception, filing, record keeping, bookkeeping and typing.
- Management of personnel costs and associated expenditures required to perform required activities.

Operator Certification Program (OCP)

In Connecticut, 1,197 systems are required to have certified operators. The Drinking Water Section issued 40 notifications to systems informing them of the requirement to

have certified operators and 63 violation letters for failure to have certified operators in fiscal year 2007. During the year, the program also:

- Achieved 99% system compliance with operator certification requirements, with 78 systems achieving compliance as a result of formal and informal enforcement during the reporting period.
- Developed queries and reports that link public water system violations to designated chief operators of the public water systems.
- Worked on a second round of revisions to the draft of regulation changes intended to clarify certification requirements and to improve enforcement. The revisions were suggested by the Attorney General.
- Drafted documents on duties and responsibilities of certified operators.
- Expanded operator training to include other courses, such as a course on state regulations and a basic operator course for operators of school water systems.
- Developed and provided training on water systems for local health departments.

As part of National Drinking Water Week, the Drinking Water Section held a career forum entitled “Drinking Water – Then and Now: Career Planning for the Future.” The event was held to provide an introduction to career opportunities within the drinking water field to high school guidance counselors, educators, and students. The forum included presentations, an exhibitor area, and an awards presentation. There were approximately 100 attendees.

“Drinking Water–Then and Now: Career Planning for the Future” Appreciation Award winners (Middletown, CT).



Robert Rivard, DPH, Drinking Water Section, David Kuzminski, CT American Water Works Association, and Deputy Commissioner Norma D. Gyle, CT DPH



Jack Cervera (l), Grasso Southeastern Technical High School, and Richard Stevens Groton Utilities



Christopher Bogucki, CT Water Co.; Wesley Winterbottom, Gateway CC, and Deputy Commissioner Norma D. Gyle, CT DPH



Drinking Water Section's booth



Student asking staff for assistance



Attendees viewing various career booths

- Published four issues of the newsletter, *Connecticut H₂Operator*. The newsletter is posted on the Drinking Water Section web site: www.dph.state.CT.us/BRS/Water/DWD.htm. (Once on the site, under the Drinking Water Section Program pages, click on Operator Certification. There are links to current and back issues of the newsletter).
- The Operator Certification Program web page received approximately 7,500 visits in 2007.
- Provided technical assistance to operators and systems in response to over 2,000 inquiries.

- An Operator Certification Program staff person participates in monthly meetings of the Connecticut Section–American Water Works Association Operator Certification Committee. This committee serves as an advisory group to the Operator Certification Program and provides input on many areas including regulation development, exams, and program administration.
- Implemented the process of performing on-site reviews of cross connection control program. Streamlined the review process for cross connection control survey reports.

“Drinking Water – Then and Now: Career Planning for the Future” -
DRINKING WATER WEEK 2007



Robert Rivard, CT DPH Facilitator, and
Deputy Commissioner Norma D. Gyle, CT
DPH



Otto Schaffer
Natural Resources Council, CT



Bill Kennedy
Metropolitan District Commission



William Sullivan, CT DPH, Drinking Water Section,
and Students from H.C. Wilcox Technical High School



Jeffrey Hunt, Groton Utilities



Paul Hyatt, Groton Utilities



Jennifer Pagach, CT DPH,
Drinking Water Section



Jane Downing, U.S. Environmental
Protection Agency, Region I



Don Carver, Waterbury Water Department
American Water Works Association



Wesley Winterbottom, Gateway C.C.



Dr. Gary Robbins,
University of Connecticut



Dave Kuzminski,
CT American Water Works Association

PROJECT FINANCING

The Drinking Water Fund provides financial assistance to local, privately-owned, nonprofit or publicly-owned water systems in connection with the planning, design, development, construction, repair, extension, improvement, remodeling, alteration, rehabilitation, reconstruction, or acquisition of all or a portion of a public water system.

Within the parameters set by the EPA guidelines, the state exercises considerable flexibility in the type of planning, design, and construction projects that the Drinking Water Fund will fund. The major limitations on project funding are exclusions for increased capacity. Other non-eligible project purposes are described in the Drinking Water Fund guidance document available from the DPH and the EPA.

Available Financing

The Drinking Water Fund provides loans with up to 20-years to repay, and interest rates set at one-half of current market rates and. The program also provides technical assistance and training with a portion of the federal grant.

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

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



South Norwalk Electric and Water – Second Taxing District of the City of Norwalk - Filtration Plant Upgrade

Needs Survey

The EPA is currently conducting the 2007 nationwide needs survey and mailed questionnaires to 50 randomly selected medium and large population public water systems throughout Connecticut. The survey will identify the cost of Connecticut's 20-year drinking water infrastructure needs. The results of the 2007 survey will determine the state's Drinking Water Fund allocation percentage for 2010 through 2013.

The latest assessment of the total nationwide need of \$276.8 billion was reported in the third Drinking Water Infrastructure Needs Survey and Assessment Report, released in June 2005. The survey assessed the cost and types of drinking water needs throughout the nation and determined the federal Drinking Water Fund allocation for fiscal years 2006 through 2009. Connecticut is one of the many states that receives the minimum 1% allocation, currently \$8.3 million, and because of its small size, will continue to do so in the foreseeable future.

In both, the 1999 and the 2003 Drinking Water Needs Survey, transmission and distribution and treatment, \$336 million and \$176 million respectively, represented the bulk of the dollars. This trend is expected to continue.

The Priority List

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

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

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

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

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

The DPH's Intended Use Plan (IUP) shows the proposed use of state and federal funding assistance programs for drinking water quality and quantity projects. A list of the eligible systems can be found on the Drinking Water Section's website, and the 2007 Priority List is shown in Appendix VI.

Borrowers

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

The DPH emphasizes the importance of reaching these potential applicants and has several annual public outreach initiatives including mailings, statewide informational meetings, open forums, and participation in various conferences and workshops.

Portfolio Credit Quality

The overall financial condition of the state's municipal and privately owned public water systems reflects positively on the Drinking Water Fund. The analysis and review of borrowers and their financial condition prior to awarding a project loan is essential to the long-term viability of the fund. Each borrower applying for financial assistance submits documentation to evidence its ability to repay debt and its technical and financial management capabilities. Required documents include financial statements, tax returns, capital budget, a current operating budget, and a projected budget including the proposed debt and economic data. Applicants must document their ability to charge rates for services and collect from their customers. Applicants may also be asked to provide information explaining the alternatives to the proposed project as well as the benefit of the project to customers. The project-specific review includes an engineering report or a feasibility study, a project capital cost repayment analysis, including any projected need for increases in user fees, and a review of any management contracts.

The Drinking Water Fund loan portfolio is diverse, with almost all of the loans and commitments to municipalities rated "A" or higher by Moody's Investors Service as shown in Appendix III. Most of the private and nonprofit borrowers do not have credit

ratings. The program's loan administration includes separate loan servicing by the program's trustee bank. No defaults have occurred to date. There is no grace period for loan repayments although the agreements allow up to 30 days to cure other defaults. A policy is in place to implement collection procedures in the event of a delayed payment. An outline of the standard loan agreement has been provided in Appendix VIII.

2007 Projects

One new loan commitment was made during fiscal year 2007:

Town of Ledyard (\$926,006) for the construction of a water main extension and modifications to a pump station to provide water to the Ledyard Center Elementary School, Town Hall, Library, Fire Department, and other public and private entities.

PROGRAM FUNDING

The primary sources of funds for the Drinking Water Fund are the (i) federal capitalization grants awarded to the , (ii) contributions for the 20% match of the federal grant funds, (iii) proceeds of the revenue bonds, and (iv) earnings on the assets of the fund. The state uses 31% of the federal capitalization grant to administer the program and provide managerial and technical assistance to public water systems. There are no state funded grant programs associated with the Drinking Water Fund. To maintain flexibility within its programs, the state has created the following separate accounts to accept federal capitalization grants and state matching funds.

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

Federal Statutory Framework

The 1996 amendments to the Safe Drinking Water Act (SDWA), established state Drinking Water Fund programs. The initial federal authorizations continued to be made annually to the states for capital funding of drinking water projects ended in 2003. As of June 30, 2007, the SDWA for drinking water state revolving funds has not yet been reauthorized by Congress, although there have been discussions on funding the program through 2018.

The Federal Act both authorizes the Drinking Water Fund and places legal constraints on its uses. Federal regulations limit the uses of program equity to: loans,

support for bonds issued to make loans, loan guarantees or insurance, refinancing prior debt, or administrative expenses associated with qualified projects. Unlike the Clean Water Fund, the Drinking Water Fund can also make loans to private entities that own and operate public water systems. The federal capitalization grant and the required match must be maintained by the Drinking Water Fund in perpetuity. Based on the federal capitalization grant awards to date, the perpetuity requirement as of fiscal year ending June 30, 2007, was \$91.1 million.

Federal Capitalization Grants

Each year Connecticut is allocated 1% of the federal funds available for state Drinking Water Fund Programs. The federal drinking water capitalization grant awards from 1987 through 2005 totaled \$84.1 million. The state Drinking Water Fund Programs have up to two years to apply for an allocated grant. Connecticut's allocated grant award for 2006 is approximately \$8.2 million, and the DPH applied for this grant in May 2007. The tentative amount of the 2007 grant is also \$8.2 million.

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

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

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

Set-asides

Applications for funding from the EPA include set-aside activities as well as project funds. Set-asides are funds allocated for a range of specific activities such as encouraging source water protection and supporting other state drinking water program activities. Drinking Water Fund program administration, management, technical assistance for small water systems, operator education, and support are approved purposes which can represent up to 31% of the capitalization grant. The Intended Use Plan, a document required by the EPA for grant applications, describes the state's intended uses for set-aside and project funds.

State Authorizations

The state has demonstrated a significant commitment to high water quality for its citizenry through its support of the Clean Water Fund and Drinking Water Fund Programs. The state created its Drinking Water Fund as part of the Clean Water Fund due to the similarities between the federal programs. The authorizations for the two programs are combined. As projects are approved, authorizations are allocated to the Drinking Water Fund from the total available authorizations of revenue bonds and general obligation (GO) bonds. To date, revenue and GO bond authorizations of \$87.4 million for projects and \$10.3 million for match of the capitalization grant have been made available to the Drinking Water Fund.

State Match of Federal Capitalization Grants

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

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

Revenue Bonding Program

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

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

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

Bond Resolutions

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

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

Bond Debt Service

Repayment of the revenue bonds comes from available money in the fund including capitalization grants, match, loan repayments, and interest earnings on assets. While all loan repayments are available for the payment of the bonds, a portion is retained in the debt service fund as a cash flow cushion in conformance with rating agency default coverage guidelines. The 2002 Resolution provides for a support fund that ensures that debt service requirements are met. A support fund was created for the 2003 issue. The debt service schedule for all bonds outstanding is provided in the financial statements.

Cross-Collateralization

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

Ratings

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

Investment of Fund

The assets of the Fund are currently invested in the State's Short-Term Investment Fund (STIF) and in guaranteed investment agreements with financial institutions. The bond resolutions require that the investment agreements be with, or be guaranteed by, institutions with ratings at least equal to the rating on the bonds given by Standard & Poor's Rating Service and Moody's Investors Service or any rating service recognized by the State Banking Commissioner. Certain moneys currently held in the debt service reserve fund are invested pursuant to investment agreements with AA providers which are collateralized with securities issued or guaranteed by the U.S. Government or agencies or instrumentalities whose market value is at least 100% of the funds invested. Upon the issuance of the 2003 bonds and the restructuring of the program's debt, certain of these long-term investments became unrestricted assets of the Drinking Water Fund.

Condition Of The Fund

As of fiscal year end 2007, the Drinking Water Fund made commitments totaling \$87.1 million to water systems. The listing in Appendix X of projects funded by the Drinking Water Fund as of June 30, 2007, shows the projects by borrower.

Program Management

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

The DPH, the DEP, and the State Treasurer's Office have worked together with the DPUC and the Office of Policy and Management (OPM) to address the drinking water needs of the state since 1995. The process has been implemented with a great deal of consideration for existing regulations and procedures. The Drinking Water Fund Interagency Memorandum of Understanding (MOU) creates an interagency committee and details the roles and responsibilities of each agency. The following is a brief overview of state agency participation.

Department of Public Health

The DPH is the state agency that carries out the public health policy of the state including the use and protection of the state's drinking water resources. The DPH is also responsible for enforcement of, and compliance with, state and federal laws, rules and regulations pertaining to drinking water and its use in the state. Connecticut

General Statute Section 25-32 grants DPH jurisdiction over all matters concerning the purity and adequacy of drinking water. Acting on behalf of the Department, the Drinking Water Section protects public health through regulatory oversight of public water systems throughout the state. In the course of a day, virtually every Connecticut resident as well as many others who visit the state come into contact with drinking water provided by a public water system. It is the Department's mission to "protect and improve the health and safety of the people of Connecticut."

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

Department of Environmental Protection

The DEP carries out the environmental policy of the state for conserving, improving, and protecting the state's natural resources and environment, and mitigating water, land, and air pollution. The state Clean Water Act gives the DEP certain statutory responsibilities for the Drinking Water Fund, which are similar to its Clean Water Fund responsibilities. The DEP monitors the financial elements of a project from the design and planning phase to construction. In addition to assisting in the determination of project eligibility, the DEP reviews all project information to ensure compliance with project schedules and budgets. The DEP also enters into loans with Drinking Water Fund borrowers and approves disbursement requests for all eligible costs incurred.

Department of Public Utility Control

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

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

State Treasurer' Office

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

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

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

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

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

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

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



Access road to future project for Woodlake Tax District

2008 PROGRAM ACTIVITIES AND INITIATIVES

The DPH and the interagency committee develop goals for each program of the Drinking Water Fund, and the major activities in 2008 will include:

Local Assistance and Other State Set-Asides

Source Water Protection Program

- Enhance, oversee, and enforce existing public health source protection laws and continue to:
 - Maintain and enhance existing permit programs.
 - Integrate source water protection with water supply planning.
 - Enhance existing source water protection laws.
 - Review and process permits as required.
 - Enhance the watershed approach by integration and development of drinking water quality management plan.
- Continue to work with communities across the state to emphasize the concepts of the Drinking Water quality management plan. Initiate contract to assist Groton and other communities to develop source water protection plans.
- Educate and train local land use officials:
 - Hold at least 30 training sessions for local officials.
 - Link with related programs and state and federal agencies to emphasize proactive public health protection through source water protection.
 - Involve stakeholders and develop partnerships on a continuous basis, and hold two stakeholder forums to emphasize the importance of source water protection.

Capacity Development

Consistent with the Drinking Water Section's EPA approved capacity development strategy, activities in 2008 will include:

- Evaluate the benefit of entering into contract(s) with full-time local Health Departments/Health Districts to perform capacity assessments of public water systems. These assessments would include technical and managerial capacity reviews primarily focusing on source water construction and protection.

- Develop and perform a survey of existing public water systems to determine which systems are employing advanced asset management concepts and determine their needs for financial and managerial capacity assistance.
- Perform engineering reviews for public water system infrastructure projects, including Drinking Water Fund projects, submitted to the drinking water section for review and approval.
- Refine technical, financial, and managerial capacity evaluations of new and existing public water systems.
- Develop additional technical guidelines or information documents to educate operators and contractors of public water systems on regulatory requirements and industry standards during the planning, design, and construction of infrastructure projects.
- Participate as instructors at the DPH-offered water system operator classes.
- Conduct technical, financial, and managerial capacity assessments during routine sanitary surveys, and hold compliance and technical assistance meetings with public water systems.

Small Systems Technical Assistance

In 2008, the priority activities relating to technical assistance to small systems will include:

- Continue development of application forms to assist public water systems in the submission of water works projects requiring review and approval by the Drinking Water Section.
- Continue to improve the Drinking Water Section; project tracking database for all projects.
- Perform engineering reviews for public water system water works projects, including Drinking Water Fund projects.
- Provide statewide training to reduce the number of existing water quality violations at all types of public water systems.
- Deploy district field engineers that will be available to provide additional technical assistance to small systems that are considering system upgrades and infrastructure improvements.

Program Management

The program management activities in 2008 will include:

- The preparation and review of formalizing enforcement actions.
- The discussion of long-term water system viability, infrastructure replacement, and the fee structure necessary to support such initiatives during the sanitary survey process.
- Tracking compliance of public water systems and providing tools and forms to public water systems to accomplish a high level of compliance.
- Maintenance of the Integrity of the data management system.
- Coordination of staff activities to promote standardization of presentations and informational materials.
- Maintenance of a quality assurance system in cooperation with EPA, Region 1.
- Enhancement of security and emergency response initiatives.
- The review of drinking water fund applications.
- Submittal of drinking water fund grants and associated work plans/progress reports to the EPA.

Operator Certification Program

During the year, the Drinking Water Fund will initiate or continue the following activities of the operator certification program:

- Evaluate the performance of operators relative to water quality violations. A plan is being developed to use reports developed last year to assess operator performance.
- Finalize the training materials on duties and responsibilities of certified operators. These will also be used in outreach to operators and systems, and be a part of the process to evaluate the performance of operators.
- After adoption of proposed revisions to drinking water regulations, implement revised regulations and improve operator certification enforcement. Certify backflow personnel, and clarify cross connection control requirements.
- Continue implementation of the operator training program and provide a two-day basic training course for operators of systems. The sessions are expected to serve 3,300 persons.

- Develop a new updated training manual that will be used for the basic operator course.
- Hold a second careers forum to promote career opportunities within the drinking water field.

LONG-TERM PROJECTIONS

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

- Coordination within the DPH and continued collaboration with other state agencies to maximize the effectiveness of the program and meet the state's water quality goals.
- Addressing areas of decentralized system management over the next several years including sewage system assessments as part of real estate transaction, and facilitating the abandonment of large capacity cesspools based on new EPA rules.
- The use of administrative and program set-asides allowed by the EPA.
- The outreach efforts of the program to reach and assist small water systems, especially those in need of a high level of technical assistance and low-cost financing.
- 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.



FINANCIAL STATEMENTS
(please see Table of Contents for Audited Statements)

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

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

JUNE 30, 2007 AND 2006

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

JUNE 30, 2007 and 2006

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SEWARD AND MONDE

CERTIFIED PUBLIC ACCOUNTANTS

296 STATE STREET

NORTH HAVEN, CONNECTICUT 06473-2165

(203) 248-9341

FAX (203) 248-5813

INDEPENDENT AUDITORS' REPORT

Ms. Denise L. Nappier, State Treasurer

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

Ms. Gina McCarthy, Commissioner,
Department of Environmental Protection,
State of Connecticut

We have audited the accompanying financial statements of the State of Connecticut Clean Water Fund – Drinking Water Federal Revolving Loan Account (State Revolving Fund) (SRF) (an enterprise fund of the State of Connecticut) as of and for the years ended June 30, 2007 and 2006, as listed in the table of contents. These financial statements are the responsibility of the SRF's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall

financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Clean Water Fund -Drinking Water Federal Revolving Loan Account and do not purport to, and do not, present fairly the financial statements of the State of Connecticut, as of June 30, 2007 and 2006, and the changes in its financial position and cash flows, where applicable, for the years then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the State of Connecticut Clean Water Fund – Drinking Water Federal Revolving Loan Account - SRF as of June 30, 2007 and 2006, and the changes in financial position and cash flows thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated August , 2007 on our consideration of the State of Connecticut Clean Water Fund – Drinking Water Federal Revolving Loan Account – SRF’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management’s discussion and analysis on pages 3 through 7, is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Seward and Monde

North Haven, Connecticut

August 30, 2007

STATE TREASURER
STATE OF CONNECTICUT
DRINKING WATER FUND
FISCAL YEAR ENDED JUNE 30, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

This is a narrative overview and analysis of the financial performance and activities of the State of Connecticut Drinking Water Fund for the fiscal year ended June 30, 2007. Readers are encouraged to review it in conjunction with the Fund's financial statements that follow.

Financial Highlights

Changes in Net Assets - Fund net assets under management in the Drinking Water Fund at the close of fiscal year 2007 were \$83,282,249 (including assets of \$125,328,658 offset by liabilities of \$42,046,409) compared to fiscal year 2006 Fund net assets of \$63,529,391 (including assets of \$115,108,431 offset by liabilities of \$51,579,040). Fund net assets increased by \$19,752,858 or 31.09% primarily reflecting lower debt outstanding. The Statement also shows restricted fund net assets of \$72,738,547 at the close of fiscal year 2007, an increase of \$20,476,159 or 39.18% above the 2006 balance.

Operating Revenues - The Fund's gross operating revenues decreased slightly by \$77,035 or 5.88% to \$1,233,693.

Bonds Outstanding - During the year bonds were issued to fund new projects. However, the Fund's total debt outstanding decreased during the fiscal year due to the reallocation of 2003 bond proceeds and the related debt to the Clean Water Fund. The outstanding debt decreased by \$8,419,579 to \$39,313,102 as a result of the new issue net of the transfer and scheduled amortization.

Loans Receivable - Total loans receivable increased by \$13,289,197 from \$47,769,702 to \$61,058,899 due to the net of new loans and regular loan repayments.

Capitalization Grants - During the year, \$18,597,000 was drawn from the EPA for projects, compared to \$6,535,797 drawn in 2006. To date, the State has drawn \$72,116,681 from the federal EPA against the total of \$84,184,600 in cumulative drinking water capitalization grant awards.

Overview of the Financial Statements

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

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

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

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

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

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

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

Net Assets

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

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

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

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

Operating Activities

The Drinking Water Loan Program

Loans are made to public water systems, owned by both municipalities and private entities, for project funding. There are two categories of loans, construction loans or interim funding obligations (IFOs) which accrue interest during construction and the long-term permanent financing obligations (PLOs) which are signed after projects are completed. The PLOs have 20 year repayment terms and can be prepaid at any time. There are no state grants available to participants in this program. Construction loan draws totaled \$16,025,114 in 2007. There were two loan originations during the year. There are no delinquent loans in the Drinking Water loan program. Further details about the loans can be found in the Notes to the Financial Statements.

Loan repayment collection services are provided by the Trustee, US Bank. Repayments on all loans made by the DPH and DEP since 1998 are paid to the

Drinking Water Fund account held at US Bank. These funds provide security for the Bonds and any new Bonds issued thereafter.

Non-Operating Activities

Investment of Funds

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

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

The Bond Program

The Connecticut Clean Water Fund has issued long-term debt obligations backed by the pledge of specific assets including loans, reserve funds and other program assets. There are three bond resolutions: the 1990 General Bond Resolution, the 1996 Subordinate Bond Resolution and the 2002 General Revenue Bond Resolution. Long-term debt obligations of the Fund are special obligations of the State which are payable only from the revenues or monies available in the Fund as provided in the Resolutions and the State ACT. The proceeds of these bonds were also used to fund loans to Drinking Water Fund borrowers. Further information about outstanding bonds can be found in the Notes to the Financial Statements. As indicated in the financial statements, the state issued bonds totaling \$180,070,000 during the fiscal year 2007, of which \$5,000,000 was allocated to the Drinking Water Fund.

The program's advisors are:

Bond Counsel - Nixon Peabody, LLP and Hardwick Law Firm, LLC

Financial Advisors - Lamont Financial Services Corporation and P.G. Corbin & Co., Inc.

Auditor - Seward & Monde CPAs

Trustee - US Bank

Loan Repayment Collection Services - US Bank

Arbitrage Calculation Services – AMTEC and Nixon Peabody

Verification Services - AMTEC

General Counsel - Attorney General of the State of Connecticut

SELECTED FINANCIAL INFORMATION

	2007	2006	Increase (Decrease)	% Change
Change in Net Assets	\$19,752,858	\$4,203,308	\$15,549,550	369.9%
Operating Revenues	\$ 1,233,693	\$1,310,728	(\$ 77,035)	(5.9 %)
Federal Capitalization Grants	\$18,597,000	\$6,535,797	\$12,061,203	184.5%
Interest on Investments	\$ 2,655,732	\$2,136,862	\$ 518,870	24.3 %
Operating Expenses	\$ 2,569,713	\$3,390,224	(\$ 820,511)	(24.2%)
Interest Expense	\$ 2,081,492	\$2,067,440	\$ 14,052	0.7%

ECONOMIC CONDITIONS AND OUTLOOK

During fiscal year 2007, the State's economic and financial situation improved over the prior year. The state recovered jobs, although manufacturing jobs were replaced by financial services jobs, and the overall state budget showed a \$1 billion surplus at the end of 2007 part of which was deposited into the State's Budget Reserve Fund (Rainy Day Fund).

Economic growth in the coming year will depend on the national and international markets as increasing interdependency, the fate of the housing market and the destabilizing effect of the US trade deficit shape economic policies.

The State's economic growth is expected to continue modestly primarily because the state continues to enjoy the highest per capita income in the nation. Challenges continue to be relatively high costs (health care, housing, taxes, electricity, and gas), traffic congestion, an aging population and a widening disparity in economic prosperity between our urban and suburban residents.

The major concern for the Drinking Water Fund continues to be the capacity to provide financial assistance to both public and privately managed water systems as project costs rise. Coordination of resources as well as outreach efforts designed to educate and inform potential borrowers will continue to be important in the coming year. DPH will continue to work with the DEP and the State Treasurer to set priorities and assist public water systems in determining the most cost effective and efficient way to meet their water quality needs.

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

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

CONTACTS

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

Connecticut State Treasurer's Office
Debt Management Division
55 Elm Street
Hartford, CT 06106-1773
Telephone (860) 702-3134
www.ott.ct.gov

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

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

**STATE OF CONNECTICUT CLEAN WATER FUND -
DRINKING WATER FEDERAL REVOLVING LOAN ACCOUNT
(STATE REVOLVING FUND)
BALANCE SHEETS
June 30, 2007 and 2006**

	2007	2006
ASSETS		
Current assets:		
Interest receivable - investments	\$ 268,951	\$ 313,123
Interest receivable - loans	155,287	66,045
Other assets	-	14,591
Grant receivable	706,420	1,137,380
Loans receivable	18,131,569	5,273,347
Total current assets	19,262,227	6,804,486
Noncurrent assets:		
Loans receivable	42,927,330	42,496,355
Revolving fund	23,647,538	15,997,684
Deferred loss on early retirement of bonds	716,210	799,630
Restricted assets:		
Bond proceeds fund	-	11,493,334
Debt service reserve fund	20,288,385	21,145,057
Debt service fund	12,992,184	10,409,274
Support fund	5,494,784	5,962,611
Total restricted assets	38,775,353	49,010,276
Total noncurrent assets	106,066,431	108,303,945
Total assets	\$ 125,328,658	\$ 115,108,431
LIABILITIES		
Current liabilities:		
Interest payable on revenue bonds	\$ 472,336	\$ 492,254
Due to other funds	164,865	486,403
Revenue bonds payable	2,260,521	3,121,838
Refunding bonds payable	399,267	87,636
Total current liabilities	3,296,989	4,188,131
Noncurrent liabilities:		
Premium on revenue and refunding bonds	2,096,106	2,867,702
Revenue bonds payable	30,267,331	37,737,957
Refunding bonds payable	6,385,983	6,785,250
Total noncurrent liabilities	38,749,420	47,390,909
Total liabilities	42,046,409	51,579,040
FUND NET ASSETS		
Unrestricted	10,543,702	11,267,003
Restricted for loans	72,738,547	52,262,388
Total fund net assets	83,282,249	63,529,391
Total liabilities and fund net assets	\$ 125,328,658	\$ 115,108,431

See notes to financial statements.

**STATE OF CONNECTICUT CLEAN WATER FUND -
DRINKING WATER FEDERAL REVOLVING LOAN ACCOUNT
(STATE REVOLVING FUND)
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
For the years ended June 30, 2007 and 2006**

	2007	2006
OPERATING REVENUES		
Interest on loans	\$ 1,233,693	\$ 1,310,728
OPERATING EXPENSES		
Salaries	1,406,465	1,452,381
Employee benefits	789,572	813,666
Other	373,676	1,124,177
Total operating expenses	2,569,713	3,390,224
Operating loss	(1,336,020)	(2,079,496)
NONOPERATING REVENUES (EXPENSES)		
Interest on investments	2,655,732	2,136,862
Amortization of bond premium	177,388	203,108
Interest expense	(2,081,492)	(2,067,440)
Total nonoperating revenues (expenses)	751,628	272,530
Loss before federal capitalization grants and transfers	(584,392)	(1,806,966)
FEDERAL CAPITALIZATION GRANTS		
Project funds	16,035,388	2,645,863
Set-aside activities	2,561,612	3,889,934
Total federal capitalization grants	18,597,000	6,535,797
OPERATING TRANSFERS	1,740,250	(525,523)
Change in fund net assets	19,752,858	4,203,308
FUND NET ASSETS, beginning	63,529,391	59,326,083
FUND NET ASSETS, ending	\$ 83,282,249	\$ 63,529,391

See notes to financial statements.

**STATE OF CONNECTICUT CLEAN WATER FUND -
DRINKING WATER FEDERAL REVOLVING LOAN ACCOUNT
(STATE REVOLVING FUND)
STATEMENTS OF CASH FLOWS
For the years ended June 30, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest received on loans	\$ 1,144,451	\$ 1,256,291
Loan originations	(16,025,114)	(2,656,137)
Principal paid on loans receivable	2,735,917	4,203,285
Payments to employees for salaries and benefits	(2,181,446)	(2,134,003)
Other payments	(373,676)	(1,124,177)
Net cash used by operating activities	<u>(14,699,868)</u>	<u>(454,741)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Federal capitalization grants	<u>19,027,960</u>	<u>6,636,504</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Repayment of revenue bonds payable	(3,121,838)	(1,559,304)
Repayment of refunding bonds payable	(87,636)	(279,585)
Proceeds from revenue bonds payable	5,000,000	-
Premium on revenue bonds payable	29,375	-
Interest paid on revenue bonds	(2,017,990)	(1,999,928)
Operating transfers	<u>795,129</u>	<u>(753,601)</u>
Net cash provided (used) by noncapital financing activities	<u>597,040</u>	<u>(4,592,418)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received on investments	2,699,904	2,146,321
Increase in revolving fund	(7,649,854)	(2,984,022)
Increase (decrease) in restricted assets	<u>24,818</u>	<u>(751,644)</u>
Net cash used by investing activities	<u>(4,925,132)</u>	<u>(1,589,345)</u>
Net change in cash and cash equivalents	-	-
CASH AND CASH EQUIVALENTS, beginning	<u>-</u>	<u>-</u>
CASH AND CASH EQUIVALENTS, ending	<u>\$ -</u>	<u>\$ -</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	(\$ 1,336,020)	(\$ 2,079,496)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Changes in assets and liabilities:		
Increase in interest receivable - loans	(89,242)	(54,437)
Decrease in other assets	14,591	132,044
(Increase) decrease in loans receivable	<u>(13,289,197)</u>	<u>1,547,148</u>
Net cash used by operating activities	<u>(\$ 14,699,868)</u>	<u>(\$ 454,741)</u>

See notes to financial statements.

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

NOTES to FINANCIAL STATEMENTS

June 30, 2007 and 2006

1 - NATURE OF ORGANIZATION

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

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Accounting

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

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

Estimates

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

Operating and Nonoperating Revenues and Expenses

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

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

Revenue Recognition

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

Cash and Cash Equivalents

For purposes of the statements of cash flows, the SRF considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. However, the SRF's policy is to exclude restricted assets from cash and cash equivalents for purposes of the statements of cash flows due to the limitations imposed on their use by the Clean Water Fund Revenue Bond Program General Bond Resolutions, adopted by the State Bond Commission on December 15, 2000 as amended and supplemented on December 17, 2002 (collectively, the "Resolution"). The SRF had no cash equivalents as of June 30, 2007 and 2006, except as reflected in Note 6.

Investments

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

There were no material investment gains or losses for the years ended June 30, 2007 and 2006.

Loans, Allowance for Loan Losses and Credit Risk

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

Restricted Assets

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

Bond Premiums/Deferred Loss

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

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

Revenue Bonds

The following funds and accounts have been established in accordance with the Resolution adopted December 15, 2000:

<u>Fund / Account</u>	<u>Description and Use</u>
Revenue Fund	Receives all pledged receipts including loan repayments from the municipalities.
a. Pledged Receipts Account	Out-flows include amounts transferred to the interest and principal accounts of the debt service fund for payment of current debt service.
b. Earnings Account	Receives all earnings on funds and investments in all funds and accounts. Out-flows include amounts transferred to the interest and principal accounts of the debt service fund for payment of current debt service.
Loan Fund	Receives proceeds from the sale of revenue bonds as specified and determined by the Resolution. Funds expended for purposes of the State Revolving Fund program, including the financing of loans to municipalities.
Debt Service Reserve Fund	Required to be funded in an amount equal to 50% of all outstanding bonds. The reserve is funded by federal capitalization grant payments drawn under the federal letter of credit and state general obligation bonds. Investment income is transferred to the revenue fund for debt service payments. Used for payment of principal and interest in the event of deficiencies in the revenue accounts.
Debt Service Fund	Receives amounts from the revenue fund accounts sufficient to pay the interest
a. Interest Account	portion due on each interest payment date. Pays interest on outstanding bonds.
b. Principal Account	Receives amounts from the revenue fund accounts sufficient to pay the principal or current sinking fund installments. Pays principal on outstanding bonds.
c. Redemption Account	Receives amounts from the interest and principal accounts for the redemption of bonds. Used for redemption of bonds.

d. Capitalized Interest Account	Receives any capitalized interest received by the trustee. Amounts in the account are transferred for payment of capitalized interest on outstanding bonds.
Interest Subsidy Fund	Established outside of the state revolving fund, principal and investment income is transferred to the revenue fund, then to the debt service fund for payment of debt service. Provides payment of principal and interest in the event of a deficiency in the debt service reserve fund.
Administrative Fund: Cost of	Established outside the SRF, receives a portion of the revenue bond proceeds. Issuance Account Investment income is transferred to the revenue fund for debt service payments. Used to pay issuance cost on revenue bonds.
Rebate Fund	Receives any earnings required to be rebated to the United States pursuant to the Tax Regulatory Agreement. Used for IRS obligations as required.

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

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

Fund Net Assets – Restricted for Loans

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

3 - CASH DEPOSITS AND INVESTMENTS

Cash Deposits

Cash deposits are classified in categories of custodial credit risk. This is the risk that, in the event of the failure of a depository financial institution, the SRF will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. Cash deposits of the SRF include funds held by the Connecticut State Comptroller and the Connecticut Short Term Investment Fund (STIF). As of June 30, 2007 and 2006 funds held by the State Comptroller was \$940,863 and \$665,599, respectively. These funds are pooled with other State of Connecticut accounts, and custodial credit risk cannot be determined at the SRF level. As of June 30, 2007 funds held by STIF were \$23,647,538, of which \$23,647,538 is included in the revolving fund on the Balance Sheet. As of June 30, 2006 funds held by STIF were \$27,491,018, of which \$15,997,684 is included in the revolving fund and \$11,493,334 is included in the loan fund on the Balance Sheet. STIF is a money market investment pool, rated AAAM by Standard and Poor's, in which the State, municipal entities, and political subdivisions of the State are eligible to invest. The State is authorized to invest STIF funds in U.S. government and agency obligations, certificates of deposit, commercial paper, corporate bonds, savings accounts, bankers' acceptances, repurchase agreements, asset-backed securities, and student loans.

Investments

As of June 30, 2007, the SRF had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in years)				Rating
		Less than 1	1 - 5	6 - 10	More than 10	
Federated Treasury Repurchase Agreements	\$ 12,992,183	\$ 12,992,183	\$ -	\$ -	\$ -	AAA
Guaranteed Investment Contracts	17,125,742	-	-	-	17,125,742	AAA
Connecticut General Obligation Bonds	8,657,428	-	-	-	8,657,428	AA
	<u>\$ 38,775,353</u>	<u>\$ 12,992,183</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 25,783,170</u>	

As of June 30, 2006, the SRF had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in years)				Rating
		Less than 1	1 - 5	6 - 10	More than 10	
Federated Treasury Repurchase Agreements	\$ 10,409,274	\$ 10,409,274	\$ -	\$ -	\$ -	AAA
Guaranteed Investment Contracts	18,000,495	-	-	-	18,000,495	AAA
Connecticut General Obligation Bonds	9,107,173	-	-	-	9,107,173	AA
	<u>\$ 37,516,942</u>	<u>\$ 10,409,274</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 27,107,668</u>	

Interest Rate Risk

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

4 - LOANS RECEIVABLE

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

	<u>2007</u>	<u>2006</u>
Construction in process	\$ 15,164,349	\$ 2,549,641
Completed projects	<u>45,894,550</u>	<u>45,220,061</u>
	<u>\$ 61,058,899</u>	<u>\$ 47,769,702</u>

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

<u>Year ending June 30</u>	
2008	\$ 2,967,220
2009	2,919,899
2010	2,935,124
2011	2,950,780
2012	2,966,940
Thereafter	<u>31,154,587</u>
	<u>\$ 45,894,550</u>

5 - FEDERAL LETTER OF CREDIT

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

	<u>2007</u>	<u>2006</u>
Awarded	\$ 84,184,600	\$ 75,899,100
Requested	<u>72,116,681</u>	<u>53,088,721</u>
Available federal letter of credit	<u>\$ 12,067,919</u>	<u>\$ 22,810,379</u>

6 - RESTRICTED ASSETS

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

	<u>2007</u>	<u>2006</u>
Cash equivalents:		
Money market funds	\$ -	\$ 11,493,334
Investments:		
Federated Treasury Repurchase Agreements	12,992,184	10,409,274
Guaranteed Investment Contracts	17,125,741	18,000,495
Connecticut General Obligation Bonds	<u>8,657,428</u>	<u>9,107,173</u>
	<u>\$ 38,775,353</u>	<u>\$ 49,010,276</u>

7 - RELATED PARTY TRANSACTIONS

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

Investments

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

Allocation of Expenses

Fringe benefit costs which are incurred at the State level are applied as a percentage of salaries to all State governmental units, including the SRF. For the years ended June 30, 2007 and 2006, the actual rates were 56.1% and

56.0%, respectively, of the SRF wages and the amounts charged aggregated \$789,572 and \$813,666, respectively.

8 - BONDS PAYABLE

A summary of changes in bonds payable during the year ended June 30, 2007 is as follows:

	Balance June 30, 2006	Issued	Principal Paydown/ Transfers	Balance June 30, 2007
Revenue bonds payable	\$ 40,859,795	\$ 5,000,000	\$ 13,331,943	\$ 32,527,852
Refunding bonds payable	<u>6,872,886</u>	<u>-</u>	<u>87,636</u>	<u>6,785,250</u>
	<u>\$ 47,732,681</u>	<u>\$ 5,000,000</u>	<u>\$ 13,419,579</u>	<u>\$ 39,313,102</u>

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

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

Revenue Bonds

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

The State of Connecticut issued Clean Water Fund, Revenue Bonds 2001 series, dated May 24, 2001. These bonds are payable solely from funds pledged pursuant to the General Bond Resolution adopted December 7, 1990. In accordance with the State Clean Water Fund Revenue Bonds, 2001 Series Plan of Finance, the State allocated the proceeds between the SRF and the State of Connecticut Clean Water Fund - State Revolving Fund ("Clean Water Fund") (collectively, "The Obligated Group") with \$29,614,747 allocated to the SRF and \$70,385,253 allocated to the Clean Water Fund. The Clean Water Fund (an enterprise fund of the State of Connecticut) was also established pursuant to Connecticut General Statutes Section 22a-475 to 22a-483, and provides assistance to municipalities and public water systems of Connecticut for the planning, design and construction of water quality projects.

Debt service on the 2001 series bonds is to be paid from pledged receipts, earnings on investments held in the debt service reserve funds and maturing principal and interest on investments held in the interest subsidy funds. "Pledged receipts" means payments of principal and interest on municipal obligations, including both timely and delinquent payments with late charges, if any, and includes any fees and charges, fines and penalties collected or held by the State.

Pledged receipts include the repayments of loans made by the Obligated Group, including all loans previously funded as well as future loans. Although amounts attributable to the Obligated Group are tracked separately for federal reporting purposes, all pledged receipts will secure all bonds of the Revenue Bond Program. The SDWA and the General Bond Resolution adopted December 7, 1990 permit the pledging of assets of both the SRF and the Clean Water Fund SRF to secure these revenue bonds.

The State of Connecticut issued State Revolving Fund General Revenue Bonds 2003 Series dated July 10, 2003 pursuant to the General Bond Resolution adopted December 17, 2002. In accordance with the State Revolving Fund General Revenue Bonds, 2003 Series Plan of Finance, the

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

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

The SRF's revenue bonds payable are serial bonds, of which \$32,527,852 and \$40,859,795 was outstanding as of June 30, 2007 and 2006, respectively. The serial bonds mature on October 1, 2022 with interest rates ranging from 2.0% to 5.0%.

Refunding Bonds – 2003 Series

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

to the SRF. The Refunded Bonds were to mature at various dates through October 1, 2022.

The net proceeds of the 2003 Series B Refunding Bonds of \$18,879,694 were used to purchase U.S. Government securities and those securities were placed in an irrevocable trust with an escrow agent to provide debt service payments until the Refunded Bonds are called on various dates through October 1, 2011. The advance refunding met the requirements of an in-substance defeasance and, accordingly, the Refunded Bonds with a principal balance of \$17,834,000 were removed from the SRF's balance sheet. As of June 30, 2007, the outstanding principal balance of the Refunded Bonds was \$6,785,250.

The difference of \$1,045,694 between the book value of the Refunded Bonds and the amount deposited to the irrevocable trust to fund their debt service represents a loss which has been deferred and is being recognized as an adjustment of interest expense over the life of the 2003 Series B Refunding Bonds using the outstanding bond method. Amortization of the deferred loss for the years ended June 30, 2007 and 2006 totaled \$83,421 and \$82,969, respectively.

Bond Maturities

Requirements at June 30, 2007 to retire the SRF's revenue and refunding bonds are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 2,659,788	\$ 1,628,879
2009	2,896,696	1,544,199
2010	2,953,337	1,447,594
2011	2,998,779	1,344,235
2012	2,896,256	1,232,384
2013-2017	11,011,319	4,501,719
2018-2022	7,831,894	2,318,736
2023-2027	5,859,366	538,504
2028	205,667	5,049
	<u>\$ 39,313,102</u>	<u>\$ 14,561,299</u>

9 - FUND NET ASSETS

The following represents an analysis of fund net assets for the years ended June 30, 2007 and 2006.

	<u>Unrestricted</u>	<u>Restricted for Loans</u>	<u>Total</u>
Balance at June 30, 2005	\$ 12,327,445	\$ 46,998,638	\$ 59,326,083
Change in fund net assets	<u>(1,060,442)</u>	<u>5,263,750</u>	<u>4,203,308</u>
Balance at June 30, 2006	11,267,003	52,262,388	63,529,391
Change in fund net assets	<u>(723,301)</u>	<u>20,476,159</u>	<u>19,752,858</u>
Balance at June 30, 2007	<u>\$ 10,543,702</u>	<u>\$ 72,738,547</u>	<u>\$ 83,282,249</u>

10 - OPERATING TRANSFERS

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

	<u>2007</u>	<u>2006</u>
Operating expenses transfer	\$ -	(\$ 525,523)
Interest subsidy transfer	1,610,500	-
Transfer of 2003 bond premium to CWF	623,583	-
Transfer related to 2006 bond offering	(29,374)	-
Transfer related to DWF bond reallocation	<u>(464,459)</u>	<u>-</u>
	<u>\$ 1,740,250</u>	<u>(\$ 525,523)</u>

11 - LOAN FUNDING COMMITMENTS

The operating agreements for the federal capitalization grants require that the SRF enter into binding commitments with local government units within one year of the receipt of each federal grant payment to provide assistance in an amount equal to 120% (including 20% state matching grants) of each federal capitalization grant.

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

	<u>2007</u>	<u>2006</u>
Total funds committed to public water systems	\$ 80,937,553	\$ 76,911,571
Loan amount outstanding to public water systems	<u>61,058,899</u>	<u>47,769,702</u>
Loan commitments outstanding	<u>\$ 19,878,654</u>	<u>\$ 29,141,869</u>

12 - RISK MANAGEMENT

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

SEWARD AND MONDE

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

Ms. Denise L. Nappier, State Treasurer

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

Ms. Gina McCarthy, Commissioner,
Department of Environmental Protection,
State of Connecticut

We have audited the financial statements of the State of Connecticut Clean Water Fund - Drinking Water Federal Revolving Loan Account (State Revolving Fund) (SRF) (an enterprise fund of the State of Connecticut) as of and for the year ended June 30, 2007, and have issued our report thereon dated August 30, 2007. We conducted our audit in accordance with U.S. generally accepted auditing

standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the SRF's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the SRF's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the SRF's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

COMPLIANCE AND OTHER MATTERS

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

This report is intended solely for the information and use of the management of the SRF and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Seward and Monde

North Haven, Connecticut

August 30, 2007

SEWARD AND MONDE

CERTIFIED PUBLIC ACCOUNTANTS
296 STATE STREET
NORTH HAVEN, CONNECTICUT 06473-2165
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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM, ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133, AND
ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Ms. Denise L. Nappier, State Treasurer

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

Ms. Gina McCarthy, Commissioner,
Department of Environmental Protection,
State of Connecticut

COMPLIANCE

We have audited the compliance of the State of Connecticut Clean Water Fund - Drinking Water Federal Revolving Loan Account (State Revolving Fund) (SRF) (an enterprise fund of the State of Connecticut) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2007. The SRF's major federal program is identified in the summary of

auditors' results section of the accompanying schedule of federal findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the SRF's management. Our responsibility is to express an opinion on the SRF's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the SRF's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the SRF's compliance with those requirements.

In our opinion, the SRF complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2007.

INTERNAL CONTROL OVER COMPLIANCE

The management of the SRF is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the SRF's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the SRF's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies that result in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

We have audited the financial statements of the SRF as of and for the year ended June 30, 2007, and have issued our report thereon dated August 30, 2007. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the management of the SRF and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Seward and Monde

North Haven, Connecticut

August 30, 2007

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

For the year ended June 30, 2007

<u>Federal Grantor; Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
ENVIRONMENTAL PROTECTION AGENCY		
Direct:		
Capitalization Grants for State Revolving Fund	66.468	<u>\$ 18,597,000</u>

See notes to schedule.

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

For the year ended June 30, 2007

A - ACCOUNTING BASIS

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the State of Connecticut Clean Water Fund - Drinking Water Federal Revolving Loan Account (State Revolving Fund) and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

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

B - MUNICIPAL LOAN BALANCES

The balance of outstanding loans to municipalities totaled \$61,058,899 as of June 30, 2007.

STATE OF CONNECTICUT CLEAN WATER FUND - DRINKING WATER
 FEDERAL REVOLVING LOAN ACCOUNT (STATE REVOLVING FUND)
 SCHEDULE OF FEDERAL FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2007

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 X

Significant deficiency(s) identified that are not considered to be material weaknesses? Yes ____ None reported X

Noncompliance material to financial statements noted? Yes ____ No X

Federal Awards Internal control over major programs:

Material weakness(es) identified? ____Yes No X

Significant deficiency(s) identified that are not considered to be material weaknesses? ____Yes None reported X X

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

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

Major Programs:

CFDA Number 66.468

Name of Federal Program: Capitalization Grants for State Revolving Fund

Dollar threshold used to distinguish between type A and type B programs \$557,910

Auditee qualified as low risk auditee? X Yes No ____

SECTION II - FINANCIAL STATEMENT FINDINGS

No findings are reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No findings or questioned costs are reported.

APPENDICES



Appendix I: State Match for Federal Capitalization Grants

Fiscal Year	State 20% Match Requirement
1997	\$4,281,640
1998	\$1,424,260
1999	\$1,492,760
2000	\$1,551,400
2001	\$1,557,820
2002	\$1,610,500
2003	\$1,600,820
2004	\$1,660,620
2005	\$1,657,100
2006*	
2007**	
Total	\$16,836,920
<p>* 2006 Grant application has been submitted to the EPA. Match Requirement for 2006 grant is expected to be \$1,645,860</p> <p>** 2007 Grant application has not been submitted to the EPA.</p>	

Appendix II: Federal Capitalization Grants

(as of June 30, 2007)

	Total Federal Grant Awarded	Program Set Asides	Project Funds
1997	\$21,408,200	\$6,636,542	\$14,771,658
1998	\$7,121,300	\$2,207,603	\$4,913,697
1999	\$7,463,800	\$2,313,778	\$5,150,022
2000	\$7,757,000	\$2,404,670	\$5,352,330
2001	\$7,789,100	\$2,414,621	\$5,374,479
2002	\$8,052,500	\$2,496,275	\$5,556,225
2003	\$8,004,100	\$2,481,271	\$5,522,829
2004	\$8,303,100	\$2,573,961	\$5,729,139
2005	\$8,285,500	\$2,568,505	\$5,716,995
2006*			
2007**			
Total	\$84,184,600	\$26,097,226	\$58,087,374

* 2006 Grant application has been submitted to the EPA. Match Requirement for 2006 grant DPH expects that the 2007 award will be 8,229,300.

** 2007 Grant application has not been submitted to the EPA.

Set-Aside Management

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

Administration - (4%)

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

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

Local Assistance and Other State Programs – (15%)

Capacity Development

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

Source Water Protection

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

- Delineation and assessment of source water protection areas;
- Loans to systems to acquire land or conservation easements;
- Loans to systems to assist in voluntary, incentive-based source water protection measures;
- Development and implementation of wellhead protection programs, and

- Assistance for systems as part of a capacity development strategy.

Small Systems Technical Assistance - 2%

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

- Preparing guidelines for the design and construction of water storage tanks, pumping facilities, chlorination treatment systems and chemical feed treatment systems.
- Playing a lead role in project review management and providing technical assistance to facility operators on project submittal issues.

State Program Management - 10%

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

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

Operator Certification Program

- Operator Certification Program staff person attends meetings of the Connecticut Section-American Water Works Association Operator Certification Committee, an advisory group that provides input on many areas including regulation development, exams, and program administration.
- The Operator Certification Program also receives periodic input from the Association of Boards of Certification and the New England Water Works Association's Operator Certification Committee, the Drinking Water Advisory Council, and the Small Town Drinking Water Advisory Council.
- Staff has presented information on operator certification to various industry groups such as water system owners and operators, and well drillers. The program is continually reviewed to improve usability and reflect current regulations.

Appendix II: Federal Capitalization Grants (Continued)

Set-Asides Management					
	Administration Set-Aside - 4%	State Management Set-Aside - 10%	Small Systems Technical Assistance Set-Aside - 2%	Local Assistance Set - Aside - 15%	Total Set Asides (only)
	21076	21081	21085	21088	
	0000-4001-991	0000-4001-992	0000-4001-993	0000-4001-994	
1997 Award	856,328.00	2,140,820.00	428,164.00	3,211,230.00	6,636,542.00
Drawn thru 6/30/07	856,328.00	2,140,820.00	428,164.00	3,211,230.00	6,636,542.00
Balance	-	-	-	-	-
1998 Award	284,852.00	712,130.00	142,426.00	1,068,195.00	2,207,603.00
Drawn thru 6/30/07	284,852.00	712,130.00	142,426.00	1,068,195.00	2,207,603.00
Balance	-	-	-	-	-
1999 Award	298,552.00	746,380.00	149,276.00	1,119,570.00	2,313,778.00
Drawn thru 6/30/07	298,552.00	746,380.00	149,276.00	1,119,570.00	2,313,778.00
Balance	-	-	-	-	-
2000 Award	310,280.00	775,700.00	155,140.00	1,163,550.00	2,404,670.00
Drawn thru 6/30/07	310,280.00	775,700.00	155,140.00	1,163,550.00	2,404,670.00
Balance	-	-	-	-	-
2001 Award	311,564.00	778,910.00	155,782.00	1,168,365.00	2,414,621.00
Drawn thru 6/30/07	311,564.00	778,910.00	155,782.00	1,168,365.00	2,414,621.00
Balance	-	-	-	-	-
2002 Award	322,100.00	805,250.00	161,050.00	1,207,875.00	2,496,275.00
Drawn thru 6/30/07	322,100.00	675,051.00	161,050.00	86,441.00	1,244,642.00
Balance	-	130,199.00	-	1,121,434.00	1,251,633.00
2003 Award	320,164.00	800,410.00	160,082.00	1,200,615.00	2,481,271.00
Drawn thru 6/30/07	320,164.00	-	202,018.00	-	522,182.00
Balance	0	800,410.00	(41,936.00)	1,200,615.00	1,959,089.00
2004 Award	332,124.00	830,310.00	166,062.00	1,245,465.00	2,573,961.00
Drawn thru 6/30/07	280,269.00	-	166,062.00	-	446,331.00
Balance	51,855.00	830,310.00	-	1,245,465.00	2,127,630.00
2005 Award	331,420.00	828,550.00	165,710.00	1,242,825.00	2,568,505.00
Drawn thru 6/30/07	-	-	56,646.00	-	56,646.00
Balance	331,420.00	828,550.00	109,064.00	1,242,825.00	2,511,859.00
Total Awarded to date	3,367,384.00	8,418,460.00	1,683,692.00	12,627,690.00	26,097,226.00
Drawn thru 6/30/07	2,984,109.00	5,828,991.00	1,616,564.00	7,817,351.00	18,247,015.00
Total Balance	383,275.00	2,589,469.00	67,128.00	4,810,339.00	7,850,211.00

APPENDIX III: Financial Assistance By Bond Rating

Borrower	Total Commitments	Aaa	A & Aa	B to Baa	Not Rated	Total Loans
<u>Public</u>						
Colchester	\$ 2,600,000		\$ 2,600,000			\$ 2,600,000
Ledyard	897,693		897,693			897,693
MDC	11,262,122		11,262,122			11,262,122
New Britain	28,642,320		28,642,320			28,642,320
Newtown	584,901		584,901			584,901
Norwich	1,457,937		1,457,937			1,457,937
Portland	1,686,029		1,686,029			1,686,029
Sharon	1,939,283		1,939,283			1,939,283
Southington	3,984,399		3,984,399			3,984,399
Watertown Fire District	964,762				\$ 964,762	964,762
Woodlake Taxing District	404,500				404,500	404,500
Subtotal	54,423,946		53,054,684		1,369,262	54,423,946
<u>Private</u>						
Aquarion Water(BHC)	287,580				287,580	287,580
Candlewood Trails	258,000				258,000	258,000
Cook Willow	540,899				540,899	540,899
Crystal Lake	285,886				285,886	285,886
Harrybrook Park Condo	163,814				163,814	163,814
Hillside Water Corp	124,397				124,397	124,397
Second Taxing Dist.- City of Norwalk	24,715,165		24,715,165			24,715,165
Twin Hills	137,866				137,866	137,866
Subtotal	26,513,607		24,715,165		1,798,442	26,513,607
Totals	\$ 80,937,553		\$ 77,769,849		\$ 3,167,704	\$ 80,937,553
Percentage			96%		4%	100%

APPENDIX IV: Drinking Water Fund Closed Loans

Fiscal Year 2007

Closing Date	Entity	Project No	SCD	IFO/ PLO	Amount	New PLO Amount	New IFO Amount
8/31/2006	Ledyard	200401-C	9/30/2006	IFO/ PLO	\$926,006	\$926,006	\$926,006
6/27/2007	Southington	200202-C	12/31/2006	PLO	\$2,484,399	\$2,484,399	\$3,410,405
Totals							

Total New IFO Loans	\$926,006
Total Dollar Value on New IFO Loans	\$926,006
Total Dollar Value on PLO Loans	\$3,410,405

Key:

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

IFO—Interim Funding Obligations

PLO— Permanent Loan Obligation

APPENDIX V: Pending Projects

	Project Number	Total IFO/PLO Unpaid Balance 06/30/07	Undrawn IFO Commitment	Additional Loan Commitment Through 6/30/08	Outstanding, Undrawn and Additional Commitments
Aquarion Water(BHC)	9701-C	287,580			287,580
Candlewood Trails				258,000	258,000
Colchester				2,600,000	2,600,000
Cook Willow	9706-C	539,826	1,073		540,899
Crystal Lake	9711-C	173,150			173,150
Crystal Lake	9711-C-D1	112,736			112,736
Harrybrooke Park Condo	9703-C	163,814			163,814
Hillside Water Corp	2000B-DC	124,397			124,397
Ledyard	200401-C	897,693		-	897,693
MDC	200105-C	1,894,519			1,894,519
MDC	9704-C	584,655			584,655
MDC	9704-DC-D1	1,778,095			1,778,095
MDC	9709-C	137,070			137,070
MDC	9709-C-D1	760,807			760,807
MDC	9710-C	606,976			606,976
MDC				5,500,000	5,500,000
New Britain	2000A-DC	19,500,000			19,500,000
New Britain	9802-PDC	9,142,320			9,142,320
Newtown	200101-C	425,187			425,187
Newtown	200402-C	159,714			159,714
Norwich	9714-C	1,457,937			1,457,937
Portland	9708-C	1,686,029			1,686,029
Second Tax District/Norwalk	200601-C	15,099,107	9,616,058		24,715,165
Sharon	2000d-DC	371,686			371,686
Sharon	9705-C	146,770			146,770
Sharon	9713-C	677,804			677,804
Sharon	9801-C	743,023			743,023
Southington	200202-C	2,484,399			2,484,399
Southington	200201-C			1,500,000	1,500,000

Appendix V: Pending Projects (continued)

	Project Number	Total IFO/PLO Unpaid Balance 06/30/07	Undrawn IFO Commitment	Additional Loan Commitment Through 6/30/08	Outstanding, Undrawn and additional Commitments
Twin Hills	9707-C	137,866			137,866
Watertown Fire District	200104-C	373,391			373,391
Watertown Fire District	9803-C	591,371			591,371
Woodlake Taxing District				404,500	404,500
		61,057,923	9,617,131	10,262,500	80,937,553

APPENDIX VI: Priority List Of Projects For 2007

APPLICANT	ID#	DESCRIPTION	AMOUNT
TOWN OF BROOKFIELD	DC 2006 0189043a	WATER MAIN EXTENSION – SILVERMINE ROAD	\$2,271,000
INTERLAKEN WATER COMPANY	2007 0911061a	INFRASTRUCTURE UPGRADE	\$145,843
BARLOW MOUNTAIN & SCOTLAND ELEMENTARY SCHOOL	2007 1180013a	WATER MAIN EXTENSION	\$1,450,000
TOWN OF SPRAGUE	2007 1330021a	RENOVATION/CONSTRUCTION OF BALTIC RESERVOIR TREATMENT PLANT	\$1,392,900
COUNTRY MANOR APARTMENTS	2007 0671001	SECONDARY WELL INSTALLATION	\$18,990
TOWN OF LEDYARD	PDC 2005 0727031a	LEDYARD CENTER WATER TANK	1,600,000
BETHEL WATER DEPARTMENT	2007 0090011a	NEW WATER STORAGE TANK	\$500,000
NORWICH PUBLIC UTILITIES	2007 1040011a	YANTIC WELL SUPPLY	\$1,800,000
OLD FARMS CONDOMINIUM TAX DISTRICT	C 2006 0640011b	INTERCONNECTION TO UNITED WATER CT	\$1,386,072
NORWICH PUBLIC UTILITIES	2007 1040011d	BUSINESS PARK WATER TANK UPGRADE AND REPAIR	\$410,200
NORWICH PUBLIC UTILITIES	2007 1040011c	FILTER BACKWASH RECYCLE	\$522,000
RIDGEFIELD HIGH & MIDDLE SCHOOL	2007 1180382a	ACRE LANE WATER MAIN EXTENSION	\$400,000
MDC – VARIOUS TOWNS	2007 0640011a	WATER MAIN REPLACEMENT	\$13,461,580
MDC – HARTFORD	2007 0640011c	WATER MAIN REPLACEMENT	\$380,000
MDC – HARTFORD	2007 0640011d	WATER MAIN REPLACEMENT	\$4,270,000
MDC – GLASTONBURY/ EAST HTFD	2007 0640011e	INSTALL 16" FEEDER MAIN GLASTONBURY/E. HTFD	\$5,212,800
NORWICH PUBLIC UTILITIES	2007 1040011b	ASBESTOS CEMENT MAIN REPLACEMENT	\$3,413,000
METROPOLITAN DISTRICT COMMISSION	C 2006 0640011c	REMOVAL AND REPLACEMENT OF TRAVELING SCREENS AT INTAKE BLDG	\$103,000
CTWC-SHORELINE REGION – POINT O' WOODS ASSN. INC.	20071050752a	WATER MAIN REPLACEMENT	\$727,145
MDC VARIOUS TOWNS	2007 0640011b	WATER DISTRIBUTION NETWORK MANAGEMENT PROGRAM	INELIGIBLE

Appendix VI: Priority List of Projects for 2007

APPLICANT	ID#	DESCRIPTION	AMOUNT
<u>PROJECTS IN PROGRESS</u>			
COLCHESTER SEWER & WATER	C 2004 0280111a	TAINTOR HILL ROAD TREATMENT PLANT UPGRADE	\$2,600,000
CANDLEWOOD TRAILS ASSOCIATION	PDC 2005 0960091a	NEW WELL PUMPING STATION	\$258,000
SOUTHINGTON WATER DEPARTMENT	2003 1310011ca	WATER MAIN EXTENSION	\$1,500,000
WOODLAKE TAX DISTRICT	PDC 2003 1680031a	LAND PURCHASE / CONSTRUCT WELL	\$404,500
METROPOLITAN DISTRICT COMMISSION	C 2006 0640011b	RESERVOIR 6 WATER TREATMENT FACILITY FILTER REHABILITATION	\$4,500,000
METROPOLITAN DISTRICT COMMISSION	C 2006 0640011d	RAW WATER BYPASS ELIMINATION – W. HTFD.	\$1,000,000
TOWN OF SPRAGUE	2007 1330021b	EMERGENCY REPAIR / REPLACEMENT OF WATER TANK	WITHDREW

APPENDIX VII: Application Process

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

1. Evaluation and Enforcement (DPH): The proposed project must address the needs cited by the DPH and comply with regulatory and statutory requirements for the project.
2. Project Administration (DEP): All project costs included in the application must be eligible for funding in accordance with state and federal regulations.
3. Environmental Review (DPH): Based on information received from the borrowers, the DPH prepares an environmental assessment of all activities to be undertaken in order to ensure that the project is consistent with the State Plan of Conservation and Development. The assessment report is submitted to the Physical Resource Planning Section of OPM for final concurrence.
4. Credit Review (State Treasurer's Office , DPUC, and the interagency committee): The applicant must be creditworthy, and the Drinking Water Fund underwriting standards must be met. The State 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 State 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 Financing Loan (IFO) is converted to a Project Loan Obligation (PLO). The borrower is billed according to the terms of the PLO. Generally, all borrowers make monthly principal and interest payments. The DPH and its staff of engineers assist each borrower through the process as each department completes its work.

APPENDIX VIII : Summary Of Project Grant And Loan Agreements

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

Additionally, each loan agreement specifies a scheduled completion date. Amortization of each loan is required to begin one year from the project's scheduled completion date and the final maturity of each loan is twenty years from the scheduled completion date.

Each loan is secured by the borrower's pledge of its full faith and credit and/or a dedicated source of revenue.

Principal and interest payments on loans are payable (1) in equal monthly installments commencing one month after the scheduled completion date, or (2) in a single annual installment representing the first year's principal and interest not later than one year after the scheduled completion date and thereafter in monthly installments.

Below is a summary of the Project Loan Agreements.

SECTION I	DEFINITIONS
SECTION II	THE PROJECT Project Description including Eligible Project Costs
SECTION III	THE GRANT The Project Grant, Increase in Project Grant, Required Repayment of the Grant and Disbursement of Project Grant
SECTION IV	THE LOAN The Loan Commitment, The Interim Funding Obligations and Project Loan, Disbursement of Project Loan and Project Grant Proceeds, Required Repayment of Obligations, Optional Municipality.
SECTION V	REPRESENTATIONS AND WARRANTIES Existence and Power, Authority, No Litigation Pending, Expenditure of Project Grant and Project Loan by Municipality, Validity, and Events of Default.
SECTION VI	CONDITIONS PRECEDENT Written Documentation, Evidence of Municipal Action, Opinion of Bond Counsel, Signature and No Litigation Certificate, No Event of Default, Representations and Warranties, Compliance with Federal and State Requirements.
SECTION VII	AGREEMENTS OF THE MUNICIPALITY Construction, Municipality to Pay Excess Cost of Project, Inspection of Project By State, Maintenance of Project Records, Maintenance of Existence, Use of Proceeds, Tax Compliance, Nondiscrimination, Executive Orders of the Governor, Indemnification, Audits, Litigation, Waiver of Governmental Immunity Expenses, Completion of Project; Audit Maintenance of Project, Continuing Disclosure;

APPENDIX VIII (continued): Summary Of Project Grant And Loan Agreements

SECTION VIII AGREEMENTS OF THE STATE

Loan, Termination, Notice of Approval, Audit

SECTION IX DEFAULTS

Events of Default and Remedies

SECTION X MISCELLANEOUS

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

Exhibit I Form Of Interim Funding Obligation

Exhibit II Form of Project Loan Obligation

Exhibit III Form of Opinion of Bond Counsel

Exhibit IV Form of Signature No Litigation Certificate

Exhibit V Continuing Disclosure Agreement

Exhibit VI Budget

Exhibit VII Certification of System of Charges, Assessments and Other Revenues

Exhibit VIII Form of Request for Advance

Exhibit IX Closing Statement

Exhibit X Conditions precedent

Exhibit XI Form of Nondiscrimination Certification

Attachment I: Insurance Requirements

APPENDIX IX: Summary Of The General Bond Resolutions

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

Summary

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

Flow of Funds

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

The Trustee deposits all pledged loan repayments into the Pledged Receipts Account in the Revenue Fund. The Trustee deposits all earnings on funds and investments (except for earnings on amounts held within the Debt Service Reserve Fund) into the earnings account.

Upon deposit, amounts in the Pledged Receipts Account and the Earnings Account are immediately transferred to the Debt Service Fund for the payment of principal 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:

First to the Interest Account for the payment of interest;

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, 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;

Then payment of debt service on the bonds when due is made from the Debt Service Fund

Earnings on amounts in the Federal Letter of Credit and Undesignated Accounts are deposited into the Debt Service Fund Earnings Account and applied to pay debt service on the bonds prior to the application of other pledged receipts and revenues for such purpose. Whenever the funds in the Debt Service Fund are insufficient to pay the interest and principal on outstanding bonds, the Trustee will apply amounts from the following funds to the extent necessary to make good the deficiency in the following order of priority:

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

Fund amounts sufficient to pay the next interest payment coming due, funds will be transferred: first, from the Debt Service Reserve Fund; and second, from the Interest Subsidy Fund.

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

All proceeds of the bonds are deposited into the loan fund and expended only for the purposes of the SRF program, including the financing of loans to municipalities.

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

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

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

General Bond Resolution	Description of Uses	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	Receives proceeds from the sale of revenue bonds as specified and determined by the Resolution. Funds expended for purposes of the State Revolving Fund program, including the financing of loans to municipalities.	State	Yes
Debt Service Reserve Fund	Required to be funded in an amount equal to 50% of all outstanding bonds. The reserve is funded by Federal Capitalization Grant payments drawn under the federal letter of credit. Investment income is transferred to the revenue fund for debt service payments. Used for payment of principal and interest in the event of deficiencies in the revenue accounts.	Trustee	Yes - AIG
Debt Service Fund a. Interest Account	Receives amounts from the Revenue Fund accounts sufficient to pay the interest portion due on each interest payment date. Pays interest on outstanding bonds.	Trustee	Yes - AIG
b. Principal Account	Receives amounts from the Revenue Fund accounts sufficient to pay the principal or current sinking fund installments. Pays off principal on outstanding bonds.	Trustee	Yes - AIG
c. Redemption Account	Receives amounts from the interest and principal accounts for the redemption of bonds. Used for redemption of bonds.	Trustee	Yes - AIG
d. Capitalized Interest Account	Receives any capitalized interest received by the trustee. Amounts in the account are transferred for payment of capitalized interest on outstanding bonds.	Trustee	Yes - USB
Administrative Fund: Cost of Issuance Account	Established outside the SRF, receives a portion of the Revenue Bond proceeds. Investment income is transferred to the Revenue Fund for debt service payments. Used to pay issuance cost on revenue bonds.	Trustee	Yes - USB
Rebate Fund	Receives any earnings required to be rebated to the United States pursuant to the Tax Regulatory Agreement. Used for IRS obligations as required.	Trustee	Yes - USB

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

General Revenue Revolving Fund

The General Revenue Bond Resolution was approved by the State Bond Commission on December 17, 2002. The 2003 Series A, B & C are the first bonds issued under the Resolution.

General Revenue Bond Resolution Fund types	Description and Uses	Held by	Invested
Revolving Fund	The Revolving Fund from which the bonds are repaid consists of amounts in the water pollution control federal revolving loan account and drinking water federal revolving loan account. The State will maintain the Revolving Fund in accordance with the Federal ACT Not later than one business day prior to any payment date, the State shall transfer to the Debt Service Fund any amounts necessary, together with any amounts on deposit therein, sufficient to pay principal of, redemption premium, if any, and interest on bonds coming due on such payment date and any amounts payable from the Debt Service Fund related to Other financial assistance and related program obligations.	Trustee	Yes - AIG
Bond Proceeds Fund	The proceeds of the 2003A Bonds were deposited into the Bond Proceeds Fund as specified and determined by the Supplemental Resolution. Moneys in the Bond Proceeds Fund are expended only for the purposes of the Wastewater Program or the Drinking Water Program, including the financing of Loans to Borrowers, and to the extent that other moneys are not available, for payments of principal of and interest on the bonds when due and to redeem bonds at the direction of the	Trustee	Yes - AIG
Debt Service Fund	Amounts deposited in the Debt Service Fund may include accrued interest and capitalized interest, if any, and amounts transferred from the Revolving Fund, the Support Fund and the Bond Proceeds Fund. Amounts on deposit in the Debt Service Fund will be used for the payment of debt service on the bonds when due and amounts due on other financial assistance and related program obligations.	State	Yes
Support Fund	The Support Fund, and accounts therein, shall be funded in the amounts and in the manner set forth in a supplemental resolution. Moneys in the Support Fund shall be transferred to the Debt Service Fund to pay the interest, principal and Sinking Fund Installments and redemption price due on bonds, in accordance with the schedule set forth in the applicable supplemental resolution.	Trustee	Yes - AIG
Administrative Fund: Cost of Issuance Account	Established outside the SRF and hold by the State, receives a portion of the revenue bond proceeds. Investment income is transferred to the revenue fund for debt service payments. Used to pay issuance cost on revenue bonds.	Trustee	Yes - USB
Rebate Fund	Receives any earnings required to be rebated to the United States pursuant to the Tax Regulatory Agreement. Used for IRS obligations as required.	Trustee	Yes - USB

Appendix X: Cumulative Projects

APPLICANT	ID	TOWN	BRIEF DESCRIPTION	PROJECT LOAN AMOUNT
TWIN HILLS TAXING DISTRICT	C 97 0340131a	COVENTRY	DISTRIBUTION & SOURCE IMPROVEMENTS	\$207,420.86
SHARON SEWER & WATER	DC 97 1250011b	SHARON	WATER MAIN REPLACEMENT (REFINANCE)	\$1,084,010.00
SHARON SEWER & WATER	DC 97 1250011a	SHARON	PUMP STATION	\$210,000.00
MDC	C 970640011b	WEST HARTFORD	SYSTEM REPAIRS & UPGRADES	\$3,086,188.44
MDC	C 97 0640011a	BLOOMFIELD	VARIOUS IMPROVEMENTS	\$1,163,888.62
NEW BRITAIN	PDC 98 0890011a	NEW BRITAIN	NEW WATER TREATMENT PLANT - PHASE I	\$12,682,987.00
NORWICH	DC 97 1040011a	NORWICH	REPLACE ASBESTOS PIPE WITH DUCTILE IRON PIPE	\$1,898,651.36
MDC	C 97 0640011c	BLOOMFIELD/ HARTFORD/ W. HARTFORD	WATER MAIN REPLACEMENT	\$861,978.47
WATERTOWN FIRE DISTRICT	DC 98 1530011a	WATERTOWN	NEW DISTRIBUTION PUMP STATION	\$717,731.37
CRYSTAL LAKE CONDOS	C 97 1210021/31a	SALEM	CONSTRUCT NEW WATER SYSTEM	\$359,202.19
HARRYBROOKE PARK CONDO	PDC 97 0960131a	NEW MILFORD	INTERCONNECT WITH UNITED WATER COMPANY	\$231,327.45
BHC - STAMFORD (AQUARION)	PDC 97 1350011a	STAMFORD	UPGRADE PUMP STATION	\$391,038.00
COOK WILLOW REALTY	DC 97 1110111a	PLYMOUTH	INTERCONNECT WITH CONNECTICUT WATER COMPANY	\$704,259.24
HILLSIDE WATER	PDC 00 0790021a	MARLBOROUGH	WATER MAIN & DISTRIBUTION IMPROVEMENTS	\$149,052.00
SHARON SEWER & WATER	DC 98 1250011a	SHARON	INTAKE & PIPELINE UPGRADE, WATER FILTRATION TREATMENT PLANT, STORAGE TANK	\$1,100,000.00
TOWN OF PORTLAND	C 97 1180081a	PORTLAND	INTERCONNECT WITH METROPOLITAN DISTRICT COMMISSION	\$2,500,000.00
NEW BRITAIN PHASE II	PDC 98 0890011a	NEW BRITAIN	NEW WATER TREATMENT PLANT - PHASE II	\$24,000,000.00
SHARON SEWER & WATER	DC 01 1250011a	SHARON	WATER MAIN REPLACEMENT	\$438,153.49
TOWN OF NEWTOWN (H.S)	C 02 0970442a	NEWTOWN	CONNECTION TO TOWN WATER	\$516,000.00
MDC	C 01 0640011x	BLOOMFIELD	CONSTRUCTION OF WATER MAINS	\$2,343,735.00
WATERTOWN FIRE DISTRICT	DC 98 1530011b	WATERTOWN	UPGRADE CHEMICAL FEED EQUIPMENT	\$435,500.00

Appendix X: Cumulative Projects (continued)

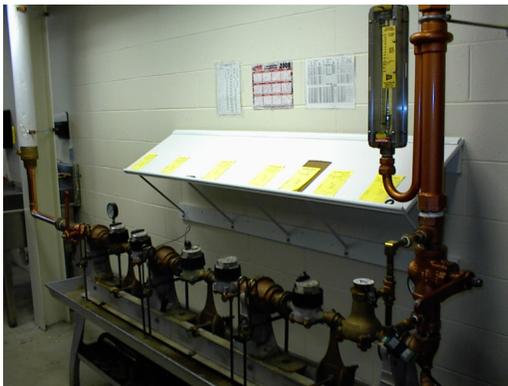
APPLICANT	ID	TOWN	BRIEF DESCRIPTION	PROJECT LOAN AMOUNT
UNIONVILLE WATER COMPANY	C 97 0520011b	FARMINGTON	INTERCONNECT WITH METROPOLITAN DISTRICT COMMISSION	\$1,646,970.16
TOWN OF NEWTOWN	D 03 0970422a	NEWTOWN	CONNECTION TO TOWN WATER	\$171,738.00
TOWN OF SOUTHTON	D 03 1310011a	SOUTHTON	WELLHEAD PROTECTION	\$4,643,030.00
SECOND TAXING DISTRICT	DC 04 1030021a	NORWALK	WATER TREATMENT PLANT UPGRADE	\$24,715,165.00
TOWN OF LEDYARD	DC 03 0727031a	LEDYARD	INTERCONNECTION TO ELEM SCHOOL	\$926,006.00
TOTAL 1999 to 2007				\$87,184,732.41



New Britain – New Water Treatment Plant



Newtown – Middle Gate Elementary School Water Main Extension



Southington - Meter Reading Room



Watertown - Caustic Day Tank and Caustic Metering Pumps

APPENDIX XI: EPA Ratio Analysis

FINANCIAL RATIO	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
CURRENT RATIO:						
Cash & Equivalents	\$59,106	\$1,144,853	\$13,062,890	\$13,160,297	\$16,012,275	\$23,647,538
Int/receivable Investments	\$999,576	\$282,709	\$330,100	\$322,582	\$313,123	\$268,951
Due from other state fund	\$24,775	\$0	\$0	\$0	\$0	\$0
Grant Receivable	\$0	\$0	\$449,850	\$1,238,087	\$1,137,380	\$706,420
Loans Receivable current portion	\$8,081,678	\$22,724,735	\$3,773,468	\$2,728,732	\$5,273,347	\$18,131,569
Loan Fund	\$6,261,027	\$0	\$13,486,329	\$13,645,960	\$11,493,334	\$0
Debt Service Fund	\$18,383,265	\$24,129,646	\$2,987,693	\$6,725,963	\$10,409,274	\$12,992,184
Free-up from reserve fund	\$0	\$0	\$0	\$0	\$0	\$0
Total Current Assets	\$33,809,427	\$48,281,943	\$34,090,330	\$37,821,621	\$44,638,733	\$55,746,662
Revenue bond interest payable	\$349,593	\$349,593	\$521,764	\$507,712	\$492,254	\$472,336
Due to other state fund	\$13,503	\$0	\$0	\$714,481	\$486,403	\$164,865
Deferred grant revenue	\$118,585	\$437,170	\$0	\$0	\$0	\$0
Revenue bonds payable(current)	\$0	\$1,199,397	\$1,512,830	\$1,838,889	\$3,209,474	\$2,659,788
Total Current Liabilities	\$481,681	\$1,986,160	\$2,034,594	\$3,061,082	\$4,188,131	\$3,296,989
Current Assets /Current Liabilities	70.19%	24.31%	16.76%	12.36%	10.66%	16.91%
Interest Receivable	\$287,936	\$364,691	\$105,864	\$11,608	\$66,045	\$155,287
Loans recble-less current portion	\$18,672,996	\$19,869,588	\$49,222,002	\$46,588,118	\$42,496,355	\$42,927,330
Reserve fund(less free-up)	\$16,289,526	\$23,609,209	\$28,476,371	\$27,886,709	\$27,107,668	\$25,783,169
Federal Cap grant	\$6,730,236	\$16,527,779	\$4,966,468	\$1,693,942	\$6,636,504	\$18,597,000
Total Loans, Grants and Reserves	\$41,980,694	\$60,371,267	\$82,770,705	\$76,180,377	\$76,306,572	\$87,462,786
Rev bonds payable-less current portion	\$29,614,747	\$28,415,350	\$49,571,569	\$47,732,681	\$44,523,207	\$36,653,314
Deferred grant revenue	\$118,585	\$0	\$0	\$0	\$0	\$0
Premium on revenue bonds	\$468,337	\$445,304	\$3,277,113	\$3,070,810	\$2,867,702	\$2,096,106
Total Long term Debt	\$30,201,669	\$28,860,654	\$52,848,682	\$50,803,491	\$47,390,909	\$38,749,420
Total Assets/ Total Liabilities	1.39%	2.09%	1.57%	1.50%	1.61%	2.26%
Cumulative Capitalization Grants	\$51,539,400	\$59,591,900	\$67,596,000	\$67,596,000	\$75,899,100	\$84,184,600
State Match Contribution	\$3,919,467	\$7,147,364	\$1,600,820	\$1,356,123	\$15,179,824	\$16,836,920
Overmatch Contribution	\$0	\$0	\$3,055,440	\$1,699,317	\$0	\$0
Retained Earnings	\$38,495,120	\$61,278,617	\$56,715,391	\$59,326,083	\$63,529,391	\$83,282,249
Total Net Assets	\$93,953,987	\$128,017,881	\$128,967,651	\$129,977,523	\$154,608,315	\$184,303,769
Net Assets/Cap Grant	1.82%	2.15%	1.91%	1.92%	2.04%	2.19%
Binding Commitments or closings	\$26,754,674	\$42,594,323	\$52,995,470	\$49,316,850	\$47,769,702	\$61,058,900
Cap Grants	\$51,539,400	\$59,591,900	\$67,596,000	\$67,596,000	\$75,899,100	\$84,184,600
Binding Commitment Ratio	0.52%	0.71%	0.78%	0.73%	0.63%	0.73%
PROJECT COMPLETION						
Projects Completion	\$20,017,177	\$20,967,545	\$49,222,002	\$46,588,118	\$53,088,721	\$45,894,550
Cap Grants	\$51,539,400	\$59,591,900	\$67,596,000	\$67,596,000	\$75,899,100	\$84,184,600
Project Completion Ratio	0.39%	0.35%	0.73%	0.69%	0.70%	0.55%
DEFAULT RATIO						
Total Loans	\$26,754,674	\$42,594,323	\$52,995,470	\$49,316,850	\$47,769,702	\$61,058,900
Total Assets	\$69,059,885	\$92,125,431	\$112,862,336	\$113,190,656	\$115,108,431	\$125,328,658
Total Loans /Total Assets	0.39%	0.46%	0.47%	0.44%	0.41%	0.49%



