



STATE OF CONNECTICUT

State Revolving Fund Programs:

Drinking Water Fund 2010 Annual Report



Connecticut Drinking Water Fund

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



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

Programmatic and fiscal administration of Drinking Water State Revolving Fund (DWSRF) funded projects and of set-asides



Denise L. Nappier
State Treasurer

Fiscal administration of DWSRF accounts, oversight of loans and administration of the DWSRF bond financing program



Amey Marrella
Commissioner
Department of Environmental Protection

Fiscal administration of the State's Clean Water Fund



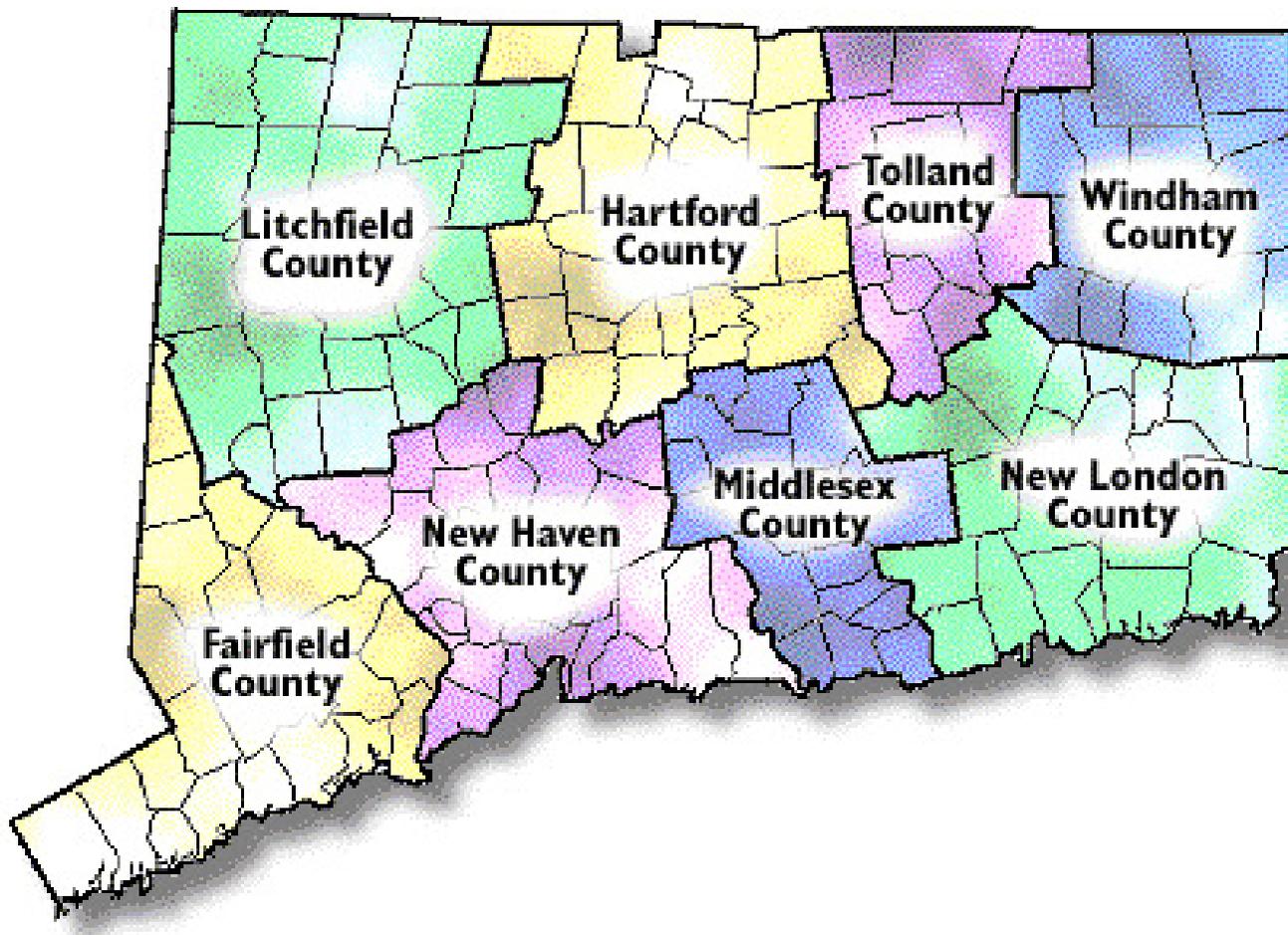
Kevin M. DelGobbo
Chairperson
Department of Public Utility Control

Programmatic review on DWSRF funded projects for regulated water companies

TABLE OF CONTENTS

COMMUNITIES SERVED BY THE DRINKIING WATER FUND AS OF JUNE 30, 2010.....	2
REPORT INTRODUCTION.....	2
REPORT INTRODUCTION.....	3
SUMMARY OF ACTIVITIES AND ACCOMPLISHMENTS.....	5
LOCAL ASSISTANCE AND OTHER STATE SET-ASIDES.....	7
<i>Source Water / Wellhead Protection Program.....</i>	7
<i>Capacity Development.....</i>	8
<i>Small Systems Technical Assistance Set-Aside.....</i>	10
PROJECTS AND ADMINISTRATIVE SET-ASIDE.....	11
<i>Program Management Set-aside.....</i>	12
PROJECT FINANCING.....	12
<i>Project Priority List.....</i>	13
<i>Intended Use Plan Summary.....</i>	14
BORROWERS.....	15
2010 PROJECTS.....	16
PROGRAM FUNDING.....	24
PROGRAM MANAGEMENT.....	27
COMPLIANCE WITH OPERATING AGREEMENT AND GRANT CONDITIONS.....	27
2011 DWSRF PROGRAM ACTIVITIES AND INITIATIVES.....	28
LONG-TERM PROJECTIONS.....	35
CONDITION OF THE FUND.....	36
DWSRF Annual Report Acronym List.....	37
Appendix I: State Match for Federal Capitalization Grants.....	39
Appendix II: Federal Capitalization Grants Project Funds.....	40
Appendix III: Set-Aside Management.....	41
Appendix IV: Drinking Water SRF Closed Loans.....	45
Appendix V: Pending Projects.....	46
Appendix VI: Financial Assistance by Bond Rating – FY 2010.....	47
Appendix VII: Project Priority List - 2010 & 2011.....	48
Appendix VIII: Program Management.....	51
<i>Department of Public Health.....</i>	51
<i>Department of Environmental Protection.....</i>	51
<i>Department of Public Utilities Control.....</i>	51
Appendix IX: Program Management By The Office Of The Treasurer.....	52
<i>Financing Program Administration.....</i>	53
<i>Program Bond Resolutions.....</i>	53
Appendix X: Application Process.....	54
Appendix XI: Summary Of Project Funding Agreements.....	55
AUDIT REPORTS AND SCHEDULES IN ACCORDANCE WITH OMB CIRCULAR A-133.....	59

COMMUNITIES SERVED BY THE DRINKING WATER FUND AS OF JUNE 30, 2010



Fairfield County: Bethel, Brookfield, New Fairfield, Newtown, Norwalk, Ridgefield, Stamford, Woodbury

Hartford County: Farmington, Marlborough, Metropolitan District Commission (MDC), New Britain, Southington, Manchester

Litchfield County: New Milford, Plymouth, Sharon, Watertown

Middlesex County: Portland

New Haven County: *None*

New London County: Colchester, Ledyard, Norwich, Salem, Old Lyme, East Lyme

Tolland County: Coventry, Tolland

Windham County: Plainfield, Putnam

REPORT INTRODUCTION

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

This Annual Report to the Governor on the Drinking Water SRF is for fiscal year ending June 30, 2010. It has been prepared jointly by the DPH Drinking Water Section (DWS) and the Office of the State Treasurer's Debt Management Division.

Included in this report are the history of the Drinking Water SRF, a review of the program during fiscal year (FY) 2010, descriptions of the revenue bond program, and projections of future project funding and the management initiatives for FY 2011. As a major recipient of federal financial assistance, the State must provide this annual report and audited statements to comply with federal reporting requirements under the Drinking Water Act. The State must also comply with the federal Single Audit Act of 1984. The audited statements for the fiscal year ending June 30, 2010, as provided in this report have been prepared by a firm of independent certified public accountants.

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

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



Connecticut River in Downtown Hartford

EXECUTIVE SUMMARY

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

The Drinking Water SRF is managed by the Department of Public Health (DPH). The DPH Drinking Water Section (DWS), which is responsible for the administration of all state and federal drinking water regulations, is comprised of the following units: Compliance, Capacity Development, Information Systems, Enforcement and Operator Certification, Planning, Source Protection, and Office Support. The DWS focuses on compliance with state and federal drinking water regulations, and the maintenance and improvement of water quality through sustainable public water systems. The DWS also provides financing, technical assistance, education, and regulatory enforcement to over 4,000 public drinking water systems which provide drinking water to approximately 2.7 million persons on a daily basis.

The DPH Drinking Water Section provides financing as well as technical assistance, education, and regulatory enforcement to over 4,000 public drinking water systems, which provide drinking water to approximately 2.7 million persons on a daily basis.

The DWSRF program can provide low-interest loans to approximately 1,050 eligible public water systems for drinking water infrastructure improvements as well as funding for program set-asides used for activities related to the maintenance and improvement of drinking water quality and technical, managerial and financial capacity of public water systems in the State. The Drinking Water Section promotes asset management and using various tools, has moved to the forefront in assisting small public water systems.

The primary sources of funding for the DWSRF financing program include revenue bonds and State contributions which are managed by the Office of the State Treasurer, and federal capitalization grants through the SDWA which is administered by the U.S. Environmental Protection Agency (EPA). The Drinking Water SRF also received federal economic stimulus funding under the American Recovery and Reinvestment Act of 2009 (ARRA) and continued to expend those funds through 2010.



Aerial view of Farmington River at the West Branch Reservoir

SUMMARY OF ACTIVITIES AND ACCOMPLISHMENTS

The Drinking Water Section uses the Drinking Water SRF federal capitalization grants and available resources to assist public water systems and water system operators to meet critical needs, reduce public health risk, and maintain safe high quality water resources for the State's citizens. As more fully discussed in this report, major accomplishments for the DWSRF program during FY 2010 include:

Made loan commitments to two communities totaling \$1.70 million under the base DWSRF Program for projects that included a water main extension and water tank installation.

Executed twelve subsidized loans totaling \$17.2 million to ten communities under the ARRA program. Additional information on the State's use of ARRA under the drinking water program can be found at www.ct.gov/dph/publicdrinkingwater.

Under the Capacity Development Set-Aside, conducted 307 Sanitary Surveys inspections of public water systems, including evaluations of technical, financial and managerial capacity and cross-connection control programs. The survey includes:

- Comprehensive water system infrastructure analyses
- SDWA/State regulatory compliance reviews
- Financial and managerial capacity examinations for community public water systems
- Identification and recommendation of basic infrastructure repair and replacement program needs
- Technical assistance and training to public water systems on SDWA regulations
- Guidance on sustainability initiatives including asset management, capital improvement planning, budgeting and rate setting for community public water system
- Guidance to small systems of the benefits of consolidation/interconnection with larger public water systems

Compiled data for 84 public water systems serving more than 1,000 persons to create a statewide database for safe yield, available water, treatment restrictions, diversion permit restrictions, sale of excess water permits, and interconnections. This data provided credible comments in regards to proposed Minimum Stream Flow (MSF) regulations by the DEP. This process provided an opportunity for DPH to work with DEP on revisions to the proposed regulations that would assure protection of an adequate drinking water supply capacity for the State's largest public water systems.

Provided asset management and technical assistance to small systems identified with weaknesses during sanitary surveys or compliance assessments. Promoted and provided on-site technical support for the new EPA Check Up Program for Small Systems (CUPPS) asset management software.

Provided training at the Annual Technical Conference and Vendor Exposition (ATCAVE) 2010 on February 23, 2010 with the Connecticut Section of the American Water Works Association (CT AWWA): There were more than 500 attendees. More than half of the attendees participated in a training session on earned water system operator training contact hours and/or continuing education credits for food inspectors.

Legislation passed to shift more responsibility for the Drinking Water Fund to the DPH from the DEP.

Formed a Water Supply Planning Technical Advisory Committee (WSPTAC) comprised of water industry members and consulting firm engineers who regularly prepare water supply plans. This technical advisory group initially focused its efforts on safe yield, available water, and margin of safety, which are essential foundations of water supply planning and will aid in consistent water supply plan preparation statewide. The group has scheduled quarterly meetings.

The Drinking Water SRF depends on the State's continued ability and willingness to commit financial resources to the Drinking Water Section. As exemplified in FY 2010, the State continues to demonstrate its commitment to the DWS and the DWSRF program with annual authorizations, consistent staffing levels, resources to meet existing and future needs, and support for the creation, development, and implementation of new program initiatives.

DWSRF Program Loans

There is significant coordination of efforts both within DPH and among the agencies of the State with Drinking Water SRF responsibilities including the Department of Environmental Protection (DEP), the Office of the State Treasurer, the Department of Public Utility Control (DPUC), and the Office of Policy and Management (OPM). These agencies all of which provide administrative, technical, or financial assistance to the DPH, contribute to the success of Connecticut's DWSRF program.

Since the program's inception the DWSRF financing program has made thirty-three loan commitments totaling approximately \$94 million. During FY 2010, twelve subsidized loans utilizing ARRA funds in the total of \$17.2 million were provided to 10 communities across the State, bringing the total program loan commitments to \$111.2 million.

The State recognizes the need for construction funds to be available to borrowers year round. This need is addressed by making funds available to eligible projects through the execution project loan agreements. Projects listed in the Intended Use Plan enter into a loan agreement with interim financing and the terms and conditions for permanent financing. After a project is completed, the loans bear interest rates set at half of the prevailing market rate at the time the State makes the commitment.

As of June 2010, the State had interim loans outstanding with loan agreements amounting to \$3.9 million. During FY 2010, the State disbursed \$1.12 million under the base DWSRF Program for drinking water projects to various public water system entities.

DWSRF ARRA Loan and Subsidization Project Financings

The State successfully committed all of its available ARRA money as of February 17, 2010. The State program provided approximately 2.06% interest funding to nine municipalities and one private public water system to assist in various infrastructure improvement projects. These loans will be permanently financed when fully drawn, generally within three years of closing. As a requirement of ARRA, these loans included subsidization of 56.5% of the total amount of the project. During FY 2010, the State disbursed \$7.04 million for drinking water ARRA projects.

SRF Leveraged Program

The State Treasurer is authorized to issue bonds and provide low-cost financing for water quality projects. The resources used for the bonds include federal grants, state matching funds and repayments from borrowers. The DWSRF program leverages these resources by issuing bonds to provide construction proceeds for loans. Loans made since 1996 have a borrower interest rate ranging from 2.0% to 4.6%. As the interest rate on the bonds is higher than the loan rate, borrowers receive a subsidy equal to the difference between the rates or 2.06%. Debt service on the SRF bonds is paid from a combination of three sources: borrower loan repayments, interest earnings on the investment of SRF funds, and state match payments provided since the inception of the program.

Each borrower is obligated to repay the principal amount of its loan. In FY 2010, borrower repayments totaled \$ 7.1 million.

Program assets and reserve funds are held as security for all bonds initially at an amount equal to 50% of the outstanding principal. As of June 2010, the State held \$51.7 million in restricted program assets invested in the State’s Short-Term Investment Fund and guaranteed investment contracts. Earnings on these investments are applied to pay a portion of the debt service on the related series of SRF bonds. In FY 2010, earnings totaled \$1.1 million.

State Support

Since 2001, the State has provided cash contributions to the Drinking Water SRF. To date the SRF has received \$25.4 million as cash contributions for the required match. The State also provides revenue bond authorizations for Drinking Water SRF projects and to-date has provided \$94 million in authorizations.

LOCAL ASSISTANCE AND OTHER STATE SET-ASIDES

There are several set-asides allowed from the federal grants that provide for critical work that is important to the programmatic success of the Drinking Water SRF. The following discussion focuses on the accomplishments achieved through the use of the set-aside funding.

Source Water / Wellhead Protection Program

The Drinking Water Section continued to develop a proactive approach toward source water protection. The Source Water Protection (SWP) Unit is responsible for the protection of Connecticut’s 2,634 drinking water sources. The SWP’s activities and accomplishments for FY 2010 included:

Continued work on statute and regulatory changes to enhance source water protection under Sections 25-32, 25-32d, 25-33(b), 25-33k, and 25-33l of the Connecticut General Statutes (CGS) and Sections 19-13-B51 and 19-13-B201 of the Regulations of Connecticut State Agencies (RCSA).
Worked with the Office of Policy and Management (OPM), DEP and a municipality to develop a review process to balance the municipalities’ desires for economic development within State designated conservation areas associated with public water supplies. This process was utilized in two subsequent situations where communities sought legislative approval to change the conservation designation of public water supply source water areas to allow for more intensive development.
Reviewed and drafted reports for 27 watershed sanitary surveys under the RCSA.
Reviewed and approved 21 new public water supply wells, including 9 well sites for 2 projects funded through ARRA.
Reviewed 36 and approved 28 water company land change of use applications, including 2 for projects funded through ARRA.
Reviewed 8, renewed 5, and approved 3 new recreational permits.
Oversaw 75 aquatic pesticide permits by the DEP within Source Water Assessment Plan areas.
Received and reviewed approximately 270 sewage bypass reports.

<p><i>(continued)</i></p> <p>Enhanced the watershed approach by continued development of drinking water quality management plans.</p>
<p>Continued work with multiple towns and the Departments of Transportation (DOT), Environmental Protection, Public Utility Control, Agriculture, and Economic and Community Development, as well as the OPM, Council on Environmental Quality, the Environmental Review Team and the Office of the Treasurer, to emphasize source water protection.</p> <p>Provided comments and recommendations on over 25 proposed projects including five DOT projects funded through ARRA.</p> <p>Initiated incorporation of water supply planning into source water group.</p>

Capacity Development

The positions funded under this set-aside are responsible for assessing compliance with State regulations and the Safe Drinking Water Act. As enforcement actions are initiated, staff assesses the cause or trigger of any violations and assists the public water systems to recognize corrective measures in order to comply with State regulations. Systems that do not correct existing violations through technical assistance are referred for formal enforcement actions including possible take-over proceedings. Staff also assisted in the preparation of capitalization grants, workplans and reports.

Consistent with the EPA approved capacity development strategy, FY 2010 activities included:

<p>Staff funded under this set-aside conducted 307 public water systems sanitary surveys. Financial, managerial and technical capacity assessments are conducted during each sanitary survey. Eighty-seven percent or 267 sanitary survey reports have been completed. Continued to update the standard operating procedures for sanitary survey inspections in order to promote consistency among field staff.</p>
<p>Continued development of guidelines for operators and contractors during the planning, design, and construction of infrastructure projects. Completed reviews of 350 projects submitted by public water systems for permit approval, including infrastructure projects and water company land use.</p>
<p>Held 10 planning technical assistance meetings for public water systems that were scheduled to prepare and resubmit water supply plans. Also held 5 planning technical assistance meetings for large public water systems with long histories of violations or infrastructure deficiencies that could pose a risk to public health protection.</p>
<p>Continued the Water Utility Coordinating Committee (WUCC) process for the coordinated and orderly development of public water supply in Connecticut. Held 4 WUCC meetings across the State. The Housatonic WUCC held 3 meetings and the South Central WUCC and Upper Connecticut WUCC management areas held a joint meeting Prepared and made available forms to applicants for new public water systems for submission to Exclusive Service Area (ESA) providers and WUCCs.</p>
<p>Continued the integration of the Water Supply Planning process into sanitary survey process. Continued work on creating forms that will provide critical information for regional engineers prior to scheduled sanitary surveys for 84 of Connecticut's largest public water systems.</p>
<p>Enforced, through technical review of the water supply plans the requirement for a Sale of Excess Water (SEW) permit for public water systems that sell bulk water. This requirement is a critical step in assuring the adequate capacity both of the seller and the purchaser. New SEW permit applications were received from New Britain Water Department, Berlin Water Control Commission, Aquarion Water Company, Connecticut Water Company, and United Water Company.</p>

(continued)

Completed reviews of 19 Water Company Screening Applications to determine potential status as a public water system and applicability of the Certificate of Public Convenience and Necessity (CPCN) process. Technical assistance meetings were held for public water system infrastructure projects, including proposed new systems going through the CPCN process.

Held planning & technical assistance meetings for public water systems that are due to prepare and resubmit water supply plans, conducted meetings with Norwich Water Department, Woodlake Taxing District, Heritage Water Co., Danbury Water Department, Southington Water Department, Town of East Hampton, City of New London, Jewett City Water Company, and Norwalk First Taxing District. The feedback from these meetings has been very positive.

Provided technical assistance at 8 public water systems facing sanctions at other State agencies and on violations and deficiencies noted during assessments. Also provided technical assistance to 8 local health departments for maximum contaminant level violations, source water construction violations, and cross-connections identified at food service establishments.

Held planning technical assistance meetings for large public water systems with long histories of violations or infrastructure deficiencies that could pose a risk to public health protection. Meetings were held with Heritage Water Company, Danbury Water Department, City of New London, Norwalk First Taxing District, and Jewett City Water Company.

Capacity Development Coordinated Training Initiatives: ATCAVE 2010

Working with the Connecticut Section – American Water Works Association, the Annual Technical Conference and Vendor Exposition (ATCAVE) was held on February 23, 2010 in Cromwell CT. Over 500 participants attended for educational purposes or to meet with vendors on drinking water related products and services. More than half of the attendees participated in one of the two concurrent all-day trainings geared toward local health officials and operator certification. Training participants received operator training contact hours and/or continuing education credits for food inspections. DWS staff participated as instructors, staffed the DWS information booth and assisted in registration. This workshop has become very successful and is one of the more important events that the DWS participates.

Participants and exhibits at ATCAVE 2010



DPH staff assisting with registration



Training Session Presentation



Town of Portland showcases its educational partnership



DPH's Regulatory Services
Branch Chief – Ellen Blaschinski



One of the information booths at the event



One of the displays at the event



Technology on display



Staff and public water systems managers during
a break in the sessions

Small Systems Technical Assistance Set-Aside

The Drinking Water Section uses this set-aside to provide assistance to small public water systems serving fewer than 10,000 people. In FY 2010, emphasis was placed on asset management and

DWSRF loan assistance to small systems. Some of the small system activities performed by the Drinking Water Section for the year are listed below:

Provided asset management and technical assistance to small public water systems targeting those small systems identified with weaknesses during sanitary surveys or compliance assessments. These efforts included promoting and providing on-site technical support for the new EPA Check Up Program for Small Systems (CUPPS) asset management software.
Performed financial and managerial capacity evaluations for new non-community public water systems
Developed ARRA application forms and templates for small systems to make it easier for small systems to apply for ARRA financial assistance and comply with state and federal requirements. Organized and participated in an ARRA Open Forum to provide technical assistance to small systems that applied for ARRA financial assistance through the SRF loan program. Assisted in the development of an ARRA webpage to assist small systems in understanding ARRA provisions.
Administered a consolidated Drinking Water SRF tracking database to more closely track small system progress with loan applications
Participated in Drinking Water Section's training events focused on small system capacity development and the DWSRF loan program
Developed new DWSRF application forms and templates to make it more "user friendly" for small systems to apply for loan assistance and comply with state and federal requirements
Reviewed, processed and provided technical assistance to small systems applications for DWSRF loans and ARRA financial assistance and met with small public water system as necessary
Participated in weekly conference calls with EPA region I and other New England SRF program staff regarding ARRA

PROJECTS AND ADMINISTRATIVE SET-ASIDE

Staff funded under this set-aside are primarily responsible for the financial administrative of DWSRF. Funds are allowed to pay for support services provided by other state agencies. Some of the activities accomplished during FY 2010 included:

Executed 2 loans under the base DWSRF Program for \$1.7 million
Executed 12 ARRA loans in the amount of \$17.2 million
Reviewed and approved financial aspects of Financial Assistance Applications
Drafted, finalized, and processed DWSRF & ARRA loan agreements
Reviewed and processed DWSRF & ARRA projects payment requests
Provided required progress reports to EPA
Met with applicants and their representatives as needed or requested

Program Management Set-aside

Staff funded under this set-aside assist in the administration of the State's Public Water System Supervision (PWSS) Program. Drinking Water Section's FY 2010 Program Management activities included:

Upgraded to the new Safe Drinking Water System – State Version (SDWIS/State) system through coordination with the Department of Information Technology and the DPH Information Technology Unit
Staff funded under this set-aside Issued 110 formal enforcement actions to public water systems in order to facilitate timely compliance with state and federal regulations.
Assisted in the preparation of the FFY 2009 and 2010 DWSRF Capitalization Grant
Coordinated staff activities to promote standardization of presentations and informational materials
Maintained a quality assurance system in cooperation with EPA - Region 1
Enhanced security and emergency response initiatives
Submitted grant applications, associated work plans, and progress reports to the EPA
Prepared documents, work plans and long-term strategies for Drinking Water SRF program management and EPA required program management reports. Prepared contracts related to technical assistance to public water systems to assist the DWS in capacity development efforts.
Participated in weekly conference calls regarding ARRA process
Met with Drinking Water SRF/ARRA applicants on program application and project financing process
Provided the required progress reports to the EPA

PROJECT FINANCING

The Drinking Water SRF provides financial assistance to Public Water Systems that meet certain eligibility criteria. Within the parameters set by the EPA, the State exercises considerable flexibility in the type of planning, design, and construction projects that the Drinking Water SRF will fund. The major limitations on project financing are exclusions for projects that are primarily for growth. Other limitations are further described in the Drinking Water SRF guidance documents available from the DPH and the EPA.

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

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

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

The Drinking Water SRF does not offer state funded grants. However, in FY 2010, the Drinking Water SRF began to offer federally funded loan subsidies designed to encourage more rapid compliance at a lower cost to users. Once a project is deemed eligible for funding, the applicant's capabilities are evaluated by the DWS engineering staff and the Office of the State Treasurer to ascertain if the applicant's system can support a Drinking Water SRF loan. The DPUC will also use its economic viability model to evaluate water systems with more than 50 service connections.

Needs Survey

The latest Drinking Water Infrastructure Needs Survey was completed in 2007. The survey assessed the cost and types of drinking water infrastructure needs throughout Connecticut and the U.S. for the years 2007 through 2027. The survey is being used to determine the federal Drinking Water SRF allocation for fiscal years 2010 through 2013. Connecticut is one of the many states that historically receives the minimum 1% allocation (currently \$8.1 million) and because of the State's needs, will continue to do so in the foreseeable future. The results of the 2007 needs survey, which were released in February 2009 showed a nationwide need of \$334.8 billion. Of that, Connecticut's needs were \$1.4 billion in the following categories:

1	Transmission and Distribution	\$ 807.1 million
2	Treatment	\$ 280.6 million
3	Storage	\$ 151.6 million
4	Source	\$ 134.9 million
5	Other	\$ 19.7 million
		\$1,393.9 million

Compared with the other five New England States, 20-year needs in Connecticut were higher than New Hampshire (\$847.2 million), Rhode Island (\$428.4 million), Vermont (\$453.2 million) and Maine (\$539.8 million) but lower than Massachusetts (\$6.79 billion). Like Connecticut, New Hampshire, Rhode Island, Vermont, and Maine receive 1% of the total allocation, which is the minimum that a state can receive.

The DPH is currently participating in the 2011 Drinking Water Infrastructure Needs Survey Workgroup to review proposed policy revisions to the previous 2007 Needs Survey. The DPH will participate in a 2011 Needs Survey Training Session for States in September 2010. The training serves as the official start of the 2011 Needs Survey process, and each state will receive its list of randomly selected public water systems which have been designated for inclusion in the Survey. The 2011 Needs Survey will assess the cost and types of drinking water infrastructure needs throughout Connecticut and the nation for the years 2011 through 2031. This Survey will be used to determine the federal Drinking Water SRF allocation for fiscal years 2014 through 2017.

Project Priority List

The priority ranking system is a key component of the management of the Drinking Water SRF. Project eligibility applications are ranked and compiled to create a project priority list to ensure that funding is

available for projects that have the most pressing needs, while reserving funds for other projects. The ranking system also incorporates procedures for emergencies.

The DWS develops a list of projects that will receive funding during the year and maintains a comprehensive priority list of eligible projects for funding in future years. Priority for the use of funds is designated to those projects that address one or more of the following: water quality; water quantity; acquisitions and transfers; green infrastructure; infrastructure upgrades; protective measures covering sources of water supply and distribution systems and; affordability.

The priority ranking criteria is used to award points for situations in which water quality impairments, water quantity deficiencies, or water system imperfections may increase risk to public health or result in non-compliance. The resulting project priority list shows name of the public water system, project description, the projected dollar amount of the project, the points awarded to the project and other pertinent information. 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 or potential 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, based on the most recent U.S. Census 2000 data.

In each fiscal year, the DPH approves project loans to recipients on the project priority list to the extent of funds available. Each recipient may apply for and receive a project loan and subsidies in an amount up to 100% of the eligible project cost. In some cases, based on readiness to proceed, a project may be bypassed on the project priority list. In these situations, the DWS continues to provide support for a potential recipient so that eligible projects can proceed as soon as possible. The DWS uses its computer-based application to track and continually update programmatic information on all Drinking Water SRF loan applications. The FFY 2010 Project Priority List can be found on the DWS website and a truncated version is shown in Appendix VII.

Intended Use Plan Summary

The DPH's Intended Use Plan shows the proposed use of state and federal funding assistance programs for drinking water quality and quantity projects as well as the uses of set-aside funds used to administer the drinking water program.

The Intended Use Plan covers the period October 1, 2009 to September 30, 2011 and is based on the use of anticipated FFY 2009 and 2010 capitalization grant monies, a state match of 20% of the FFY 2009 and 2010 capitalization grant awards, and unobligated funds carried forward from previous Intended Use Plans. Connecticut will provide the 20% match of \$1.6 million and \$2.7 million of the anticipated FFY 2009 and FFY 2010 awards respectively. The proposed sources and uses of the DWSRF funds for this Intended Use Plan are presented herein.

Connecticut, at this time, intends to request a portion of the banked FFY 2008 Program Management Set-Aside as part of the FFY 2011 capitalization grant application. The other set-asides have been requested at the maximum amount of set asides allowed under the SDWA, which include the following activities: administrative, technical assistance state program management and local assistance. A brief explanation of each is located on the set-aside projection sheets. Unused set-aside monies from prior capitalization grant awards will be utilized on a first-in first-out basis. If at any time the funds reserved

for particular set-aside activities are not expended, the monies may be transferred to the DWSRF project fund after an amendment to the capitalization grant.

To date, the State has not transferred funds between the DWSRF and the Clean Water SRF. While such a transfer is permitted under the SDWA, the State does not anticipate making such a transfer under the current Intended Use Plan.

Projects presently earmarked for funding based on the evaluation of eligibility applications includes approximately 31% of the available project funds for systems under 10,000 population and the remaining 69% of the available project funds for systems serving greater than 10,000 population. As noted in the SDWA, the goal is to provide at least 15% of the total funds to systems serving a population less than 10,000. Connecticut intends to meet or exceed this goal based on the ranking of projects on the FFY 2010 project priority list.

The Department held a Public Hearing and Open Forum on June 2, 2010. This allowed applicants and interested parties the opportunity to provide testimony on the proposed FFY 2010 Project Priority List and Intended Use Plan. Over 30 attendees participated at the hearing and testimony was given on several projects. During the Open Forum segment, participants were able to ask questions regarding the SRF Program. Just prior to the commencement of the public hearing, the Town of Ledyard was presented with the U.S. Environmental Protection Agency Drinking Water SRF Awards which recognizes recipients whose projects further the goal of clean and safe water through exceptional planning, management, and finance.

BORROWERS

All Connecticut community and non-profit non-community public water systems are eligible to participate in the Drinking Water SRF. A public water system is defined as having 15 or more service connections or regularly serves at least 25 people sixty or more days a year. In Connecticut, there are approximately 1,050 eligible public water systems subdivided by regulation into two categories: community and non-community, which are owned and operated by municipalities, private or non-profit entities. Community water systems provide water to populations that reside in the same place for more than 60 days a year. Eligible non-community systems provide water to schools and other locations where the population changes more frequently.

The DPH emphasizes the importance of reaching potential applicants. Each year outreach initiatives have included annual statewide e-mail to eligible public water systems, statewide informational meetings, open forums and the posting of information on the DWS website. The DWS staff also participates as presenters and instructors in conferences and workshops in several locations around the State. The DWSRF Program is also promoted during sanitary survey inspections of public water systems.

Portfolio Credit Quality

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

Each borrower applying for financial assistance submits documentation to evidence its ability to repay debt and its technical and financial management capabilities. Required documents include financial statements, capital budgets, current operating budgets, projected budgets including the proposed debt,

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

The project-specific review includes an engineering report or a feasibility study, a project capital cost repayment analysis including any projected need for increases in user fees, and a review of any management contracts. Further information about the application and loan documents can be found in Appendix X and Appendix XI.

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

2010 PROJECTS

During FY 2010, the Drinking Water SRF made two (2) interim loan commitments totaling \$1.7 million for the following projects:

Town of Brookfield

The DWSRF is being used to fund the purchase of easements and administrative costs to supplement a water main and pump station project in which the construction is being funded under ARRA.



Town of Brookfield Pump Station – ARRA Project

Town of Ledyard / Ledyard WPCA

The Town of Ledyard entered into a loan agreement to replace the aging existing Highland System’s water storage tank. The replacement of the water storage tank would resolve existing water pressure problems, increase the capability for the system in meeting the average daily water demand and

provide a margin of safe storage as required. The cost of the project was approximately \$1.74 million with the DWSRF loan portion covering \$1.63 million.

Connecticut Water Company – Gallup Water Service, Inc. (Plainfield)

The Connecticut Water Company (CWC) entered into a loan agreement to extend a water main to provide water service to the Harrington Mobile Home Park to replace the on-site water supply system. The Harrington public water system had incurred numerous water quality violations and was under state order to find a solution. This interconnection with the CWC water system provides the residents of the Harrington Mobile Home Park with clean, potable drinking water and eliminates a public water system. DWSRF ARRA funds will cover the entire cost of the project, approximately \$249,000.



Installation of water main from CWC-Gallup to Harrington Mobile Home Park

Town of Ridgefield – Barlow Mountain. & Scotland Elementary Schools

The Town of Ridgefield entered into a loan agreement to extend a water main and interconnect the Barlow Mountain. & Scotland Elementary Schools to the Aquarion Water Company-Ridgefield Water Supply System. The on-site public water system supplying the school complex had incurred multiple water quality violations and a lead exceedence, and as a result, bottled water was being provided for drinking. This interconnection will provide the students and daycare facility with clean, potable drinking water and eliminate a public water system.



Ridgefield – installation of water main

Town of East Lyme/East Lyme Water & Sewer Commission (ELWSC)

The Town of East Lyme entered into a loan agreement to install system-wide disinfection and other treatment at all of its water treatment facilities. Installation of this treatment will help to ensure that ELWSC customers are provided with clean, potable drinking water. The total cost of this project is approximately \$1.23 million with DWSRF ARRA funds covering approximately \$955,000.



East Lyme construction – chemical storage tanks and water piping.

Town of Brookfield

The Town of Brookfield entered into a loan agreement to extend a water main along Silvermine Road and install a booster pump station for the purposes of supplying drinking water to five condominium complexes currently served by multiple on-site water supply systems. Each of these condominiums has incurred water quality violations and several were under state order to find a solution. This water main extension will provide the residents of these condominiums with clean, potable drinking water and eliminate multiple public water system. The total cost of this project is approximately \$2.12 million with DWSRF ARRA funds covering approximately \$1.9 million.

Town of Putnam/Putnam Water Pollution Control Authority (PWPCA)

The Town of Putnam entered into a loan agreement to expand the existing Park St. wellfield with the drilling of several new drinking water wells and the construction of a new water treatment facility at the same location. The Town of Putnam has been experiencing increased water demands and this project will allow the PWPCA to maintain adequate water service for its customers and maintain compliance with the DEP minimum stream flow requirements. The total cost of this project is approximately \$3.2 million with the DWSRF ARRA funding covering approximately \$2.27 million.



Putnam—new well and water treatment plant

Town of Tolland/Tolland Water Department (TWD)

The Town of Tolland entered into a loan agreement to extend a water main along Old Cathole Road to provide water to the Tolland Middle School and replace the on-site water system at the school. This project will also interconnect the TWD-Torry Road public water system and allow for better water

system operations and eliminate two public water system. DWSRF ARRA funds will cover the entire cost of the project, approximately \$178,000.

Metropolitan District Commission (MDC)

The Metropolitan District entered into two loan agreements. The first loan agreement was for the purchase and installation of approximately 30,000 radio frequency automated meter reading devices and new water meters. The new meters will replace existing meters that are beyond their expected useful service life. The “smart” meter reading devices are designed to promote water efficiency. DWSRF ARRA funds will cover the entire cost of the project, approximately \$5.95 million. This project satisfied the ARRA Green Project Reserve requirements.

The second loan agreement was for the replacement of water main on several streets in the vicinity of Tower Avenue in Hartford. The water main in the area is beyond its useful service life. This main replacement is being done in conjunction with MDC’s Clean Water Project for storm and sanitary sewer separation. The overall project is being completed under one construction contract in an effort to reduce overall project costs. The sewer portion of this project is being funded by CWSRF ARRA funds through DEP. DWSRF ARRA funds will cover a portion of the water main replacement costs, approximately \$1.77 million.



MDC - Tower Avenue (Hartford) Water Main Installation

Woodlake Tax District (Town of Woodbury)

The Woodlake Tax District (WTD) entered into a loan agreement for the development of new drinking water wells and associated work to connect the new wells to the existing water supply system. This project will allow the WTD to continue to provide an adequate water supply to its customers. DWSRF ARRA funds will cover the entire cost of this project, approximately \$580,000.



Woodlake Tax District – installation of water main

Town of Southington – Wellhead Protection Project

This \$4.3 million project consisted of the demolition of the old administration building/garage and restoration of the area around the wellhead to green space. The project also enhanced the source protection of Well No. 1A from potential contamination.



City of Norwich/Norwich Public Utilities (NPU)

The City of Norwich entered into two loan agreements. The first loan agreement was for the repair and repainting of the Fitch Hill (aka Richard Brown) water storage tank. The second loan agreement was for the repair and repainting of the Fairview water storage tank and installation of two variable frequency pump drive and new emergency generator at the Fairview pump station. Both tanks were nearing the end of their useful service life and needed repairs in order to maintain service. The pump station upgrades will allow for better operation and the ability to maintain water service in the event of a loss of power at the station. DWSRF ARRA funds will cover the entire cost of the Fitch Hill project, approximately \$372,000. The total cost of the Fairview project is approximately \$1 million, with DWSRF ARRA funds covering \$750,000.



Fairview water storage tank



Fairview pump station – new emergency generator



Fairview pump station – new pump controls



Fitch Hill water storage tank



Interior of Fitch Hill water storage tank

Town of Manchester/Manchester Water Department (MWD)

The Town of Manchester entered into a loan agreement for the construction of the new Hercules Drive Booster Pump Station. The new facility will provide redundancy to the Highland Street pump station. The station will be equipped with a pair of water booster pumps, disinfection treatment, and an emergency generator, and will be connected to the MWD's automated operational system. DWSRF ARRA funds will cover the entire cost of the project, approximately \$697,500.

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

This \$2.6 million project was for water treatment plant upgrades and modifications. The previously existing pump and treatment facility did not have the capacity to meet peak water system demands and existing treatment needed to be upgraded due to conditions of source water quality. In addition, the project included a new water storage tank and improvements to Well No. 5. The population served by this water system is approximately 4,000.



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



Work progresses at the Colchester facility

PENDING PROJECTS

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

The table in Appendix V of this report shows a total of \$95.1 million in loans to: borrowers with outstanding loans or undrawn loan commitments through June 30, 2010 and; those with new loan commitments expected to be executed through June 30, 2011.

PROGRAM FUNDING

The primary sources of funds for the Drinking Water SRF are: 1. Federal capitalization grants, 2. State contributions for the 20% match of the federal capitalization grants, 3. Proceeds of the revenue bonds and, 4. Earnings on the assets of the Drinking Water SRF.

The State can request up to 31% of the federal capitalization grant (set-asides) to administer the Drinking Water SRF, and provide managerial and technical assistance to public water systems. For FFY 2010, the Federal capitalization grant in accordance with Public Law 111-88 must provide subsidization to program participants. The State will use principal forgiveness as subsidization similar to the ARRA. There are no state-funded grant programs associated with the Drinking Water SRF although a program might be implemented in the future.

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

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

Appendix III shows the total amounts projected for the DWSRF project funds and set-aside accounts available to Connecticut upon EPA approval of Connecticut's FFY 2009 and 2010 Capitalization Grant(s). It includes the 20% State match required by EPA, but does not reflect additional funds that may be obtained through leveraging.

Federal Capitalization Grants

The 1996 amendments to the SDWA established State Drinking Water SRF, and the SDWA both authorized the Drinking Water SRF and continues to place legal constraints on each state program. Federal regulations limit the uses of the Drinking Water SRF equity to loans, support for bonds issued to make loans, loan guarantees or insurance, refinancing of prior debt, or administrative expenses associated with qualified projects. The Clean Water SRF and the Drinking Water SRF have many similarities. However, one major difference is that, unlike the Clean Water SRF, the Drinking Water SRF

can make loans to private entities that own and operate public water systems. The initial federal authorizations ended in 2003 and as of June 30, 2010, the SDWA has not yet been reauthorized by Congress. However, in each subsequent year, Congress has appropriated funding for the DWSRF.

Each year Connecticut is allocated 1% of the federal funds available for federal capitalization grants to State Drinking Water SRF. The federal drinking water capitalization grant awarded to Connecticut from FFY 1997 through FFY 2008 totaled \$108.7 million. The Drinking Water SRF has up to two years to apply for an allocated grant. Connecticut's allocated grant award for 2009 is approximately \$8.1 million. Due to priority being placed on ARRA only FFY 2009 Administrative (\$561,680) and Program Management (\$1,637,500) Set-Aside funds were applied for and awarded during the fiscal year. The remaining FFY 2009 set-aside and project funds were applied for in July 2010. The remaining FFY 2009 grant should be awarded in the fall of 2010. The FFY 2010 capitalization grant for \$13,573,000 was also applied for in July 2010. The federal capitalization grants and the required match for the Drinking Water SRF must be maintained by the SRF in perpetuity.

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

Set-asides are funds allocated for a range of specific activities including Drinking Water SRF program administration and management, technical assistance for small water systems, and operator education and support. As mentioned previously, these approved purposes can use as much as 31% of each capitalization grant to pay administrative costs, encourage source water protection, and support other State drinking water program activities.

Information on the required State matching funds, the amount of federal grants for the Drinking Water SRF and a description of the programs funded with the set-asides can be found in Appendices I and II of this report.

State Authorizations – Projects & State Match

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

To date, revenue bond authorizations of \$107 million for projects have been made available to the Drinking Water SRF. Connecticut's match has been made in the form of cash contributions and taxable State GO bonds deposited in the Drinking Water SRF. At present, future match requirements will be provided with cash contributions from the State.

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

Revenue Bonding Program

The DWSRF financing plan is similar to the plan for the State's CWSRF program. This plan includes leveraging where project funding comes from the proceeds of revenue bonds supported by the Capitalization Grants. Connecticut initiated procedures for leveraging DWSRF projects with EPA approval in Federal Fiscal Year 2001 as more fully described in correspondences in Sections V & W of the FFY 2001 Capitalization Grant Application. The leveraging process has evolved and portions of Bonds issued in 2003, 2006, and 2009 were used for Drinking Water Fund projects.

Leveraged financing allows the State to maximize the available project funding because the revenue bond proceeds can be two times the amount of the available capitalization grants and the state match contributions. The leveraging process has been successful because it has allowed the State to fund large projects that would not be normally funded using federal funds only and allows the Drinking Water SRF to maximize the available project funding more quickly than under a direct loan program. A prime example is the \$55 million New Britain Water Treatment project, which was built using \$36.6 million in SRF monies. This project, which replaced an antiquated system, provides excellent quality water to its over 90,000 customers as well as keeping the water rates relatively low. Another project was the \$29 million water treatment plant upgrade for the town of South Norwalk. This project was built using \$24.7 million in SRF monies and will help maintain quality drinking water to over 42,000 customers. It is anticipated that the DWSRF direct loan program that uses the Capitalization Grant directly for investor owned public water systems would be maintained.

Since 2001, revenue bond proceeds totaling of \$87.7 million have been projects are allocated to the Drinking Water SRF and distributed on a first-come, first-served basis to those borrowers that have executed loan agreements, as the borrowers incur project costs. Borrowers in addition to those listed in the appendices may receive funding. In all cases, funding is subject to State Bond Commission approval. 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. As of June 30, 2010 all bond proceeds for the Drinking Water SRF have been expended. The next bond issue is anticipated for the spring of 2011.

Ratings

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

PROGRAM MANAGEMENT

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

COMPLIANCE WITH OPERATING AGREEMENT AND GRANT CONDITIONS

Connecticut has complied with the conditions of the DWSRF operating agreement. We have met and continue to comply with the following conditions as described in the Operating Agreement:

Attorney General Certification included with FFY 2009 & FFY 2010 grant application meets the requirement of the state having the authority to conduct the DWSRF Program

- Comply with applicable state laws and procedures
- Deposit state matching funds. The State will be providing \$4.34 million as state match for the FFYs 2009 & 2010 capitalization grants.
- Submit Biennial Report and annual audit.
- Review technical, financial, and managerial capacity of assistance recipients
- Establish DWSRF loan account, set-aside account, and DWSRF administration account
- Deposit all funds in appropriate accounts
- Followed state accounting and auditing procedures
- Require DWSRF loan recipient to adhere to accounting and auditing procedures
- Submit Intended Use Plan and use all funds in accordance with the plan
- Complied with enforceable requirements of the Act
- Independent auditor has evaluated program on yearly basis
- Implement/maintain system to minimize risk of waste, fraud, abuse, and corrective action
- Developed and submitted project priority ranking system

- Submittal & EPA Approval of DWSRF Set-Aside Workplans
- DWSRF Set-Aside Deviation. The Department will submit a request to the EPA Project Officer prior to any significant deviation to the approved workplans.

DPH has also met the following conditions as described more fully below:

- Applicant Credit Evaluation: Office of the State Treasurer staff conducts a credit review evaluation for all municipal public water systems. This evaluation determines whether an applicant has the ability to repay a loan. Office of the State Treasurer and (DPUC when applicable) staff conducts a similar credit review for all private water systems. For all public water systems, the expected revenue stream from user fees must be sufficient to repay the loan, pay operation and maintenance costs, and pay for other necessary expenses.
- Use Funds in Timely and Expeditious Manner: Public water systems with binding commitments have moved in an expeditious and timely manner to start construction. DPH will be monitoring construction progress to ensure that operations are initiated according to schedule. Typically, most DWSRF project construction periods are less than 1 year from start to finish. This is quite different from the CWSRF where many projects are multiple years in the construction phase.
- Ensure Recipient Compliance With Applicable Federal Cross-Cutting Authorities: The State of Connecticut and all of its assistance recipients have complied with all applicable federal crosscutting authorities. Section 6.7 “Compliance with Federal and State Requirements” is stated in the executed loan agreements. In order to establish an overall fair-share objective for Minority and Women’s Business Enterprises (MBE/WBE), the DWSRF utilized the same percentages that were approved by the EPA for the Clean Water program of 3% for MBE participation and 5% for WBE participation. This objective was accepted during this reporting period.
- Conduct Environmental Reviews: The 2 public water systems that received assistance during FY 2010 were reviewed and approved using the Drinking Water Section’s “Environmental Reviews of DWSRF Project” guidance document. To date there has not been any significant environmental impact associated with the projects, which has been classified as either a category 1 or 2. A brief description of the environmental review process, examples of project types by category and an environmental assessment checklist, for a funded project is located on the DWS website. This environmental evaluation is conducted on all DWSRF projects prior to their approval.

2011 DWSRF PROGRAM ACTIVITIES AND INITIATIVES

The DPH and the interagency committee develop goals for each program of the Drinking Water SRF and set-asides. The DWSRF short-term goals are focused on continued development and implementation of all facets of the DWSRF program. The DWSRF long-term goals, as outlined below and in the Official Agreement between the State of Connecticut and the EPA, express strategic principles for guiding the DWSRF into the future.

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

Short-Term Goals (Financial)

1. Approve and disburse loans and financial assistance for projects and set-aside activities funded from the FFYs 2009 and 2010 capitalization grants in accordance with the annual Intended Use Plan and the DWSRF project priority list.
2. Continue to implement:
 - Effective and efficient fiscal management of DWSRF funds
 - Routine procedures for entering into project funding agreements with recipients
 - Communication and information connections between State agencies for fiscal components of the DWSRF program
3. Complete the annual review of DWSRF fiscal elements as required by the EPA.
4. Maintain a financing plan that secures the perpetuity of the DWSRF and meets loan demand by utilizing the leveraging strategies. Actively support the capital budgeting process.

Short-Term Goals (Programmatic)

1. Review and approve applications for DWSRF assistance for projects, as ranked on the project priority list, with an overall goal of committing all available project funds during the current Intended Use Plan period..
2. Continue to implement the following existing DWSRF elements, include re-evaluation and improvement when necessary:
 - a. Technical review and approval of DWSRF projects
 - b. Monitoring, oversight and management of contract compliance of DWSRF set-aside projects
 - c. Collaboration between State agencies for programmatic components of the DWSRF
 - d. Evaluating technical and managerial capacity and sustainability aspects of proposed projects
3. Review and revise the DWSRF Interagency MOU to reflect modifications made with respect to each agency's responsibilities to the DWSRF Program to reflect statutory changes approved in 2010.
4. Meet the provisions of the FFY 2010 DWSRF appropriation regarding:
 - a. Goal of utilizing at least 20% of the 2010 capitalization grant to fund projects that qualify under the Green Project Reserve as green infrastructure, water and energy efficiency, and other environmentally innovative activity
 - b. Continued compliance with Davis-Bacon Act wage requirements via the State's current prevailing wage requirements
 - c. Providing a minimum of 30%ofthe 2010 capitalization grant as additional subsidization
5. Input project information into the DWSRF PBR federal on-line database

6. Review and revise the Operating Agreement as necessary
7. Complete a review of the DWSRF programmatic elements as required by EPA
8. Evaluate the needs of small public water systems and mechanisms for getting these types of projects through the DWSRF process. Staff had been participating in the EPA Small Systems Workgroup, however this was suspended when it became necessary to focus efforts on implementing DWSRF provisions associated with ARRA. This goal will be emphasized as staff availability allows.
9. Improve public water system education and proficiency in sustainable infrastructure/asset management

The major activities planned for 2011 in order to meet these goals include:

Administrative Set-aside and Projects

Staff funded under this set-aside focus on the administrative aspects of the DWSRF. Activities planned for FY 2011 include:

Review and provide comments to the federal capitalization grant application
Review DWSRF Financial Assistance Applications
Evaluating eligible systems financial assistance through the DWSRF Loan Program
Review, approve and process payment requests
Participate in DWSRF Public Hearing / Open Forum on the project priority list
Evaluate ways to streamline the DWSRF loan process to improve program efficiency
Meet with stakeholders and applicants as needed
Evaluate and implementate program to greater assist small systems
Draft, finalize and process loan agreements and process payments
Development and utilization of effective accounting management reports
CT Water Company Shoreline Region Point O' Woods Project – should be completed by the end of 2010
Ten of the twelve existing ARRA projects are scheduled to be completed by the end of 2010
Attend workshops and trainings to improve program's efficiency

Projects that are now active or expected to be active in 2011 include:

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

The Connecticut Water Company Shoreline Region – Point O' Woods Public Water System became the first project to use the combined funding for the Drinking and Clean Water Revolving Fund programs

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

State and Local Program Set-Aside

Source Water Protection Unit

The DPH plans to continue its efforts to educate and train local land use officials, linking with related state and federal programs and where possible, involving stakeholders and developing partnerships to emphasize the importance of source water protection. The focus will continue on the implementation of drinking water wellhead protection consistent with the Strategic Plan activities scheduled for FY 2011 include:

Review and approval of proposed sources of supply, including verification that the water system has ownership or control of the sanitary radius for proposed groundwater sources
Initiate the development of drinking water source protection management plans
Review and evaluate potential impacts of proposed projects in public water system watersheds and aquifer protection areas
Review and approve: Sale of Excess Water Permits, Source Abatement Permits, Water Company Land Change of Use Permits, recreational activity permit proposals and renewals, DEP Diversion Permits of public water supplies
Develop / modify all permit application forms
Review and approve Water Supply Plans and Well Site Suitability Reviews
Modify drinking water Geographic Information System (GIS)
Collaborate with DEP on the implementation of the aquifer protection area land use regulations
Review Effects of New Sources for Public Water Systems on Nearby Wells [CGS 25-33(b)]
Conduct Sanitary Surveys and review / analyze water quality data

Streamline water supply planning process and coordinate with sanitary survey process
Continue to link the protection of public water supplies with septic system approval, maintenance, training and repair
Develop permitting / site approval section on DWS website to include links to regulations and statutes
Educate and train local officials and link them with related state and federal programs
Investigate the redevelopment of source protection regulations, including incorporation of PA 08-137 (CGS 25-33(b)) into regulations, updating statutes and regulations concerning water company lands, developing statutes and / or regulations pertaining to the sale of a water company, CGS 25-33(l), updating RSCA 19-13-B51 and updating RSCA 19-13-B32 to include permitting requirements and enforcement mechanisms for non-compliance
Evaluate the disconnect between the permitting of a sale of water source and the permitting of the sale of the land surrounding the source
Continued to work with multiple towns and the Departments of Transportation (DOT), Environmental Protection, Public Utility Control, Agriculture, and Economic and Community Development, as well as the Office of Policy and Management, Council on Environmental Quality, the Environmental Review Team and the Office of the Treasurer, to emphasize source water protection
Review and activation of emergency sources

Capacity Development

Staff funded under this set-aside will continue on the implementation of the Capacity Development strategy as well as improving the pace of processing DWSRF loans. Activities for FY 2011 will include:

Conduct sanitary survey inspections of public water systems, including evaluations of technical, financial, and managerial capacity and cross-connection control programs. Provide technical assistance to public water systems on violations and deficiencies noted during surveys and assessments
Hold compliance and technical assistance meetings for targeted small systems identified with weaknesses during sanitary surveys or compliance assessments.
Perform engineering reviews for public water system infrastructure projects, including DWSRF projects.
Provide technical assistance to local health departments on water issues that arise with public water systems serving food service establishments.
Compile and update data regarding safe water yield, available water, treatment restrictions, diversion permit restrictions, sale of excess water permits, and interconnections in a statewide database to provide the most accurate information to Drinking Water Section staff. Use database to track actual amount of water available for each of the 84 larger public water systems, and each of the geographical Water Utility Coordinating Council (WUCC) regions of the State.
Enter and Maintain data in the federal Projects Benefit Reporting system
Evaluate the adequacy and protection of water distribution networks with emphasis on viability of the systems cross connection program

FY 2011 Capacity Development Activities Continued

Continue to provide assistance at meetings for public water systems facing sanctions at other State agencies

Assist in the implantation of the DWSRF Program by:

- Soliciting DWSRF Eligibility application;
- Determine project eligibility, reviewing and ranking Eligibility Applications, preparing Project Priority Lists;
- Provide technical assistance to applicants and their representatives;
- Coordinate and conduct Public Hearing on Priority List of Projects;
- Prepare annual capitalization grant, Intended Use Plan and required reports;
- Tracking progression of projects throughout construction to completion.

Use database software to track actual amount of water available for each of the 84 large public water systems, and each of the geographical Water Utility Coordinating Council (WUCC) regions of the State.

Continue the Water Utility Coordinating Committee (WUCC) process for the coordinated and orderly development of public water supply in CT

Hold Regional Water Supply forums. These forums provide information to local officials, developers, consultants, and public water systems to help ensure the orderly and proper construction of public water systems in the State. A forums was held in Ashford, CT on July 14, 2010. Staff availability and resources will determine if there will be additional forums during the FISCAL YEAR.

Continue the integration of the Water Supply Planning process into sanitary survey process. Continued work on forms to provide critical information to regional engineers prior to scheduled sanitary surveys for the 84 largest public water systems in the State.

Hold planning technical assistance meetings for public water systems that were scheduled to prepare and resubmit water supply plans

Participate as necessary in training programs related to technical, managerial and financial capacity for public water system operators and local health officials Continue participation as instructors at DPH water system operator classes and participate in other training sessions to enhance the financial, managerial, and technical capacity of public water systems

Continue to hold planning technical assistance meetings for large public water systems with long histories of violations or infrastructure deficiencies that could pose a risk to public health protection

Review and approve Sale of Excess Water (SEW) permits. Enforce the requirement for a SEW permit for public water systems that sell bulk water to neighboring public water systems. This requirement is a critical step in assuring the adequate capacity both of the public water system selling the water and the public water system purchasing the water.

Complete reviews of Water Company Screening Applications to determine potential status as a public water system and applicability of the Certificate of Public Convenience and Necessity (CPCN) process

Provide technical assistance and enforcement referral to local health departments for maximum contaminant level violations, source water construction violations, and cross-connections identified at food service establishments

Contract with a qualified consultant to develop templates, tools and resources to be use by Capacity Development staff

Program Management Set-Aside

These funds are designated for the administration of the State Public Water Supply Supervision Program. Activities to be conducted by staff funded under this set-aside during FY 2011 include:

Prepare guidance documents, workplans, progress reports , standard operating procedures and long-term strategies for DWSRF program management and EPA required program management reports (e.g. Quality Management Plan (QMP), Quality Assurance Progress Plan (QAPP), Performance Partnership Agreement (PPA) status report and contracts related to technical assistance to public water system in capacity development efforts
Assist in the preparation of grant applications, associated work plans, and progress reports to the EPA
Continue to provide direct technical assistance to public water systems and laboratories regarding the required reporting of water quality and inventory/facility data in SDWIS and electronic data interchange, provide information and educational opportunities to public water systems via internet posting.
Conduct outreach programs to educate public water system staff, certified operators, the general public and other stakeholders on capacity and State drinking water program administration issues
Conduct outreach programs to educate public water system staff, certified operators, the general public and other stakeholders on capacity and State drinking water program administration issues
Provide technical assistance to the Water Planning Council in the areas of the Water Utility Coordinating Committee (WUCC) water supply planning, and the Connecticut Drought Advisory Committee
Implement Connecticut's Operator Certification Program to provide capacity development training to certified operators of small public water systems
Provide legal assistance to the Drinking Water Section regarding DWSRF Program
Coordinate activities with the Environmental Health Section's Laboratory Certification Program in assisting public water systems regarding water quality testing issues
Revise the approval process and other regulatory mechanisms and provide direct technical assistance to public water systems to better address capacity development concerns
Prepare standard operating procedures for all reviews (water supply plans, sale of excess water permits, diversion permits, water company lands) to ensure consistent reviews
Maintain a quality assurance system in cooperation with EPA – Region 1
Identify water systems that would most benefit from collaboration or regionalization and assisting in developing and evaluating processes to aide in the success of the Drinking Water Section's capacity development efforts
Coordinate staff activities to promote standardization of presentations and informational materials

Small Systems Technical Assistance Set-Aside

Activities to be funded to assist small public water systems (fewer than 10,000 population) during FY 2011 include:

Conduct sanitary surveys of community, non-transient non-community and transient non-community public water systems serving fewer than 10,000 (small systems)
Assess existing small public water system's technical, financial and managerial capacity during sanitary surveys
Educate and assist small public water systems in applying for DWSRF loans
Conduct regulatory compliance reviews of engineering plans and specifications for small public water system infrastructure improvements including projects funded under the DWSRF
Conduct outreach programs to educate public water system staff, certified operators, the general public and other stakeholders on capacity and State drinking water program administration issues
Conduct reviews of water quality and quantity of newly developed drinking water sources and review engineering plans and specifications for new water system designs in accordance with RCA Section 16-262-m
Evaluate the adequacy and protection of the small distribution networks with emphasis on viability of the small systems' cross connection program
Provide technical assistance and enforcement referral to local health departments for maximum contaminant level violations, source water construction level and cross-connections identified at NTNC and TNC food service establishments

LONG-TERM PROJECTIONS

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

Ongoing discussions about the following issues are shaping the program:

Coordination within the DPH and continued collaboration with other State agencies, to maximize the effectiveness of the program and meet the State's water quality goals.
Offer as effectively as possible a low cost financing mechanism to eligible public water systems that possesses self-sustaining technical, managerial and financial capabilities

<i>Long Term Projections continued</i>
Encourage public water systems, in particular those serving populations less than or equal to 1,000 to engage in long-term planning for capital improvements and compliance
Utilizing Revenue Bonds to fund loan amounts to the maximum extent possible
Continuing outreach efforts to reach and assist small water systems, especially those in need of a high level of technical assistance and low cost financing. The EPA program guidelines and regulations and their impact on the implementation of the program at the State level, including the use of administrative and program set-asides allowed by the EPA.
Maximizing the use of available resources through the project priority list of eligible projects, and monitoring the amount of money available for projects, and the number of potential loans.
Continue improvement on the use of set-aside funds to maximize effectiveness as it relates to the State's public water systems and its customers with a focus on the small water systems.
Revise Operating Agreement to reflect recent changes of operation

CONDITION OF THE FUND

Each year, the Department of Public Health and the Department of Environmental Protection Commissioners in conjunction with the Office of the State Treasurer estimate the amount of funding that will be available for specific projects. The amount is based on the remaining authorizations and the allocations approved through the State Bond Commission. Authorizations for Clean Water and Drinking Water projects have been provided for FY 2010 and FY 2011 and the DPH was able to initiate the project priority process and create the List for these years. The current Project Priority List for the base Drinking Water SRF Program is shown in Appendix VII. To review the priority list for the ARRA, please visit the Department's web site www.ct.gov/dph.

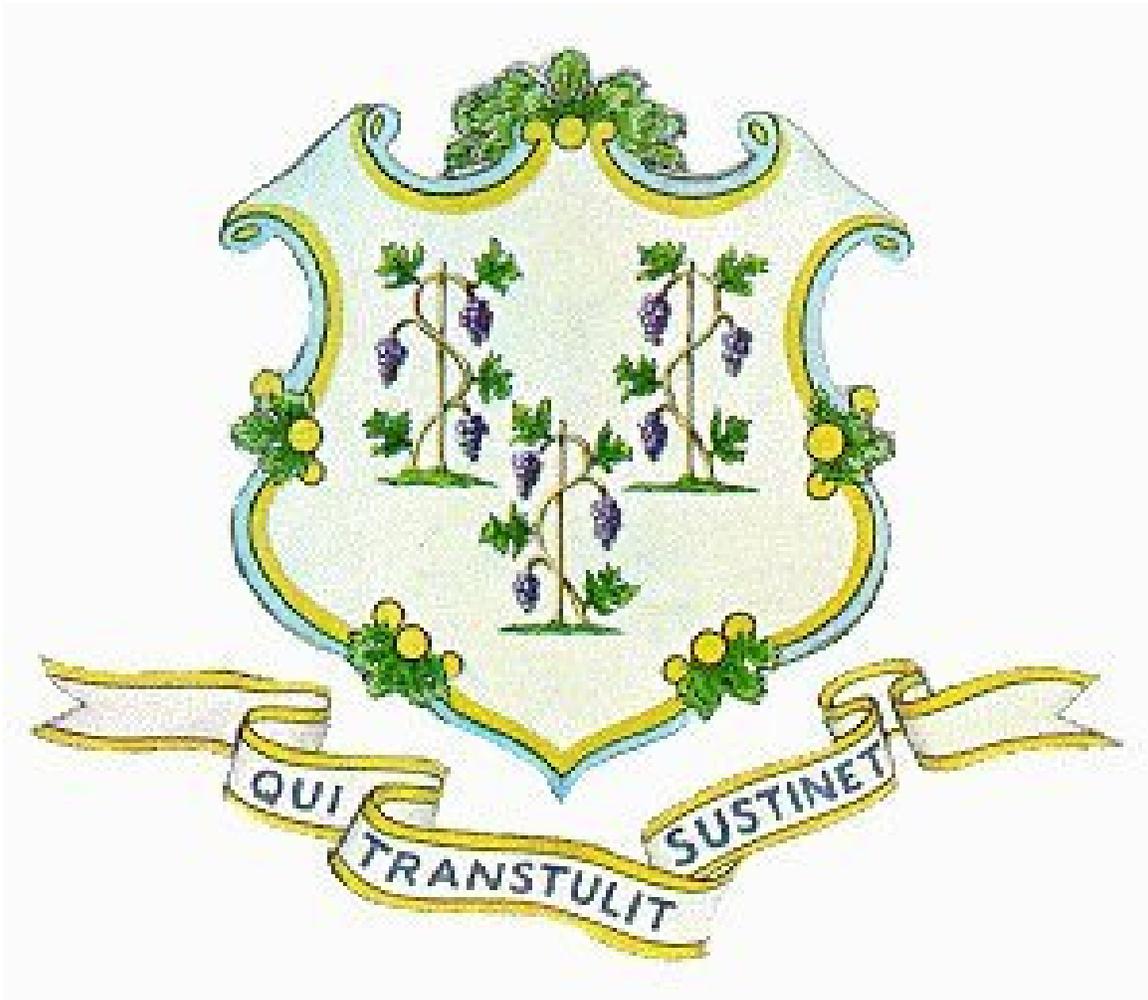
Since the inception of the Program, the Drinking Water SRF has over \$94 million in completed projects and project commitments. Many of the borrowers have multiple loans and the largest number of loans and commitments continue to be with the MDC and the City of Norwich.

The listing in Appendix XI of water projects funded by the Drinking Water Fund as of June 30, 2010 shows the projects by borrower and the amounts of funding from each of the State's programs.

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

DWSRF ANNUAL REPORT ACRONYM LIST

ARRA	American Recovery & Reinvestment Act of 2009
ATCAVE	Annual Technical Conference and Vendor Expo
CPCN	Certificate of Public Convenience & Necessity
CGS	Connecticut General Statutes
CT AWWA	Connecticut Section of American Water Works Association
CWF	Clean Water Fund
CWSRF	Clean Water State Revolving Fund
DEP	Department of Environmental Protection
DPH	Department of Public Health
DWS	Drinking Water Section
DWSRF	Drinking Water State Revolving Fund
EPA	United States Environmental Protection Agency
FFY	Federal Fiscal Year
IUP	Intended Use Plan
MOU	Memorandum of Understanding
OPM	Office of Policy and Management
OTT	Office of the State Treasurer
PBR	Project Benefits Reporting
PPL	Project Priority List
PWS	Public Water System
RCSA	Regulations of Connecticut State Agencies
SDWA	Safe Drinking Water Act
SDWIS	Safe Drinking Water Information System
SEW	Sale of Excess Water permit
SFY	State Fiscal Year
SRF	State Revolving Fund
SWP	Source Water Protection (unit within DWS)
WUCC	Water Utility Coordinating Committee



APPENDICES

APPENDIX I: STATE MATCH FOR FEDERAL CAPITALIZATION GRANTS

Fiscal Year	State 20% Match Requirement
1997	\$4,281,640
1998	\$1,424,260
1999	\$1,492,760
2000	\$1,551,400
2001	\$1,557,820
2002	\$1,610,500
2003	\$1,600,820
2004	\$1,660,620
2005	\$1,657,100
2006	\$1,645,860
2007	\$1,629,200
2008	\$1,645,800
2009*	
2010**	
Total	\$21,757,780

** Awaiting notification of award. **The DPH is applying for the grant during the summer of 2010 and the required match is estimated to be \$2,714,600*

APPENDIX II: FEDERAL CAPITALIZATION GRANTS PROJECT FUNDS

As of June 30, 2010

Fiscal Year	Project Funds	Total Capitalization Grant
1997	\$14,771,658	\$21,408,200
1998	\$4,913,697	\$7,121,300
1999	\$5,150,022	\$7,463,800
2000	\$5,352,330	\$7,757,000
2001	\$5,374,479	\$7,789,100
2002	\$5,556,225	\$8,052,500
2003	\$5,522,829	\$8,004,100
2004	\$5,729,139	\$8,303,100
2005	\$5,716,995	\$8,285,500
2006	\$5,678,217	\$8,229,300
2007	\$6,500,910	\$8,229,000
2008	\$6,924,100	\$8,146,000
2009*		\$2,199,180
2010**		
Total	\$77,190,601	\$110,988,080
2009 ARRA***	\$17,257,500	\$19,500,000
Total	\$94,448,101	\$130,488,080

** Awaiting notification of award. Only include administration and program administration set-asides. State was awarded the remainder of the grant after the close of the fiscal year. ** Preparing application*

**** This is the American Recovery and Reinvestment Act of 2009*

APPENDIX III: SET-ASIDE MANAGEMENT

The Drinking Water SRF has several program set-asides that give the State extensive flexibility to explore multiple options to support eligible participants in the Drinking Water SRF. Set-asides are funds allocated for a range of specific activities such as encouraging source water protection and supporting other State drinking water program activities which can represent up to 31% of the capitalization grant. The intended use plan describes the State's intended uses for set-aside and project funds.

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

Administrative Set-Aside - (up to 4%)

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

- Reviewing and approving eligibility and full loan applications and meeting with applicants as needed;
- Drafting and 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, reviewing and processing payment requests;
- Preparing and submitting funding request to the State Bond Commission; and
- Assisting in the preparation of the capitalization grant and various Drinking Water SRF reports.

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

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

- Delineation and assessment of source water protection areas;
- Review and approve: Water Company Land Change of Use permits, New Recreation permits, sewage bypass reports and water supply plans
- Loans to systems to acquire land or conservation easements and assistance in voluntary, incentive based source water protection measures
- Loans to systems to assist in voluntary, incentive-based source water protection measures;
- Development and implementation of wellhead protection programs
- Assistance for systems as part of a capacity development strategy.

Capacity Development – This set-aside is used the fund staff for assessing compliance with State regulation and the SDWA and assisting in the preparation of grants and workplans. The staff also assesses the managerial and technical capacities of public water systems by conducting and reviewing sanitary surveys. As enforcement actions are initiated, staff also assesses the cause or triggers of violations associated with a public water system and assist the system in recognizing the corrective measures to return the system to compliance with the regulations. Systems that do not correct existing

violations through technical assistance are referred for formal enforcement actions including possible take-over proceedings.

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

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

- Conducting sanitary surveys of community, non-transient non-community and transient non-community public water systems serving fewer than 10,000 persons (small systems)
- Providing technical assistance to small public water systems on violations and deficiencies noted during sanitary surveys
- Conducting regulatory compliance reviews of engineering plans and specifications for existing small public water system infrastructure improvements including projects funded under the DWSRF
- Educating and assist small systems in applying for DWSRF loans for infrastructure improvement projects

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

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

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

Set-Asides Management

<i>As of 6/30/2010</i>	Administration	State Management	Small Systems Technical Assistance	Local Assistance	Total
Set-Aside percentage:	4%	10%	2%	15%	
1997 Award	\$ 856,328	\$ 2,140,820	\$ 428,164	\$ 3,211,230	\$ 6,636,542
Drawn thru 6/30/10	856,328	2,140,820	428,164	3,211,230	6,636,542
Balance	-	-	-	-	-
1998 Award	284,852	712,130	142,426	1,068,195	2,207,603
Drawn thru 6/30/10	284,852	712,130	142,426	1,068,195	2,207,603
Balance	-	-	-	-	-
1999 Award	298,552	746,380	149,276	1,119,570	2,313,778
Drawn thru 6/30/10	298,552	746,380	149,276	1,119,570	2,313,778
Balance	-	-	-	-	-
2000 Award	310,280	775,700	155,140	1,163,550	2,404,670
Drawn thru 6/30/10	310,280	775,700	155,140	1,163,550	2,404,670
Balance	-	-	-	-	-
2001 Award	311,564	778,910	155,782	1,168,365	2,414,621
Drawn thru 6/30/10	311,564	778,910	155,782	1,168,365	2,414,621
Balance	-	-	-	-	-
2002 Award	322,100	805,250	161,050	1,207,875	2,496,275
Drawn thru 6/30/10	322,100	805,250	161,050	1,207,875	2,496,275
Balance	-	-	-	-	-
2003 Award	320,164	800,410	160,082	1,200,615	2,481,271
Drawn thru 6/30/10	320,164	800,410	160,082	1,200,615	2,481,271
Balance	-	-	-	-	-
2004 Award	332,124	830,310	166,062	1,245,465	2,573,961
Drawn thru 6/30/10	332,124	830,310	166,062	1,245,465	2,573,961
Balance	-	-	-	-	-
2005 Award	331,420	828,550	165,710	1,242,825	2,568,505
Drawn thru 6/30/10	331,420	828,550	165,710	960,323	2,286,003
Balance	-	-	-	282,502	282,502
2006 Award	329,172	822,930	164,586	1,234,395	2,551,083
Drawn thru 6/30/10	324,538	717,667	164,586	16,213-	1,223,004
Balance	4,634	105,263	-	1,218,182	1,328,079
2007 Award	329,160	-	164,580	1,234,350	1,728,090
Drawn thru 6/30/10	220,344	-	152,150	-	372,494
Balance	108,816	-	12,430	1,234,350	1,355,596

(continued)

<i>As of 6/30/2010</i>	Administration	State Management	Small Systems Technical Assistance	Local Assistance	Total
2008 Award	\$ -	\$ -	\$ -	\$ 1,221,900	\$ 1,221,900
Drawn thru 6/30/10	-	-	-	-	-
Balance	-	-	-	1,221,900	1,221,900
2009 Award	561,680	1,637,500	-	-	2,199,180
Drawn thru 6/30/10	161,627	569,544	-	-	731,171
Balance	400,053	1,067,956	-	-	1,468,009
2009 ARRA Award	780,000	1,170,000	292,500	-	2,242,500
Drawn thru 6/30/10	29,161	115,730	4,770	-	149,661
Balance	750,839	1,054,270	287,730	-	2,092,839
TOTAL Awarded:	5,367,396	12,048,890	2,305,358	16,318,335	36,039,979
Drawn thru 6/30/10:	4,103,973	9,821,401	2,005,198	12,361,401	28,291,054
TOTAL Balance:	1,264,423	2,227,489	300,160	3,956,934	7,748,925

APPENDIX IV: DRINKING WATER SRF CLOSED LOANS

As of June 30, 2010

Closing Date	Entity	Project Number	SCD*	IFO/ PLO*	Amount	New PLO Amount	New IFO Amount
7/31/2009	Colchester	200702-C	7/31/2008	PLO	2,496,990	2,496,990	
8/31/2009	Southington	200201-C	8/31/2008	PLO	1,037,097	1,037,097	
11/30/2009	Southington	200202-CD1	11/30/2009	IFO	2,158,631		2,158,631
5/31/2010	Southington	200202-CD2	11/30/2009	PLO	1,872,517	1,872,517	
6/29/2010	Ledyard	2010-7004	6/1/2010	IFO	1,629,000		1,629,000
TOTALS:					9,194,234	5,406,603	3,787,631

* SCD (Scheduled Completion Date); IFO (Interim Funding Obligations); PLO (Permanent Loan Obligations)

ARRA (IFO) Closed Loans – FY 2010						
Closing Date	Entity	Project Number	SCD*	New IFO Loan Amount	Subsidy Amount	Total Amount
12/31/2009	Ridgefield	2010-8004	7/1/2010	\$620,688.00	\$806,182.00	\$1,426,870.00
12/31/2009	East Lyme	2010-8003	6/30/2011	\$415,807.00	\$540,072.00	\$955,879.00
1/11/2010	MDC	2010-8008	8/31/2010	\$2,579,412.00	\$3,350,272.00	\$5,929,684.00
1/28/2010	Woodlake	2010-8010	8/30/2010	\$252,176.00	\$327,542.00	\$579,718.00
1/28/2010	Tolland	2010-8002	6/30/2010	\$77,528.00	\$100,697.00	\$178,225.00
1/28/2010	CT Water Co.	2010-8012	9/30/2010	\$108,352.00	\$140,734.00	\$249,086.00
1/29/2010	Norwich	2010-8005	12/31/2009	\$161,746.00	\$210,083.00	\$371,829.00
1/29/2010	Norwich	2010-8006	6/30/2010	\$326,250.00	\$423,750.00	\$750,000.00
1/29/2010	MDC	2010-8009	8/31/2010	\$772,079.00	\$1,002,815.00	\$1,774,894.00
1/29/2010	Manchester	2010-8013	1/30/2011	\$290,340.00	\$377,109.00	\$667,449.00
1/29/2010	Brookfield	2010-8001-1	6/30/2010	\$827,361.00	\$1,074,618.00	\$1,901,979.00
2/5/2010	Putnam	2010-8011	12/31/2010	\$1,075,271.00	\$1,396,616.00	\$2,471,887.00
TOTALS:				\$7,507,010.00	\$9,750,490.00	\$17,257,500.00

APPENDIX V: PENDING PROJECTS

Project Name	Total IFO/PLO (as of 6/30/10)	Undrawn Loan Commitments	Additional Loan Commitments (thru 12/30/11)	Total Commitments
Aquarion Water (BHC)	224,453			224,453
Bethel			500,000	500,000
Brookfield	507,837	390,524		898,361
Colchester	2,278,275			2,278,275
Candlewood Trails Assoc.			526,290	526,290
CTWC Gallup Water Service Inc.	83,605	24,747		108,352
Cook Willow	455,136	1,073		456,209
Crystal Lake	236,946			236,946
East Hampton			2,693,460	2,693,460
East Lyme	158,922	256,885.00	8,753,258	9,169,065
Haddam			4,770,000	4,770,000
Harrybrook Park Condo	132,060			132,060
Hillside Water Corp	105,965			105,965
Ledyard	779,986			779,986
Manchester		290,340.00		290,340
MDC	6,316,059	1,558,071		7,874,130
New Britain	23,139,872			23,139,872
Newtown	494,176			494,176
Norwich	1,791,276	324,650	1,900,050	4,015,976
Point-O-Woods	790,891	9,109		800,000
Portland	1,338,406		1,542,500	2,880,906
Putnam Water Pollution Control	189,408	885,863		1,075,271
Ridgefield		620,688		620,688
2 nd Tax District - City of Norwalk	22,800,217			22,800,217
Sharon	1,522,939			1,522,939
Southington	4,771,321			4,771,321
Twin Hills	108,888			108,888
Waterbury			484,950	484,950
Watertown Fire District	800,756			800,756
Woodlake Taxing District	458,058	150,249		608,307
TOTAL:	69,485,452	4,512,199	21,170,508	95,168,159

APPENDIX VI: FINANCIAL ASSISTANCE BY BOND RATING – FY 2010

Borrower	Total Commitment Amount	AAA	A and AA	B to Baa	Not Rated
PUBLIC					
Bethel	500,000		500,000		
Brookfield	898,361		898,361		
Colchester	2,278,275		2,278,275		
East Hampton	2,693,460		2,693,460		
East Lyme	9,169,065		9,169,065		
Ledyard	779,986		779,986		
Manchester	290,340		290,340		
MDC	7,874,130		7,874,130		
New Britain	23,139,872		23,139,872		
Newtown	494,176		494,176		
Norwich	4,015,976		4,015,976		
Portland	2,880,906		2,880,906		
Ridgefield	620,688	620,688			
2 nd Taxing District- City of Norwalk	22,800,217		22,800,217		
Sharon	1,522,939		1,522,939		
Southington	4,771,321		4,771,321		
Waterbury	484,950		484,950		
Watertown Fire District	800,756		800,756		
Subtotal:	86,015,418	620,688	85,394,730		
PRIVATE					
Aquarion Water(BHC)	224,453				224,453
Candlewood Trails	526,290				526,290
CTWC Gallup Water Service Inc.	108,352				108,352
Cook Willow	456,209				456,209
Crystal Lake	236,946				236,946
Haddam	4,770,000				4,770,000
Harrybrook Park Condo	132,060				132,060
Hillside Water Corp	105,965				105,965
Point-o-Woods	800,000				800,000
Putnam	1,075,271				1,075,271
Twin Hills	108,888				108,888
Woodlake Taxing District	608,307				608,307
Subtotal:	9,152,741				9,152,741
FY 2010 Total (Public and Private):	95,168,159	620,688	85,394,730		9,152,741
Percentage:		1%	89%		10%

APPENDIX VII: PROJECT PRIORITY LIST - 2010 & 2011

Rank Pts ¹	DWS Project Number	Public Water System Name	Project Name	Population Served		Amount Requested	Estimated Subsidation Amount
				System	Project		
145	2010-0158	East Hampton WPCA - Village Ctr.	Water System Improvements	3,662	TBD	3,388,000	694,540
95	2010-0065	Brainard Memorial Library - Haddam	Water Main Ext. to Tylerville	252	200	6,000,000	1,230,000
90	2010-0092	Candlewood Trails - New Milford	Water System Improvements	3,122	312	662,000	135,710
60	2010-0141	Norwich Public Utilities	Deep River Res. Upgrades & 2 new tanks*	36,067	36,067	2,390,000	489,950
55	2010-0120	Waterbury Water Department	Pump Station Improvements - North Main St*	107,271	6,000	610,000	125,050
55	2010-0102	East Lyme Water & Sewer Comm.	Regional Interconnection ²	15,245	15,245	10,192,000	1,438,742

FUNDING LINE – AVAILABLE FUNDS ARE ANTICIPATED FOR PROJECTS ABOVE THIS LINE

Rank Pts ¹	DWS Project Number	Public Water System Name	Project Name	Population Served		Amount Requested
				System	Project	
145	2010-0158	East Hampton WPCA - Village Ctr.	Water System Improvements	3,662	TBD	3,388,000
95	2010-0065	Brainard Memorial Library - Haddam	Water Main Ext. to Tylerville	252	200	6,000,000
90	2010-0092	Candlewood Trails - New Milford	Water System Improvements	3,122	312	662,000
60	2010-0141	Norwich Public Utilities	Deep River Res. Upgrades & 2 new tanks*	36,067	36,067	2,390,000
55	2010-0120	Waterbury Water Department	Pump Station Improvements - North Main St*	107,271	6,000	610,000
55	2010-0102	East Lyme Water & Sewer Comm.	Regional Interconnection ²	15,245	15,245	10,192,000
50	2010-0158	MDC - Hartford	RF Metering - Phase III*	388,700	72,000	3,034,000
50	2010-0142	Norwich Public Utilities	Deep River WTP Transmission Main Replacements*	36,067	36,067	1,570,000
45	2010-0140	Norwich Public Utilities	Stony Brook Backwash Filter Recycle*	36,067	36,067	1,780,000
40	2010-0111	SCWA Tower Ferry View Division	AMR Meter Installation - Ledyard*	2,567	3,017	176,225
35	2010-0117	Meriden Water Division	Broad Brook WTP & Pump Station Improvements ³	58,441	36,500	1,400,000
35	2010-0090	Ledyard WPCA - Gales Ferry	Water Main Ext. to Aljen Heights	2,054	780	4,097,000
25	2010-0148	Regional Water Auth - New Haven	Lake Gaillard WTP Finished Water Reservoir Study	418,900	290,000	75,000
25	2010-0116	Middletown Water Department	Westfield Water Main Ext. & Pressure Zone Reconfiguration	41,019	n/a	3,300,000
22	2010-0118	Meriden Water Division	Improvements in Carpenter Ave. Pressure Zone	58,441	20,000	500,000
20	2010-0150	Regional Water Authority	North Cheshire Facility Automation Upgrades	418,900	23,000	190,000
20	2010-0112	Dorothy Heroy Recreation Complex	Water Main Ext. to Private Wells (AWC system)	25	104	1,350,000
20	2010-0089	Regional Water Auth - New Haven	Waterbury Rd. & Edge Comb Rd. Water Main Ext. - Cheshire	418,900	60	415,000
20	2010-0088	Regional Water Auth - New Haven	Moss Farm Rd. Water Main Ext.	418,900	12	165,000
17	2010-0093	Waterbury Water Department	Blackman Rd. Tank Rehabilitation	107,271	6,000	747,000
15	2010-0106	MDC - Hartford	Oak St. (south) - E Htfd to Glastonbury, Water Main Installation	388,700	388,700	3,000,000
15	2010-0155	Manchester Water Department	New State Road Disinfection Conversion	51,066	51,066	185,000
15	2010-0086	Norwalk First Taxing District	Pumphouse Bldg. Expansion & Chem. Equip. Modifications	40,256	40,256	150,000

(continued)

Rank Pts ¹	DWS Project Number	Public Water System Name	Project Name	Population Served		Amount Requested
				System	Project	
15	2010-0146	Regional Water Auth - New Haven	Derby Well #1 Contact Time	418,900	21,000	33,000
15	2010-0094	Brookfield Municipal Buildings	Southern Federal Rd. - Water Main Ext.	60	5,800	3,600,000
15	2010-0099	Colchester Sewer & Water Comm.	Well #4 Treatment Plant Improvements	4,001	4,001	400,000
15	2010-0137	MDC - Hartford	Upper Albany Area Water Main Replacement	388,700	1,284	3,107,000
15	2010-0145	MDC - Hartford	Wethersfield Ave., Warner St. & Mannz St. - Water Main Replacement	388,700	550	1,788,000
15	2010-0139	MDC - Hartford	Cleveland Ave. Water Main Replacement	388,700	550	2,033,000
15	2010-0136	MDC - Hartford	Hudson St. Water Main Replacement	388,700	456	1,057,400
15	2010-0105	MDC - Hartford	Farmington Ave. 1A Main Replacement	388,700	420	3,750,000
15	2010-0135	MDC - Hartford	Park St. Water Main Replacement	388,700	300	2,416,000
15	2010-0138	MDC - Hartford	Farmington Ave. Water Main Replacement	388,700	240	2,330,000
15	2010-0143	MDC - Hartford	Cedar St. Water Main Replacement	388,700	144	578,875
15	2010-0123	MDC - Hartford	Design of 15 Water Main Replacements - East Hartford	388,700	TBD	419,000
15	2010-0121	MDC - Hartford	Design of 12 Water Main Replacements	388,700	TBD	538,000
12	2010-0115	Bristol Water Department	Grove St. Storage Tank Improvements	52,079	41,100	400,000
10	2010-0078	Norwalk First Taxing District	Security Enhancements	40,256	40,256	250,000
10	2010-0080	Norwalk First Taxing District	Spring Hill Pump Station Rehab & Tank Replacement	40,256	4,000	1,150,000
10	2010-0097	Woodlake Tax District - Woodbury	Atmospheric Storage Tank	912	912	718,000
10	2010-0109	MDC - Hartford	Uplands Way Pump Station Upgrade - Glastonbury	388,700	588	1,035,000
5	2010-0153	Manchester Water Department	Painting of Birch Mount & Rockledge Storage Tanks	51,066	51,066	245,000
5	2010-0154	Manchester Water Department	Village St. & Valley St. - Water Main Replacements	51,066	51,066	1,700,000
5	2010-0084	Norwalk First Taxing District	Filter Plant Secondary Generator	40,256	40,256	220,000
5	2010-0083	Norwalk First Taxing District	Transmission Pipe Cleaning & Lining	40,256	40,256	5,000,000
5	2010-0082	Norwalk First Taxing District	Transmission Main Valve Replacement	40,256	40,256	350,000
5	2010-0077	Norwalk First Taxing District	Mill Rd Water Main Ext.	40,256	40,256	600,000
5	2010-0147	Regional Water Auth - New Haven	Ansonia-Derby Water Tank Construction	418,900	21,000	4,400,000
5	2010-0149	Regional Water Auth - New Haven	Seymour Wellfield Chem. Transfer Automation Upgrade	418,900	21,000	250,000
5	2010-0081	Norwalk First Taxing District	Transite Pipe Water Main Replacement	40,256	20,000	6,700,000
5	2010-0085	Norwalk First Taxing District	Water Main Ext to Loop Piping	40,256	10,000	1,800,000
5	2010-0079	Norwalk First Taxing District	Silvermine Rd & Valley Rd New Transmission Pipeline	40,256	n/a	4,700,000
5	2010-0066	Norwalk First Taxing District	Undersized Water Main Replacements	40,256	4,000	4,450,000
5	2010-0119	Colchester Sewer & Water Comm.	Emergency Interconnection with Norwich	4,001	4,001	4,000,000
5	2010-0108	MDC - Hartford	Simsbury Rd Pump Station Upgrade - Bloomfield	388,700	950	1,035,000
5	2010-0133	MDC - Hartford	Canal Road Pump Station Replacement - West Hartford	388,700	800	1,100,000
5	2010-0134	MDC - Hartford	Farmstead Lane Pump Sta. Replacement - Glastonbury	388,700	740	1,100,000
5	2010-0107	MDC - Hartford	Cold Spring Dr Water Main Replacement - Bloomfield	388,700	258	1,152,888

(continued)

Rank Pts ¹	DWS Project Number	Public Water System Name	Project Name	Population Served		Amount Requested
				System	Project	
5	2010-0104	MDC - Hartford	Farmington Ave. Water Main Replacement - West Hartford	388,700	168	1,359,400
5	2010-0132	MDC - Hartford	Bloomfield Bear Ridge Pump Station Replacement	388,700	160	1,100,000
5	2010-0114	Snug Harbor Development Corp.	Tank Replacement - Danbury	144	144	30,000
5	2010-0098	Colchester Sewer & Water Comm.	Rte. 85 Water Main Replacement	4,001	116	250,000
5	2010-0100	Colchester Sewer & Water Comm.	Rte. 637/Lake Hayward Rd Water Main Ext.	4,001	100	900,000
5	2010-0101	Colchester Sewer & Water Comm.	Rte. 85 Main Replace Hall Hill Rd	4,001	68	700,000
5	2010-0113	Bittersweet Ridge Water Assoc.	Tank Replacement - Middlefield	40	40	30,000
5	2010-0122	MDC - Hartford	Design of 4 Water Main Replacements - West Hartford	388,700	TBD	335,000
5	2010-0128	MDC - Hartford	Design of 3 Water Main Replacements - Windsor	388,700	TBD	311,000
5	2010-0124	MDC - Hartford	Design of 2 Water Main Replacements - Rocky Hill	388,700	TBD	194,000
5	2010-0125	MDC - Hartford	Design of 8 Water Main Replacements - Wethersfield	388,700	TBD	220,000
5	2010-0129	MDC - Hartford	Design of 2 Water Main Replacements - South Windsor	388,700	TBD	103,000
5	2010-0126	MDC - Hartford	Design of 5 Water Main Replacements - Bloomfield	388,700	TBD	360,000
15	2010-0151	Regional Water Auth - New Haven	Advanced Metering Infrastructure Study ⁴	418,900		140,000
0	2010-0127	MDC - Hartford	Design of 3 Water Main Replacements - Newington	388,700		388,000
0	2010-0130	MDC - Hartford	Design of 6 Water Main Replacements - Farmington	388,700		186,000
0	2010-0131	MDC - Hartford	Design of 2 Water Main Replacements - Glastonbury	388,700		200,000
0	2010-0095	Colchester Sewer & Water Comm.	Cabin Rd Water Main Ext.	4,001		575,000
0	2010-0152	Manchester Water Department	Lydall Dam Reservoir Spillway #1 Replacement	51,066		650,000
0	2010-0159	Regional Water Auth - New Haven	Woodbridge Bulk Fill Station	418,900		50,000
0	2010-0156	Manchester Water Department	Well 2A Remediation	51,066		1,150,000
0	2010-0087	Regional Water Auth - New Haven	Lake Gaillard WTP Fuel Cell	418,900		2,500,000
0	2010-0157	Regional Water Auth - New Haven	Sargent Dr. Facility Lighting Retrofits	418,900		130,000
55	2010-0091	United Water CT - Greenridge System	Brookfield Interconnection with Newtown System	912		3,400,000
52	2010-0045	East Haddam Elementary School	Water System Upgrades	485		200,000

***Green Project Reserve (GPR) Projects**

Notes:

- 1 For projects below the "funding line" that are tied in the number of ranking points, ranking has been shown as the same for each with that number of points. Should funds become available, tiebreaker provisions will be implemented.
- 2 It is anticipated that this project will only receive partial funding of \$7,018,253 due to the availability of funds.
- 3 This project is anticipated to include Green Project Reserve (GPR) components; however, they will not be finalized until the design has been completed. GPR points may be awarded if/when the project is rolled over for construction activities.
- 4 This project can only be funded from Federal Capitalization Grant set-asides; none are available at this time.

APPENDIX VIII: PROGRAM MANAGEMENT

Department of Public Health

The DPH is the State agency that carries out the public health policy of the State including the use and protection of the State's drinking water resources. The Drinking Water Section within the DPH is responsible for enforcement of and compliance with State and federal laws, rules and regulations pertaining to drinking water and its use in the State. CGS Section 25-32 grants DPH jurisdiction over all matters concerning the purity and adequacy of drinking water and provides 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.

DPH monitors approximately 4,000 public water systems in Connecticut. Of those, 1050 public water systems are eligible for Drinking Water SRF funding. Public water systems monitoring activities include:

- Emphasizing the importance of reaching these potential applicants through the implementation of its public outreach initiatives simultaneously with the development of the Drinking Water SRF program.
- Determining future needs and sets priorities with the preparation of an annual project priority list.
- Distributing applications and project information to the DEP and the Office of the State Treasurer and when applicable, the DPUC, for review and approval. Once approved, the loans with the Drinking Water SRF borrowers are signed by the DPH and DEP. Due to a recent modification of legislation, the DEP will no longer be required to approve DWSRF loans after October 1, 2010.
- Establishing a compliance schedule for each step of the project, including planning, design and construction.
- Quarterly and Annual reporting on the details of these and other program activities to the EPA.
- Conducting the annual Public Hearing and Open Forum on the priority list of projects.

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 SRF, which are similar to its Clean Water SRF responsibilities until October 2010. At that time, the DEP's function will be greatly reduced as the DPH takes on a much greater role in the financial and administrative aspect of the program. Until October 2010, the DEP monitors the financial elements of a project from the design and planning phase to construction and enters into loans with Drinking Water SRF borrowers. The DEP will continue to coordinate the capital budget requests for the Drinking Water SRF.

Department of Public Utilities Control

The DPUC enforces the regulations of the State with regard to utilities including privately owned public water systems, with over 50 connections. The DPUC approves all rate change requests from privately owned public water systems. The DPUC reviews the capital budget requests and adjudicates over the enforcement of State laws. In addition as a member of the interagency committee, the DPUC regularly consults with the DPH and the interagency committee on general credit issues for water system borrowers. The DPUC has no formal role in the Drinking Water SRF project approval process for municipalities and small public water systems with fewer than 50 connections,.

APPENDIX IX: PROGRAM MANAGEMENT BY THE OFFICE OF THE TREASURER

The State Treasurer, elected for a term of four years as prescribed by the State Constitution, is responsible for the safe custody of the property and money of the State and makes disbursements on warrants drawn and presented by the State Comptroller. The State Treasurer 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 also invests all funds in the State's General Fund as well as the assets of the State pension, trusts and other funds.

The Office of the State Treasurer has responsibilities for the Drinking Water SRF's financing program and various financial components of the Drinking Water SRF. Pursuant to entered into a Memorandum of Agreement in 1989 and modified in 2009 by the State Treasurer and the Department of Environmental Protection Commissioner and a Memorandum of Understanding in 1999 by the State Treasurer, the Department of Environmental Protection Commissioner and the Department of Public Health Commissioner. These Agreements delegate to the State Treasurer various financial components of the CWF and the Drinking Water Fund and certain responsibilities with respect to the implementation and management of the CWF and the Drinking Water Fund. A financial administrator, works for the State Treasurer, manages, and coordinates the various financial components of the CWF and the Drinking Water Fund Programs on a day-to-day basis. The activities of the financial administrator are coordinated with those of the Department of Public Health, the Department of Environmental Protection and OPM. The financial administrator is also responsible for:

- The review of supporting data for financing of DWF & CWF projects and credit related documents submitted by the borrowers;
- Preparation and review of loan and grant agreements and related documents;
- Investment of bond proceeds and other funds to maximize the yield and meet programmatic requirements;
- Management of the bond financing for the DWF & CWF programs including documentation of the projects to meet Internal Revenue Service requirements;
- Coordination of the independent audit of the State's federal account and the audit of all program accounts by the State Auditors of Public Accounts and the preparation of the annual report;
- Ongoing procedures including: surveillance of the borrowers' financial condition; compliance with secondary market disclosure regulations; loan administration, including preparation of loan schedule information and coordination with the trustee on billing and collection of loan payments;
- Participation in the development of financing plan to new initiatives, which might expand the use of revolving funds and leverage financing concepts within the State.
- Participation as a member of the Drinking Water SRF Interagency Committee.

The DPH and the State Treasurer have joint responsibility for the program's data management systems. An extensive project tracking system is maintained by the DPH and the DEP. A dual entry general ledger accounting system was developed by the Office of the State Treasurer.

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

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

Financing Program Administration

Both the DPH and the Office of the State Treasurer are involved in the evaluation of each loan application and after review by both offices, all loan and subsidy agreements have been approved by the Commissioners of the DPH and the DEP. After October 1, 2010, the DEP will no longer be required to approve Drinking Water SRF agreements. The Office of the State Treasurer has the responsibility to structure loans based on consideration of the borrower's financial condition and financial management capabilities, protection of the high credit quality of the state fund, as well as the laws and regulations of the State. There are four levels of approval for each project:

1. **Evaluation and Enforcement (DPH):** The proposed project must address the needs cited by the Department of Environmental Protection and comply with regulatory and statutory requirements for the project.
2. **Project Administration (DPH):** All project costs included in the application must be designated as either eligible or ineligible for funding in accordance with state and federal regulations. Any costs that are considered ineligible remain the responsibility of the local municipality.
3. **Environmental Review (DPH and DEP):** Based on information received from the borrowers, the Department of Environmental Protection prepares an environmental assessment of all activities to be undertaken in order to ensure that the project is consistent with the State Plan of Conservation and Development and complies with the Connecticut Environmental Policy. The assessment report is submitted the OPM for concurrence.
4. **Credit Review (Office of the State Treasurer):** The applicant must be creditworthy, and the CWF underwriting standards must be met. The Office of the State Treasurer reviews the financial information submitted with each application, determines the general terms, and conditions for providing financial assistance. The loan agreements are written to permit eventual financing by the State through the program's revenue bonding program.

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

Program Bond Resolutions

There are three resolutions under which bonds are outstanding as summarized below. As more fully described in financial statements, the bonds are special obligations of the State payable solely from all moneys available for debt service payments under the resolutions. The flow of funds, security provisions and the accounts held by trustee under each resolution are discussed in the financial statements.

Bond Debt Service

Repayment of the revenue bonds comes from loan repayments, interest earnings on assets and the State's earlier interest subsidy contributions. While all loan repayments are available for the payment of the bonds, a portion of loan repayments is retained in the debt service fund as a cash flow cushion in conformance with rating agency default coverage guidelines. The debt service schedule for all bonds outstanding is provided in the financial statements.

Cross-Collateralization

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

Revenue Bond Swap Information

As of the end of June 30, 2010, the two interest rate swap agreements with Goldman Sachs Mitsui Marine Derivative Products (GSMMDP) have been terminated. The swaps were initiated to lock-in a fixed rate for the \$121,375,000 State Revolving Fund General Revenue Bonds, 2003 Series C issue, which was issued as auction rate securities and are reflected in the fiscal year 2009 financial information.

Investments and Reserve Account Information

As further described in the financial statements, the State currently invests Drinking Water Fund assets in the State's Short-Term Investment Fund and in guaranteed investment agreements with financial institutions. The 2002 bond resolution requires that the investment agreements be with, or be guaranteed by, institutions with ratings in the two top rating categories given by Standard & Poor's and Moody's Investors Service or any rating service recognized by the State Banking Commissioner, or agencies or instrumentalities whose market value is at least 100% of the funds invested. Upon the issuance of the 2003 bonds and the restructuring of the program's debt, certain long-term investments pursuant to investment agreements with AA providers and are collateralized with securities issued or guaranteed by the U.S. Government, may be unrestricted assets. The restricted accounts for the Drinking Water SRF are related to each bond issue and are described in the financial statements.

APPENDIX X: APPLICATION PROCESS

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

- **Evaluation and Enforcement and Project Administration (DPH):** The proposed project must address the needs cited by the DPH and comply with regulatory and statutory requirements for the project. All project costs included in the application must be eligible for funding in accordance with state and federal regulations.
- **Environmental Review (DPH):** Based on information received from the borrowers, the DPH prepares an environmental assessment of all activities to be undertaken in order to ensure that

the project is consistent with the State Plan of Conservation and Development. The assessment report is submitted to OPM for final concurrence.

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

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

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

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

APPENDIX XI: SUMMARY OF PROJECT FUNDING AGREEMENTS

In accordance with the State's SRF and as required by the Connecticut General Statutes, financial assistance is provided to the borrower pursuant to a project loan and subsidization funding agreement between the borrower and the State. Under each agreement, the State agrees to make loans and provide subsidy for eligible project costs as incurred by the borrower, upon the terms and in the maximum amount specified. Funds are disbursed to pay eligible project costs as incurred by the municipality, and the amounts of loan and subsidy are equal only to the aggregate of such disbursed amounts. Thus, the municipality is obligated to repay only that amount that it actually draws down as loan for the payment of project costs. The 2009 ARRA and the FFY 2010 federal capitalization grants required subsidization for eligible projects.

Each funding agreement specifies a scheduled completion date and the amortization of the loan is expected to begin one year from the project's scheduled completion date with the final maturity set at twenty years from the scheduled completion date. Loans are secured by a municipal pledge of full faith and credit and/or a dedicated source of revenue. Principal and interest payments are payable in equal monthly installments, with an option to pay the first year's payments with a single annual installment not later than one year after the scheduled completion date.

Below is a section-by-section summary of a typical project agreement:

SECTION I	Definitions		
SECTION II	The Project Project Description		
SECTION III	The Subsidization: The Project Subsidy, Increase in Project Subsidy, and Required Repayment of the Subsidy Disbursement of Project Subsidy		
SECTION IV	The Loan: The Loan Commitment Increase in Loan Commitment, The Interim Funding Obligations and Project Loan, Disbursement of Project Loan and Project Grant Proceeds, Required Repayment of Obligations, Optional Prepayment of Principal, Method of Payments, New Municipality, Schedule of payments into Debt Service Reserve Fund.		
SECTION V	Representations & 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, and 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, Insurance Indemnification, Audits, Litigation, Waiver of Governmental Immunity Expenses, Completion of Project, Maintenance of Project, Continuing Disclosure; Official Statement.		
SECTION VIII	Agreements of the State: Loan and Grant Termination, Notification of Approval, Audits of Project Grant and Loan		
SECTION IX	Defaults: Waivers, Notices, Connecticut Law, Interpretation, Severability, Survival of Representations, Warranties/Covenants, Successors and Assigns, Incorporation of Other Documents, Amendments, Cancellation, Effective Date, Other Provisions of State Contracts		
SECTION X	Miscellaneous		
Exhibit I	Form of Interim Funding Obligation	Exhibit VII	Certification of System of Charges, Assessments and Other Revenues
Exhibit II	Form of Project Loan Obligation	Exhibit VIII	Form of Request for Advance
Exhibit III	Form of Opinion of Bond Counsel	Exhibit IX	Closing Statement
Exhibit IV	Form of Signature No Litigation Certificate	Exhibit X	Conditions Precedent
Exhibit V	Continuing Disclosure Agreement	Exhibit XI	Insurance Requirements
Exhibit VI	Budget	Exhibit XII	MBE/WBE Certification

APPENDIX XII: CUMULATIVE DWSRF PROJECTS

APPLICANT	ID	TOWN	BRIEF DESCRIPTION	AMOUNT
Twin Hills Taxing District	C 97 0340131a	Coventry	Distribution & Source Improvements	\$207,420.86
Sharon Sewer & Water	DC 97 1250011b	Sharon	Water Main Replacement-Refinance	\$1,084,010.00
Sharon Sewer & Water	DC 97 1250011a	Sharon	Pump Station	\$210,000.00
MDC	C 97 0640011b	West Hartford	System Repairs & Upgrades	\$3,086,188.44
MDC	C 97 0640011a	Bloomfield	Various Improvements	\$1,163,888.62
City of New Britain	PDC 98 0890011a	New Britain	New Water Treatment Plant-Phase I	\$12,682,987.00
City of Norwich	DC 97 1040011a	Norwich	Asbestos Pipe Replacement	\$1,898,651.36
MDC	C 97 0640011c	Blmfld/Htfd/W Htfd	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 Co.	\$231,327.45
BHC-Stamford (Aquarion)	PDC 97 1350011a	Stamford	Upgrades to Pump Station	\$391,038.00
Cook Willow Realty	DC 97 1110111a	Plymouth	Interconnect with CT Water Co.	704,259.24
Hillside Water	PDC 00 0790021a	Marlborough	Water Main/Distribution Upgrades	\$149,052.00
Sharon Sewer & Water	DC 98 1250011a	Sharon	Intake & Pipeline Upgrades	\$1,100,000.00
Town of Portland	C 97 1180081a	Portland	Interconnect with MDC	\$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-HS	C 02 0970442a	Newtown	Connection to Town Water	\$516,000.00
MDC	C 01 0640011x	Bloomfield	Construction of Water Main(s)	\$2,343,735.00
Watertown Fire District	DC 98 1530011b	Watertown	Upgrade Chemical Feed Equipment	\$435,500.00
Unionville Water Company	C 97 0520011b	Farmington	Interconnect with MDC	\$1,646,970.16
Town of Newtown	D 03 0970422a	Newtown	Connection to Town Water	\$171,738.00
Town of Southington	D 03 1310011a	Southington	Wellhead Protection	\$4,643,030.00
Second Taxing District	DC 04 1030021a	Norwalk	Water Treatment Plant Upgrade	\$24,715,165.00
Town of Ledyard	DC 03 0727031a	Ledyard	Interconnect to Elementary School	\$926,006.00
Town of Southington	DC 03 0727031b	Southington	Water Main Extension	\$1,500,000.00
Woodlake Tax District	PDC 03 1680031a	Woodbury	Land Purchase/Well Development	\$404,500.00
Town of Colchester	C 04 0280111a	Colchester	Water Treatment Plant Upgrade	\$2,600,000.00
CT Water Co./Point-O-Woods	DC 07 1050752a	Old Lyme	Water Main Installation	\$800,000.00
City of Norwich	DC 07 1040011d	Norwich	Water Storage Tank	\$450,000.00
TOTAL Base DWSRF Loans 1997 to 2010:				\$92,938,533

APPENDIX XIII: ARRA PROJECTS

APPLICANT	TOWN	POPULATION	BRIEF DESCRIPTION	AMOUNT
CT Water Co. & Gallup Water Service Inc.	Plainfield	2,538	Interconnection to Harrington Mobile Home Park	\$249,086
Barlow Mountain & Scotland Elementary Schools	Ridgefield	1,000	Water Main Extension for Consolidation	\$1,426,870
Water Pollution Control Authority	Putnam	7,300	Park Street Wellfield Expansion	\$2,471,887
Brookfield Municipal Bldgs	Brookfield	485	Water Main Extension – Silvermine Rd	\$1,901,979
Water and Sewer Commission	East Lyme	15,245	System-wide Chlorine Disinfection	\$955,879
Tolland Water Department	Tolland	1,251	Consolidation of Torrey Rd Public Water System	\$178,225
Metropolitan District Commission	Hartford	388,700	RF Automated Reading System & Meter Replacement – Phase II	\$5,929,684
Woodlake Tax District	Woodbury	912	New Wells & Related Work	\$579,717
Norwich Public Utilities	Norwich	36,067	Water Storage Tank Repairs/Painting – Fitch Hill	\$750,000
Norwich Public Utilities	Norwich	36,067	Water Storage Tank Repairs/Painting, Pump Station Upgrades – Fairview Reservoir	\$371,829
Manchester Water Department	Manchester	51,066	Hercules Drive Booster Pump Station	\$667,449
Metropolitan District Commission	Hartford	388,700	Water Main Replacement – Tower Ave.	1,774,895
TOTAL ARRA LOANS & SUBSIDY:				\$17,257,500

**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, 2010 and 2009

**STATE OF CONNECTICUT CLEAN WATER FUND -
DRINKING WATER FEDERAL REVOLVING
LOAN ACCOUNT (STATE REVOLVING FUND)
June 30, 2010 and 2009**

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1 - 2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3 - 8
FINANCIAL STATEMENTS	
Balance Sheets	9
Statements of Revenues, Expenses and Changes in Fund Net Assets	10
Statements of Cash Flows	11
Notes to Financial Statements	12 - 26
REPORTS AND SCHEDULES REQUIRED BY OMB CIRCULAR A-133	
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	27 - 28
Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	29 - 30
Schedule of Expenditures of Federal Awards	31
Notes to Schedule of Expenditures of Federal Awards	32
Schedule of Findings and Questioned Costs	33 - 34

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INDEPENDENT AUDITORS' REPORT

Ms. Denise L. Nappier, Treasurer

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

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

We have audited the accompanying financial statements of the State of Connecticut Clean Water Fund - Drinking Water Federal Revolving Loan Account (State Revolving Fund) (SRF) (an enterprise fund of the State of Connecticut) as of and for the years ended June 30, 2010 and 2009, 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, 2010 and 2009, 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, 2010 and 2009, and the changes in financial

position and cash flows thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2010 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.

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards on page 31 is presented for purposes of additional analysis as required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic 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.

Seward and Monde

September 16, 2010

**OFFICE OF THE TREASURER
STATE OF CONNECTICUT
DRINKING WATER FUND
FISCAL YEAR ENDED JUNE 30, 2010**

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis (MD&A) of the State of Connecticut Drinking Water Fund (State Revolving Fund) provides an introduction to the major activities affecting the operation of the State Revolving Fund and is a narrative overview of the financial performance for the fiscal year ended June 30, 2010. The information contained in this discussion should be considered in conjunction with the Fund's basic financial statements and the notes thereto.

Financial Highlights

Changes in Net Assets - Fund net assets under management in the Drinking Water Fund at the close of fiscal year 2010 were \$109,728,894 (including assets of \$166,742,532 offset by liabilities of \$57,013,638) compared to fiscal year 2009 net assets of \$102,111,842 (including assets of \$163,540,261 offset by liabilities of \$61,428,419). Fund net assets increased by \$7,617,052 or 7.5% primarily due to loans resulting from federal capitalization grants.

Bonds Outstanding - During the year no bonds were issued. The Fund's total debt outstanding decreased during the fiscal year by \$3,964,578 to \$54,131,919 as a result of scheduled principal payments.

Loans Receivable - Total loans receivable decreased by \$1,188,581 from \$70,674,035 to \$69,485,454 due to the net of new loans and regular loan repayments since new loans draws were less than loan repayments.

Operating Revenues - the Fund's gross operating revenues increased by \$56,547 or 3.5% to \$1,677,856.

Capitalization Grants - During the year, \$8,609,188 was drawn from the EPA for projects, compared to \$2,353,338 drawn in 2009. To date, the State has drawn \$95,878,034 from the federal EPA against the total of \$110,988,080 in cumulative drinking water capitalization grant awards. This amount does not include the capitalization grants awarded under the American Recovery and Reinvestment Act of 2009 in the amount of \$19.5 million of which \$7,188,169 has been drawn.

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.

The majority of the net assets are invested and portions are restricted in accordance with the requirements of state statute and the federal Drinking Water Act. Restricted assets represent the amount of assets which relate to the federal capitalization grants and associated state match.

Overview of the Financial Statements

The Drinking Water Fund financial statements are reported by the Office of the Treasurer in conjunction with the Department of Public Health (DPH) and the Department of Environmental Protection (DEP). The Treasurer is responsible for the detailed financial information in the Drinking Water Fund financial statements. The Drinking Water Fund is 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 together provide information about the activities of the Fund as a whole and present an overall view of the Fund's finances.

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.

Operating Activities The Drinking Water Loan 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 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.

The purpose of the State of Connecticut's State Revolving Fund Programs is to provide a source of low interest loans and other types of financial assistance (other than direct grants) to local entities for the construction, rehabilitation, expansion or improvement of wastewater treatment or drinking water facilities in accordance with the State Act. Loans are made by the Drinking Water Fund to public water systems, owned by both municipalities and private entities, for project funding. There are two categories of loans, construction loans are 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 a 20 year repayment term and can be prepaid at any time. There are no state grants available to

participants in this program; however the federal capitalization grant and the ARRA grant provides for a loan subsidy in the form of principal forgiveness.

At year end construction loans in progress totaled \$3,854,599 a decrease of \$1,287,456 from 2009. Payments to municipalities for ongoing projects during the year totaled \$4,119,147. Completed projects which were permanently financed during the year totaled \$5,406,603. There were 3 new construction loan commitments made to public water systems during year totaling \$3,787,630 and 13 new commitments under the ARRA provisions totaling \$7,578,010. At year end 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 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 in the state. Federal capitalization grants are held by the Trustee in the form of cash or permitted investment. State contributions 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, agencies, or instrumentalities whose market value is at least 100% of the funds invested.

The Bond Program

The Connecticut Clean Water Fund has issued bonds under three bond resolutions since 1991. Beginning in 2001, the proceeds of these bonds have been used for both clean water and drinking water projects. Currently, there are only bonds outstanding under the 2002 General Revenue Bond Resolution. Since 2003, bonds have been issued under the third general bond resolution which 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 of these accounts are held by the Trustee. 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. Further information about outstanding bonds can be found in the notes to the financial statements.

The program's advisors are:

Bond Counsel - Edwards Angell Palmer and Dodge, LLP and Hardwick Law Firm LLC
 Financial Advisor - Lamont Financial Services Corporation and First Southwest
 Auditor - Seward & Monde CPAs
 Trustee - US Bank
 Loan Repayment Collection Services - US Bank
 Verification Agent - AMTEC
 Arbitrage Rebate Calculation Services - AMTEC
 General Counsel - Attorney General of the State Connecticut

SELECTED FINANCIAL INFORMATION

	2010	2009	Increase (Decrease)
Changes in Net Assets	\$7,617,052	\$4,622,591	\$2,994,461
Operating Revenues	\$1,677,856	\$1,621,309	\$56,547
Federal Capitalization Grants	\$4,491,247	\$6,527,567	(\$2,036,320)
Federal ARRA Grant	\$7,203,909	-0-	\$7,203,909
Interest on Investments	\$1,128,616	\$2,374,313	(\$1,245,697)
Operating Expenses - Less ARRA grants to recipients	\$3,091,468	\$4,184,304	(\$1,092,836)
Interest Expense	\$2,649,423	\$2,254,720	\$394,703
Loan Receivable Outstanding	\$69,485,454	\$70,674,035	(\$1,188,581)

ECONOMIC CONDITIONS AND OUTLOOK

Following the market turmoil of 2008 and 2009, the State grappled with its budget deficits and implemented several deficit mitigation and securitization strategies designed to help the state meet its financial commitments at the lowest possible cost. Some recovery continued during fiscal year 2010, and the State experienced slightly lower unemployment, stable state Gross Production, and a moderation of adverse trends in several economic indicators including a lower house price index and as predicted, the pace of job loss slowed. Like most states, Connecticut used American Recovery and Reinvestment Act (ARRA) money for a number of purposes and projects. As the State's economic and financial situation improved as indicated by some recovery of jobs and a modest surplus generated by the end of the fiscal year, the State continues to make commitments to improving transportation, water infrastructure and schools. Concerns continue about the unfunded liabilities in the State Employees' Retirement Plan.

The State continued to enjoy the highest per capita income in the nation, while challenged with relatively high costs (fuel, housing, health care and electricity), traffic congestion, an aging population and a widening disparity in economic prosperity between our urban and suburban residents. Economic growth is expected to be slow in the coming year at a time when there are significant needs for transportation and water pollution control upgrades and improvements. State and federal budget constraints which resulted in a slow down in the initiation of water quality and pollution control projects in recent years will mean greater pressure on the Fund to provide critical financial assistance as municipalities embark on major projects in the future.

The major concern for the Drinking Water Fund continues to be working with the state's legislators to set priorities and provide financing for critical work, especially for small public water systems. The program continues to provide a most efficient strategy to fund critical projects while maintaining a long term financing structure that can provide financing for current and future water quality needs. DPH, DEP and the Office of the Treasurer, working together, will continue to assist legislators and public water systems in determining the most cost effective and efficient way to meet the water quality needs of the State's citizens.

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

Required Supplementary Information

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

The Notes to the Financial Statements provide additional information that further explains and support 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 Clean Water Fund's finances. Questions about this report or requests for additional information should be addressed to:

Clean Water Fund Financial Administrator
Connecticut State Treasurer's Office
Debt Management Division
55 Elm Street
Hartford, CT 06106-1773
Telephone (860) 702-3134
www.state.ct.us/ott

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

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

**STATE OF CONNECTICUT CLEAN WATER FUND -
DRINKING WATER FEDERAL REVOLVING LOAN ACCOUNT
(STATE REVOLVING FUND)
BALANCE SHEETS
June 30, 2010 and 2009**

	2010	2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 414,336	\$ -
Interest receivable - investments	266,475	278,963
Interest receivable - loans	47,212	123,141
Grant receivable	442,055	315,633
Loans receivable	8,020,686	10,032,735
Total current assets	9,190,764	10,750,472
Noncurrent assets:		
Loans receivable	61,464,768	60,641,300
Revolving fund	43,147,948	38,368,398
Deferred loss on early retirement of bonds	1,211,679	546,071
Restricted assets:		
Bond proceeds fund	974,528	5,599,081
Revolving fund	17,609,431	18,521,563
Debt service fund	24,973,722	20,638,754
Support fund	8,169,692	8,474,622
Total restricted assets	51,727,373	53,234,020
Total noncurrent assets	157,551,768	152,789,789
Total assets	\$ 166,742,532	\$ 163,540,261
LIABILITIES		
Current liabilities:		
Interest payable on revenue bonds	\$ 731,067	\$ 759,046
Due to other funds	-	209,623
Revenue bonds payable	3,646,329	3,443,013
Refunding bonds payable	409,077	521,565
Total current liabilities	4,786,473	4,933,247
Noncurrent liabilities:		
Premium on revenue and refunding bonds	2,150,652	2,363,253
Revenue bonds payable	45,142,083	48,788,412
Refunding bonds payable	4,934,430	5,343,507
Total noncurrent liabilities	52,227,165	56,495,172
Total liabilities	57,013,638	61,428,419
FUND NET ASSETS		
Unrestricted	14,703,049	10,648,669
Restricted for loans	95,025,845	91,463,173
Total fund net assets	109,728,894	102,111,842
Total liabilities and fund net assets	\$ 166,742,532	\$ 163,540,261

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, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
OPERATING REVENUES		
Interest on loans	<u>\$ 1,677,856</u>	<u>\$ 1,621,309</u>
OPERATING EXPENSES		
Salaries	1,305,239	1,441,676
Employee benefits	865,577	823,088
Other	920,652	1,919,540
Project grants	<u>3,976,757</u>	<u>-</u>
Total operating expenses	<u>7,068,225</u>	<u>4,184,304</u>
Operating loss	<u>(5,390,369)</u>	<u>(2,562,995)</u>
NONOPERATING REVENUES (EXPENSES)		
Interest on investments	1,128,616	2,374,313
Amortization of bond premium	212,602	190,966
Interest expense	<u>(2,649,423)</u>	<u>(2,254,720)</u>
Total nonoperating revenues (expenses)	<u>(1,308,205)</u>	<u>310,559</u>
Loss before federal capitalization grants and transfers	<u>(6,698,574)</u>	<u>(2,252,436)</u>
FEDERAL CAPITALIZATION GRANTS		
Project funds - loans	4,632,431	2,353,338
Project funds - grants	3,976,757	-
Set-aside activities	<u>3,085,968</u>	<u>4,174,229</u>
Total federal capitalization grants	<u>11,695,156</u>	<u>6,527,567</u>
OPERATING TRANSFERS	<u>2,620,470</u>	<u>347,460</u>
Change in fund net assets	<u>7,617,052</u>	<u>4,622,591</u>
FUND NET ASSETS, beginning	<u>102,111,842</u>	<u>97,489,251</u>
FUND NET ASSETS, ending	<u>\$ 109,728,894</u>	<u>\$ 102,111,842</u>

See notes to financial statements.

**STATE OF CONNECTICUT CLEAN WATER FUND -
DRINKING WATER FEDERAL REVOLVING LOAN ACCOUNT
(STATE REVOLVING FUND)
STATEMENTS OF CASH FLOWS
For the years ended June 30, 2010 and 2009**

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest received on loans	\$ 1,753,785	\$ 2,084,249
Loan originations	(4,119,147)	(4,504,553)
Principal paid on loans receivable	5,307,728	2,940,646
Payments to employees for salaries and benefits	(2,170,816)	(2,264,764)
Payments on project grants	(3,976,757)	-
Other payments	(920,652)	(1,919,540)
Net cash used by operating activities	(4,125,859)	(3,663,962)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Federal capitalization grants	11,584,469	5,297,252
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Repayment of revenue bonds payable	(3,443,013)	(2,196,640)
Repayment of refunding bonds payable	(521,565)	(520,911)
Proceeds from revenue bonds payable	-	29,675,000
Premium on revenue bonds payable	-	712,849
Interest paid on revenue and refunding bonds	(2,404,621)	(1,794,312)
Operating transfers	1,472,459	557,083
Net cash provided (used) by noncapital financing activities	(4,896,740)	26,433,069
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received on investments	1,141,104	2,586,123
Increase in revolving fund	(4,779,550)	(20,491,528)
Decrease (increase) in restricted assets	1,506,647	(11,630,482)
Net cash used by investing activities	(2,131,799)	(29,535,887)
Net change in cash and cash equivalents	430,071	(1,469,528)
CASH AND CASH EQUIVALENTS, beginning	-	1,469,528
CASH AND CASH EQUIVALENTS, ending	\$ 430,071	\$ -
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	(\$ 5,390,369)	(\$ 2,562,995)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Changes in assets and liabilities:		
Decrease in interest receivable - loans	75,929	462,940
Decrease (increase) in loans receivable	1,188,581	(1,563,907)
Net cash used by operating activities	(\$ 4,125,859)	(\$ 3,663,962)

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, 2010 and 2009

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 and grants to public water systems in Connecticut. Operating revenue consists of interest earned on those loans. Operating expenses consist of personnel, other expenses and grants incurred in the initial approval, disbursement and ongoing servicing of these loans and grants and incurred in set-aside activities.

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

Revenue Recognition

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

Cash and Cash Equivalents

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

Investments

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

There were no material investment gains or losses for the years ended June 30, 2010 and 2009.

Loans, Allowance for Loan Losses and Credit Risk

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

Restricted Assets

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

Bond Premiums/Deferred Loss

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

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

Revenue Bonds

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

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

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

fund/account balances are depleted, some of the funds/accounts listed above will be closed.

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

Fund/Account	Description and Use
Revolving Fund	The Revolving Fund consists of amounts in the water pollution control federal revolving loan account and drinking water federal revolving loan account. The State maintains the Revolving Fund in accordance with the Federal Act. The State shall transfer to the Debt Service Fund any amounts necessary, together with any amounts on deposit therein, sufficient to pay principal of, redemption premium, if any, and interest on bonds.
Bond Proceeds Fund	Receives proceeds from the sale of revenue bonds as specified and determined by the Resolution. Funds are 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.

Subsequent Events

The SRF has evaluated subsequent events for the period after June 30, 2010 through September 16, 2010, the date the financial statements were available to be issued.

3 - CASH DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

Cash and cash equivalents

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

As of June 30, 2010 and 2009 funds held by the State Comptroller were \$856,426 and \$106,041, 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, 2010 and 2009, cash included in restricted assets was \$65,827 and \$35,813, respectively.

As of June 30, 2010 funds held in Connecticut Short Term Investment Funds (STIF) were \$68,274,156, of which \$974,528 is included in the bond proceeds fund, \$42,914,868 is included in the revolving fund and \$24,384,760 is included in the debt service fund on the Balance Sheet. As of June 30, 2009 funds held in STIF were \$52,435,465, of which \$5,599,081 is included in the bond proceeds fund, \$38,368,398 is included in the revolving fund and \$8,467,986 is included in the debt service fund on the Balance Sheet. STIF is a money market investment pool, rated AAAM by Standard and Poor's, in which the State, municipal entities, and political subdivisions of the State are eligible to invest. The State Treasurer with the advice of the Investment Advisory Council, whose members include outside investment professionals and pension beneficiaries, establishes investment policies and guidelines. The State Treasurer is authorized to invest STIF funds in U.S. government and agency obligations, certificates of deposit, commercial paper, corporate bonds, savings accounts, bankers' acceptances, repurchase agreements, asset-backed securities, and student loans.

As of June 30, 2010 funds held in Fidelity Institutional Government Money Market (FIGMM) were \$756,215 of which \$233,080 is included in the revolving fund and \$523,135 is included in the debt service fund on the Balance Sheet. As of June 30, 2009 funds held in FIGMM were \$12,134,956 which is included in the debt service fund on the Balance Sheet. FIGMM is a money market investment pool, managed by Fidelity Investments, normally investing at least 80% of assets in U.S. Government securities and repurchase agreements for those securities and generally maintaining a dollar-weighted average maturity of 60 days or less.

Investments

As of June 30, 2010, the SRF had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in years)				Rating
		Less than 1	1 - 5	6 - 10	More than 10	
Guaranteed Investment Contracts	\$ 7,785,063	\$ -	\$ -	\$ 7,785,063	\$ -	AAA
Guaranteed Investment Contracts	6,078,662	-	-	-	6,078,662	AA+
Guaranteed Investment Contracts	769,133	-	-	-	769,133	A+
U.S. Treasury State & Local Governments Connecticut General Obligation Bonds	3,895,264	110,630	2,566,716	1,148,539	69,379	Unrated
	<u>7,251,000</u>	<u>489,260</u>	<u>2,608,522</u>	<u>2,902,286</u>	<u>1,250,932</u>	AA
	<u>\$ 25,779,122</u>	<u>\$ 599,890</u>	<u>\$ 5,175,238</u>	<u>\$ 11,835,888</u>	<u>\$ 8,168,106</u>	

As of June 30, 2009, the SRF had the following investments and maturities:

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

Interest Rate Risk

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

Credit Risk

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

Concentration of Credit Risk

The SRF currently invests approximately 57% and 56%, at June 30, 2010 and 2009, respectively, in long-term investment agreements with Natixis Funding Corp., Trinity Plus Funding and Bank of America.

4 - LOANS RECEIVABLE

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

	<u>2010</u>	<u>2009</u>
Construction in process	\$ 3,854,599	\$ 5,142,055
Completed projects	<u>65,630,855</u>	<u>65,531,980</u>
	<u>\$ 69,485,454</u>	<u>\$ 70,674,035</u>

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

<u>Year ending June 30</u>	
2011	\$ 4,166,087
2012	4,306,048
2013	4,350,292
2014	4,395,610
2015	4,442,031
Thereafter	<u>43,970,787</u>
	<u>\$ 65,630,855</u>

5 - FEDERAL LETTER OF CREDIT

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

	<u>2010</u>	<u>2009</u>
Awarded	\$ 110,988,080	\$ 108,788,900
Drawn	<u>95,878,034</u>	<u>91,497,474</u>
Available federal letter of credit	<u>\$ 15,110,046</u>	<u>\$ 17,291,426</u>

The following represents a summary of the cumulative amount of funds awarded and drawn under the American Recovery and Reinvestment Act of 2009 (ARRA) award as of June 30:

	<u>2010</u>	<u>2009</u>
Awarded	\$ 19,500,000	\$ 19,500,000
Drawn	<u>7,188,169</u>	<u>-</u>
Available federal letter of credit	<u>\$ 12,311,831</u>	<u>\$ 19,500,000</u>

6 - RESTRICTED ASSETS

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

	<u>2010</u>	<u>2009</u>
Cash and cash equivalents:		
Money market funds	\$ 25,882,423	\$ 26,202,023
Cash	65,828	35,813
Investments:		
Guaranteed Investment Contracts	14,632,858	15,221,565
U.S. Treasury State and Local Governments	3,895,264	4,044,758
Connecticut General Obligation Bonds	<u>7,251,000</u>	<u>7,729,861</u>
	<u>\$ 51,727,373</u>	<u>\$ 53,234,020</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 has invested in the State Treasurer's Short Term Investment Fund and holds State General Obligation Bonds as presented in Note 3.

Allocation of Expenses

Fringe benefit costs which are incurred at the State level are applied as a percentage of salaries to all State governmental units, including the SRF. For the years ended June 30, 2010 and 2009, the actual rates were 66.32% and 57.09%, respectively, of the SRF wages and the amounts charged aggregated \$865,577 and \$823,088, respectively.

8 - BONDS PAYABLE

A summary of changes in bonds payable during the year ended June 30, 2010 is as follows:

	Balance June 30, 2009	Issued	Principal Paydown/ Transfers	Balance June 30, 2010
Revenue bonds payable	\$ 52,231,425	\$ -	\$ 3,443,013	\$ 48,788,412
Refunding bonds payable	5,865,072	-	521,565	5,343,507
	<u>\$ 58,096,497</u>	<u>\$ -</u>	<u>\$ 3,964,578</u>	<u>\$ 54,131,919</u>

A summary of changes in bonds payable during the year ended June 30, 2009 is as follows:

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

Revenue Bonds

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

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

<u>Issue Date</u>	<u>Issue Name</u>	<u>Original Allocated Par Amount</u>	<u>Balance Outstanding June 30, 2010</u>
6/1/2001	Clean Water Fund Revenue Bonds, 2001 Series	\$ 29,614,747	\$ -
7/10/2003	State Revolving Fund General Revenue Bonds, 2003 Series A	33,063,800	18,102,245
7/10/2003	State Revolving Fund Refunding General Revenue Bonds, 2003 Series B	7,572,339	5,343,507
7/27/2006	State Revolving Fund General Revenue Bonds, 2006 Series A	5,000,000	4,541,167
8/6/2008	State Revolving Fund General Revenue Bonds, 2008 Series A	25,000,000	21,530,000
6/25/2009	State Revolving Fund General Revenue Bonds, 2009 Series A	4,675,000	4,615,000
		<u>\$ 104,925,886</u>	<u>\$ 54,131,919</u>

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

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

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

The State of Connecticut issued State Revolving Fund General Revenue Bonds 2009 Series dated June 25, 2009 pursuant to the General Bond Resolution adopted December 17, 2002. In accordance with the State Revolving Fund General Revenue Bonds, 2009 Series Plan of Finance, the State allocated the proceeds of 2009 Series Bonds between the Clean Water Fund and the SRF with \$194,765,000 allocated to the Clean Water Fund and \$4,675,000 allocated to the SRF. Debt service on the 2009 Series Bonds is to be paid from any available monies in the Clean Water Fund and the SRF. The State has pledged amounts in the bond proceeds fund, the support fund and the debt service fund pursuant to the Resolution.

The SRF's revenue bonds payable are serial bonds, of which \$48,788,412 and \$52,231,425 was outstanding as of June 30, 2010 and 2009, respectively. The serial bonds mature through June 1, 2027 and have interest rates ranging from 2.0% to 5.0%.

Refunding Bonds - 2003 Series

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

The net proceeds of the 2003 Series B Refunding Bonds of \$18,879,694 were used to purchase U.S. Government securities and those securities were placed in an irrevocable trust with an escrow agent to provide debt service payments until the Refunded Bonds are called on various dates through October 1, 2011. The advance refunding met the requirements of an in-substance defeasance and, accordingly, the Refunded Bonds with a principal balance of \$17,834,000 were removed from the SRF's balance sheet. As of June 30, 2010 and 2009, the outstanding principal balance of the Refunded Bonds was \$17,834,000.

The difference of \$1,045,694 between the book value of the Refunded Bonds and the amount deposited to the irrevocable trust to fund their debt service represents a loss which has been deferred and is being recognized as an adjustment of interest expense over the life of the 2003 Series B Refunding Bonds using the outstanding bond method. Amortization of the deferred loss for the years ended June 30, 2010 and 2009 totaled \$271,940 and \$94,252, respectively.

Cash Defeasance - 2008

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

The \$5,622,931 was used to purchase U.S. Government securities and those securities were placed in an irrevocable trust with an escrow agent to provide debt service payments and the call premium until the Refunded Bonds are called on various dates through October 1, 2012. The advance refunding met the requirements of an in-substance debt defeasance and, accordingly, the Refunded Bonds with a principal balance of \$5,514,266 were removed from the SRF's balance sheet. As of June 30, 2010 and 2009, the outstanding principal balances of the Refunded Bonds was \$2,816,339 and \$4,180,110, respectively.

The difference of \$7,572 between the book value of the Refunded Bonds and the amount deposited to the irrevocable trust to fund their debt service represents a loss which has been deferred and is being recognized as an adjustment of interest expense over the life of the Refunded Bonds using the outstanding bond method. Amortization of the deferred loss for the years ended June 30, 2010 and 2009 totaled \$841.

Bond Maturities

Requirements at June 30, 2010 to retire the SRF's revenue and refunding bonds are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 4,055,406	\$ 2,302,204
2012	4,103,268	2,177,409
2013	4,681,563	1,967,026
2014	5,186,569	1,780,002
2015	5,509,673	1,550,654
2016-2020	18,832,297	4,644,539
2021-2025	9,815,616	1,627,105
2026-2028	1,947,527	101,425
	<u>\$ 54,131,919</u>	<u>\$ 16,150,364</u>

9 - FUND NET ASSETS

The following represents an analysis of fund net assets for the years ended June 30, 2010 and 2009.

	<u>Unrestricted</u>	<u>Restricted for Loans</u>	<u>Total</u>
Balance at June 30, 2008	\$ 11,180,084	\$ 86,309,167	\$ 97,489,251
Change in fund net assets	<u>(531,415)</u>	<u>5,154,006</u>	<u>4,622,591</u>
Balance at June 30, 2009	10,648,669	91,463,173	102,111,842
Change in fund net assets	<u>4,054,380</u>	<u>3,562,672</u>	<u>7,617,052</u>
Balance at June 30, 2010	<u>\$ 14,703,049</u>	<u>\$ 95,025,845</u>	<u>\$ 109,728,894</u>

10 - OPERATING TRANSFERS

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

	<u>2010</u>	<u>2009</u>
Transfers related to CWF debt service	(\$ 273,939)	(\$ 1,160,251)
Interest subsidy transfer	1,956,020	1,660,620
Reallocation of deferred loss on 2003 refunding bond	938,389	-
Transfer related to the fiscal year 2009 bond offerings	<u>-</u>	<u>(152,909)</u>
	<u>\$ 2,620,470</u>	<u>\$ 347,460</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>2010</u>	<u>2009</u>
Total funds committed to public water systems	\$ 95,168,159	\$ 95,295,117
Loan amount outstanding to public water systems	<u>69,485,454</u>	<u>70,674,035</u>
Loan commitments outstanding	<u>\$ 25,682,705</u>	<u>\$ 24,621,082</u>

In addition, the SRF has ARRA project loan and grant commitments of \$10,275,747 as of June 30, 2010.

12 - RISK MANAGEMENT

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

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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, Treasurer

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

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

We have audited the financial statements of the State of Connecticut Clean Water Fund - Drinking Water Federal Revolving Loan Account (State Revolving Fund) (SRF) (an enterprise fund of the State of Connecticut) as of and for the year ended June 30, 2010, and have issued our report thereon dated September 16, 2010. 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 deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

COMPLIANCE AND OTHER MATTERS

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

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

Seward and Monde

September 16, 2010

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133

Ms. Denise L. Nappier, Treasurer

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

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

COMPLIANCE

We have audited the compliance of the State of Connecticut Clean Water Fund - Drinking Water Federal Revolving Loan Account (State Revolving Fund) (SRF) (an enterprise fund of the State of Connecticut) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the SRF's major federal programs for the year ended June 30, 2010. The SRF's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of SRF's management. Our responsibility is to express an opinion on 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. 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 compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2010.

INTERNAL CONTROL OVER COMPLIANCE

Management of 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 the auditing procedures for the purpose of expressing our opinion on compliance and to test and report an internal control over compliance in accordance with OMB Circular A-133, 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 SRF's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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.

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

Seward and Monde

September 16, 2010

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, 2010

<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	\$ 4,491,247
Capitalization Grants for State Revolving Fund	ARRA - 66.468	<u>7,203,909</u>
		<u>\$ 11,695,156</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, 2010

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 or granted to public water systems during the year.

B - MUNICIPAL LOAN BALANCES

The balance of outstanding loans to municipalities totaled \$69,485,454 as of June 30, 2010.

STATE OF CONNECTICUT CLEAN WATER FUND - DRINKING WATER
FEDERAL REVOLVING LOAN ACCOUNT (STATE REVOLVING FUND)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2010

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
Significant deficiency(ies) identified? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:
Material weakness(es) identified? Yes No
Significant deficiency(ies) identified? Yes None reported

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

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

Identification of Major Programs:

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

Dollar threshold used to distinguish between type A and type B programs \$ 350,855

Auditee qualified as low risk auditee? 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.

