



# State of Connecticut DRINKING WATER FUND

Supporting the Planning, Design and Construction of  
Water Quality Projects

## 2002 Annual Report



Keeping Connecticut Healthy

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Department of Public Health



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State Treasurer

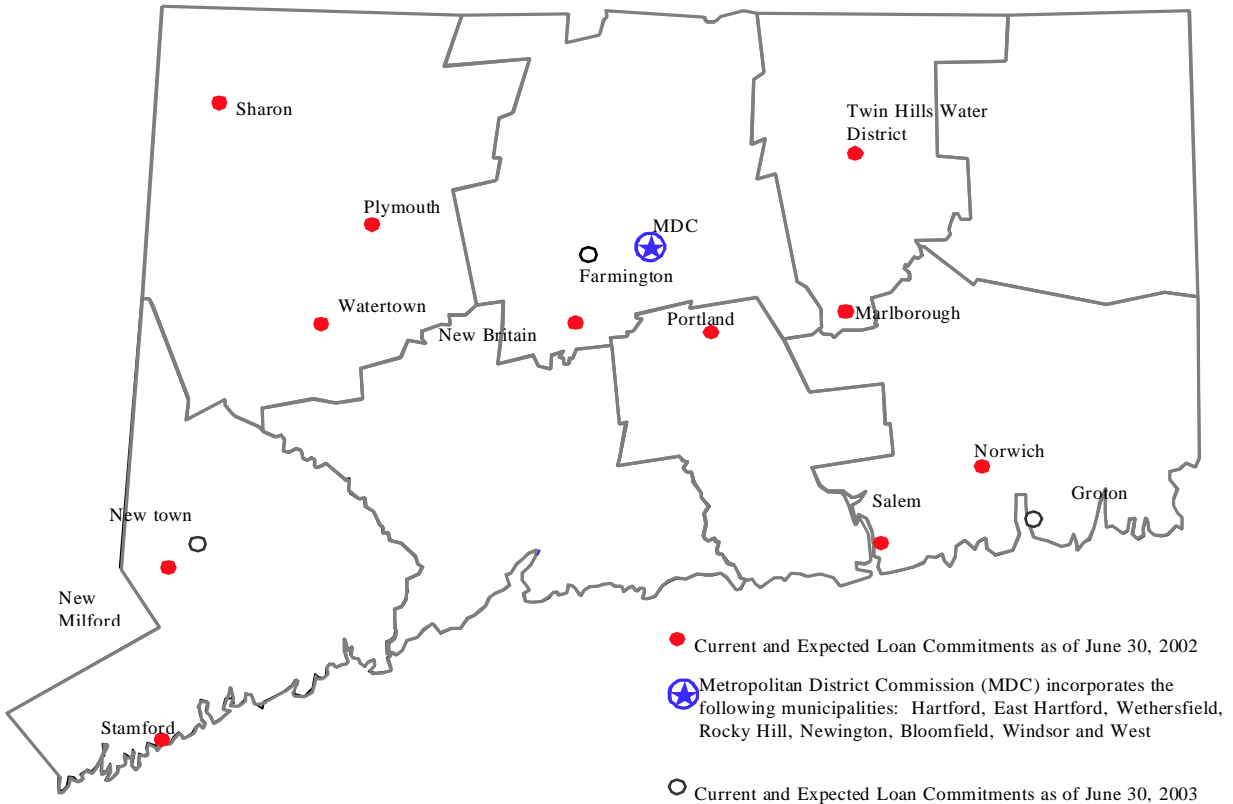


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Commissioner  
Department of Environmental Protection



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

## Location of Drinking Water State Revolving Fund Projects as of June 30, 2002 (Cumulative)



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

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## INTRODUCTION

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

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

The Fund's goals are to:

- Implement statewide public health initiatives in an effective and consistent manner; and

- Meet the diverse needs of Connecticut's water providers through the program's lending policies.

As a recipient of federal financial assistance, the State must comply with the federal Single Audit Act of 1984 by having adequate internal controls in place to ensure and document compliance with applicable laws and regulations. The audited statements for fiscal year ended June 30, 2002 have been prepared by the firm of Seward and Monde CPAs, with headquarters in New Haven Connecticut. The audits disclosed no internal control weaknesses or violation of laws or regulations. The audited statements for the DWSRF are included in this report and are available separately upon request.

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

### DWSRF Program at-a-Glance (through June 30, 2003)

Total Funds Appropriated (Fiscal Year 1997-2002\*)

Total Capitalization Grants 59,591,900

Percentage of Total Grants Reserves for Set-Aside Activities 31%

Total Loans Made to Systems 17 loans

Total Loan Made to Small/Medium 10 loans

Percentage of Total Loans Awarded to Small/Medium Systems 58%

\*FFY 2002 Funds are pending.

## HISTORY

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

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

### Financing Tools Available Through the DWSRF

- Low-interest loans at one half of market rate with a 20 year repayment period.
- Refinance or purchase local debt to reduce a community's cost of borrowing.
- Provide additional assistance by setting aside up to 31 percent of a capitalization grant for program to enhance managerial and technical capabilities.

### Set-aside Categories and Eligible Activities

<u>Set-Asides</u>	<u>Max. %</u>
Administration & Technical Assistance	4%
<ul style="list-style-type: none"> <li>• Used to administer the DWSRF program and provide technical assistance to public water systems.</li> </ul>	

### Set-Asides Max.

#### Small Systems Technical Assistance 2%

- Provide technical assistance to small systems.

#### State Program Management 10%

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

#### Local Assistance and Other State Programs 15%

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

In 1997, Connecticut received its largest grant to date, \$21 million and began preparations to lend to municipalities and private entities in accordance with the provisions of the state statutes. Since that time, Connecticut has applied for and received its grant and met the grant match requirements. Total grant funding available including the match by year are:

1998	\$8,545,560
1999	8,956,560
2000	9,308,400
2001	9,346,920

The State has applied for \$ 8,052,500 for the Federal Fiscal Year ending September 30, 2002 as shown in Appendix I.

## PROGRAM MANAGEMENT

The Department of Public Health (DPH) coordinates the program management. The four State agencies involved in the program have been working together to address the drinking water needs of the State since 1995. The process has been implemented with a great deal of consideration for existing regulations and procedures. The DWSRF Interagency Memorandum of Understanding (MOU) creates an interagency committee and details the roles and responsibilities of each agency. The following is a brief overview of State agency participation:

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

### Department of Public Health

The DPH is the state agency that carries out the public health policy of the state, including the use and protection of the State's drinking water resources. The Safe Drinking Water Act gives the DPH certain statutory responsibilities with respect to the DWSRF. The DPH is also responsible for enforcement of, and compliance with, state and federal laws, rules and regulations pertaining to drinking water and its use in the state.

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

### Department of Environmental Protection

The DEP is the state agency that carries out the environmental policy of the state for conserving, improving and protecting the State's natural resources and environment and mitigating water, land and air pollution. The Clean Water Act, Connecticut General Statutes 22a-475 to 22a-483, inclusive, as amended, gives DEP certain statutory responsibilities with respect to the DWSRF.



The Department's DSRF responsibilities are similar to its CWF responsibilities. DEP monitors the financial elements of a project from the design and planning phase to construction. In addition to assisting in the determination of project eligibility, DEP reviews all project information to ensure compliance with project schedules and budgets. DEP also enters into financing obligations with borrowers and approves disbursement requests for all eligible costs incurred. DEP will initiate cash draw requests based on requisitions from borrowers and provides that information to both DPH and the Treasurer's Office. DEP maintains the financial project tracking system with the assistance of DPH.

### Department of Public Utilities Control

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

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

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

The DPUC has no role in the DWSRF process for municipalities and small public water systems with under 50 connections.

### Office of the Treasurer

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

The Treasurer's Office has responsibilities for the implementation and management of the financing plan and various financial components of the DWF.

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

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

## Goals

Six years have been spent developing the program to provide Connecticut's water providers with access to these funds. The State has established management goals for the development of the DWSRF program as part of its statewide public health initiative. The following goals are part of the Operating Agreement between the state and the federal EPA.

### Financial Goals

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



New Britain Plant Construction Site  
New Britain, CT

## Program Goals

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

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

- The amount of administrative and program set-asides allowed by the EPA and what discretion the state will exercise in the use of those dollars.
- The EPA's program guidelines and regulations and their impact on the implementation of the program at the state level.
- The Priority List of eligible projects, the amount of money available for projects and the number of potential loans.
- The assessment of the needs within the State.
- The development of mechanisms to assist water providers on small projects.



## PROGRAM FUNDING

### Sources and uses of Funds

The funding for the DWSRF comes from federal capitalization grants and state general obligation bond proceeds. During 2001, the State issued revenue bonds secured by both CWSRF and DWSRF. As a result, revenue bonds are the funding source for all loans financed by the federal accounts. Under the DWF leveraged program, and similar to the management of the CWF, federal funds are drawn monthly from a federal capitalization grant in proportion to the rate of spending on certain projects. State bond authorizations are used to provide the required state match. The Treasurer's Office assesses both the debt issued and the investments made by the program. Currently, the program is investing in the State of Connecticut Short-Term

Investment Fund (STIF) and guaranteed investment contracts with AAA providers including American International Group (AIG), CDC Funding, Trinity Plus Financing and Societe Generale.

### Federal Capitalization Grants

The federal capitalization grants are awarded by the Federal EPA to the state and the state contributes the required 20% matching funds. If demand for the program is sustained, then management expects to issue bonds for the DWSRF secured by underlying loans. It is expected that the funding will be sufficient to meet the most critical of the state's water quality needs. The existing Intended Use Plan (IUP) covers the period from July 1, 2001 to June 30, 2002 and is based on the use of the FFY 2002 capitalization grant, the state

**Table 1: SOURCES AND USES OF DWSRF FUNDS FOR FISCAL YEAR 2002**

SOURCES	AMOUNT	AVAILABLE
		PROJECT FUNDS
Capitalization Grant <sup>1</sup>	\$ 8,052,500	\$ 5,556,225
State Match Requirement <sup>2</sup>	1,610,500	1,610,500
Carry-Over Monies <sup>3</sup>	2,583,172	2,583,172
Repayment and Interest Earnings	1,859,763	
Bond Proceeds	-	29,614,000
<b>TOTAL SOURCES</b>	<b>* \$ 14,105,935</b>	<b>\$ 39,363,897</b>
USES	AMOUNT	AMOUNT
DWSRF Administrative Fund Set-Aside (4% max)	\$ 322,100	-
State Program Management Set-Aside (10% max)	805,250	-
Small Systems Tech Assistance Set-Aside (2% max)	161,050	-
Local Assistance Set-Aside (15% max)	1,207,875	-
<b>TOTAL SET-ASIDE <sup>4</sup></b>	<b>* 2,496,275</b>	<b>-</b>
Loans from Capitalized Grants	\$ 14,533,949	\$ 14,533,949
Current and Future Program Loans	-	29,614,000
<b>TOTAL USES</b>	<b>** \$17,030,224</b>	<b>\$44,147,949</b>

1. The State has not received its award yet.

2. The SDWA requires a minimum state match of 20 percent of each federal award.

3. This represents the approximate amount of federal and state capitalization funds from the project funds only. Please refer to Appendix 1 for a description of the amounts appropriated and actual expenditures for set-aside monies from previous DWSRF Capitalization Grant Awards.

4. This represents the portion of the FY 2002 Capitalization Grant that will be used for set aside purposes.

\* Total Sources + Total Set-Aside = \*\* Total Use (does not include unspent set-aside funds from previous fiscal years.)

match of \$1,610,500 of the FFY 2002 award, and any unobligated funds carried forward from previous IUPs.

Connecticut intends to reserve from the FFY 2002 capitalization grant monies the maximum amount of set-asides allowed under the SDWA, which include the following activities: administrative, technical assistance, state program management and local assistance. In addition, unused set-aside money reserved from prior capitalization grant awards will be carried forward for future use for these activities. If at any time Connecticut determines that it will not expend all of the funds reserved for a particular set-aside activity, the money can be transferred to the DWSRF project fund at the discretion of the DPH, with an amendment to the capitalization grant. Connecticut (DPH) has elected not to transfer funds between the DWSRF program and the Clean Water Fund Program.

Based on the FFY 2002 Priority List, projects presently earmarked for funding include approximately 8.8% of the available project fund for systems under 1,000 population, 7.2% of available project funds for systems between 1,001 and 10,000 population and 84% of the available project funds for systems greater than 10,001 population.

Connecticut intends to fund all small and medium projects listed on its FFY 2002 Priority Ranking List. (Appendix V)

### State Authorizations: Match Requirements

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

The state has provided, or expects to provide, sufficient amounts of funds in the DWSRF to meet the required state matching funds for current and future federal capitalization grants. The table below indicates the amount of federal grants and the required state matching funds for the DWSRF.

### Revenue Bonding Program

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

**Table 2: FEDERAL CAPITALIZATION GRANT \$ BREAKDOWN**

<b>Federal Fiscal Year</b>	<b>Total Federal Grant</b>	<b>Administrative and Program Set Asides</b>	<b>Federal Project Funds</b>
1997	\$21,408,200	\$6,636,542	\$14,771,658
1998	\$7,121,300	\$2,207,603	\$4,913,697
1999	\$7,463,800	\$2,313,778	\$5,150,022
2000	\$7,757,000	\$2,404,670	\$5,352,330
2001	\$7,789,100	\$2,414,621	\$5,374,479
2002	\$8,052,500	\$2,496,275	\$5,556,479

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

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

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

### Summary of Issuance

Since 1991, ten series of revenue bonds have been issued providing \$745 million in project funding for the program and \$127 million to refund bonds. The revenue bonds are the funding source for all loans made by the federal accounts and are solely liabilities of the CWF's program which includes DWSRF and CWSRF.

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

The tenth revenue bond series was issued in June 2001. The new money from bonds totaled \$71 million for Clean Water and an additional \$29 million for Drinking Water bonds. The next revenue bond issue is expected to be in 2002.

### Bond Debt Service

The repayment of the revenue bonds comes from loan payments, interest earnings on reserves and other program funds. An interest subsidy contribution comes from the State. During 2002, loan repayments were

**Table 3: STATE AND FEDERAL FUNDS AVAILABLE FOR THE DWSRF PROJECTS**

Federal Fiscal Year	Federal Grant	State 20% Match Requirement	Total Funds
1997	\$14,771,658	\$4,281,640	\$19,053,298
1998	\$4,913,697	\$1,424,260	\$6,337,957
1999	\$5,150,022	\$1,492,760	\$6,642,782
2000	\$5,352,330	\$1,551,400	\$6,943,730
2001	\$5,374,479	\$1,557,820	\$6,932,299
*2002	\$5,556,479	\$1,610,500	\$7,166,979

\*excludes set asides. With setasides amounts are \$ 8,052,000, \$1,160,500 and \$9,663,000 respectively.

\$.5 million. While all loan repayments are pledged to the repayment of the bonds, a portion of loan repayments are pledged and retained in the debt service fund as cash flow in conformance with rating agency default coverage guidelines. The debt service schedule for all bonds outstanding is provided in Appendix X on page 53.

Debt service on the CWF subordinated refunding bonds issued in 1996 and 1999 is paid after there are sufficient funds to meet debt service on the senior bonds through the coming year. As of July 30, 2002, the subordinated debt service fund has been fully funded.

### Ratings

The Senior bonds are rated at the highest available credit rating from all three rating agencies, AAA from Fitch IBCA, Aaa from

Moody's Investors' Services and AAA from Standard & Poors' Investors' Services. The CWF Subordinate bonds are rated AAA from Fitch IBCA, Aa1 from Moody's Investors' Services and AA+ from Standard & Poors' Investors' Services.



New Britain Plant Construction Site  
New Britain, CT

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

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

## Needs Survey

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

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

Based on the data in both the 1995 and 1999 Needs Surveys, the State concluded that substantial demand exists among the public water systems for DWSRF financial assistance.

The EPA 1999 Drinking Water Infrastructure Needs Survey findings were published in February 2001 and evidenced a \$340 million decrease in the need for DWSRF financial assistance to \$670 million. Connecticut will be participating in the 2003 Drinking Water Infrastructure Needs Survey.



New Britain Water Facility, New Britain, CT



## PROJECT FINANCING

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

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

### Financial Terms of Loans

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

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

### Distribution of Project Funds

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

The program funds drinking water projects based on criteria in six categories of eligibility:

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

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



## Portfolio Credit Quality

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

All applicants must submit documentation as proof of their ability to repay the debt and their technical and financial management capabilities. The required documentation may include, but is not limited to, financial statements, tax returns, a current operating budget, a projected budget including the proposed debt. Most importantly, applicants must document their ability to charge rates for services and collect from their customers. Applicants may also be asked to provide information explaining the alternatives to the

proposed project as well as the benefit of the project to customers.

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

The closed loans for the program during state fiscal year 2002, detailed in Appendix III.

**Table 4: CLOSED LOAN LISTING FISCAL YEAR 2002**

	<b>Closing Date</b>	<b>Borrower</b>	<b>Project No.</b>	<b>SCD</b>	<b>IFO</b>	<b>New IFO Amount</b>
<b>Public</b>	<b>12/28/01</b>	<b>New Britain</b>	<b>2000-A</b>	<b>10/1/03</b>	<b>IFO</b>	<b>24,000,000</b>
<b>Subtotal</b>						<b>24,000,000</b>
<b>Private</b>	<b>2/8/02</b>	<b>Hillside Water</b>	<b>2000-B</b>	<b>12/30/02</b>	<b>PLO</b>	<b>170,000</b>
<b>TOTALS</b>						<b>24,170,000</b>

Key: SCD—Scheduled Completion Date (based on loan agreement).  
IFO—Interim Funding Obligations

## CONDITION OF THE FUND

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

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

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

Additionally, the placement of the DWSRF within the financial structure of the CWF guarantees that the DWSRF will benefit from the same management and financial planning mechanisms that have marked the success of the CWSRF program.

### Program Accomplishments

There were several accomplishments during the year:

In immediate response to the events of September 11, 2001, the WSS contacted by phone all PWS's serving over 1,000 people alerting them to the need for heightened security. This alert was rein-

forced by a subsequent mailing. The WSS then coordinated two (2) discussion forums with the Executive Directors and other key officials of Connecticut's major water utilities. The first forum was held on September 28, 2001 in Hartford, CT at the Metropolitan District Commission (MDC) Training Center. The second was held on October 18, 2001 at the Mystic Marriott Hotel and Spa in Groton, CT. The forums focused on the current status of terrorist threats, and security procedures and practices. Representatives from the Federal Bureau of Investigation (FBI), EPA, CT State Police, CT Office of Emergency Management, CT Department of Environmental Protection, CT DPH, and various local municipality officials were all in attendance. The WSS continues to address security in routine contacts with PWSs and other involved parties

Three projects were completed in: New Britain (City of New Britain Phase I), Stamford (Bridgeport Hydraulic Company) and Sharon (Sharon Sewer and Water) at a total cost of over \$13 million.

Outreach materials have been developed in a series of introductory pamphlets outlining various activities of the Section. Topics included: The "Introduction to the Water Supplies Section", "Introduction to Transient Non-Community Program", "Certification of Public Water System Operators", "An Introduction to Cross Connection Control" and "Introduction to the SWAP". These informational brochures are made available to the public via mailings, DPH initiatives such as the Door-to-Door; Workforce Development forums, school presentations, during sanitary surveys, etc. They are also available to view and/or download on the DPH WSS web-page.

This year, Non-transient Non-Community (NTNC) systems were targeted under the circuit rider contract. These systems historically have problems with scheduling site visits for non-compliance issues due to the fact that they are primarily a business that is typically owner operated, or an organization/church that is volunteer based. Time constraints of the owner with scheduling during daytime work hours was the common problem. Of the 240 NTNCs to be visited, 149 were

completed.

*Council of Small Towns (COST):* The COST was successful in initiating and coordinating 2 quarterly Small Town Public Water System Advisory Committee (STPWAC) meetings and 2 small town PWS conferences. Focus of the meetings centered on issues of system capacity, technical assistance, consolidation/take over proceedings, overview of WSS PPA, how to address both technical and management needs of small PWS owners/operators, and regulatory issues.

*CT Section of the American Water Works Association (AWWA):* Four issues of the Source to TAP Newsletter (Spring 2001, Summer 2001, Fall 2001 and Winter 2001) were developed and mailed to each of CT's small PWSs. This quarterly newsletter reached over 3,600 small PWSs, each of CT's local directors of health, and DPH/WSS staff. The newsletter kept small PWSs informed about small system design, water treatment, distribution, finance, security, new technology regulatory changes, training, educational resources, and technical assistance organizations.

The Public Education Partnership (the Partnership) was new to the Technical Assistance Program (TAP) The Public Education Partnership (the Partnership) was new to the TAP. The Partnership's public-private partnership campaign educated water utility customers and residents of CT about public drinking water related topics. The Partnership goal was to instill in customers a high level of confidence in their water utility, public drinking water supplies and state regulators. Through the Partnership, six high quality public water message television spots were produced and five were aired during WTNH Channel 8 prime-time TV programs. All participating utilities who have a website were listed on and linked with the homepage of WTNH Channel 8, which also

included drinking water fact sheets and other related information.

DEP has contracted out for the inventory of potential pollution threats in Aquifer Protection Areas. The project was completed in January 2002.

The TAP free-technical workshops provided an important opportunity for small PWS operators to learn from group discussions, DPH attendees, and other workshop attendees. One hundred six individuals registered for the four training sessions that were offered.

### Set-Aside Status

The following are the set-aside categories and representative percentages of each federal grant ):

Administration	(4% of Grant)
Small System Technical Assistance	(2% of Grant)
Source Water Assessment / Protection	(10% of Grant – One time only FFY 1997)
Public Water Supply Supervision (PWSS)	(10% of Grant)
Capacity Development	(10% of Grant)
Wellhead Protection	(5% of Grant)

Each year Connecticut has taken the maximum allowable set-aside of 31%. These funds are utilized in the following manner:

## Administration

These funds are used in various aspects of administering the DWSRF. Funds are earmarked for the Departments of: Public Health (DPH), Environmental Protection (DEP), Public Utility Control (DPUC) and the Office of the Treasurer (OTT).

## Small System Technical Assistance

In this category, the major emphasis is to provide assistance to small public water systems of less than 10,000 in population. The DPH has had contact with several organizations which provided: seminars, training sessions, inspections, newsletter and other related activities. The organizations are as follows:

- Connecticut Section of the American Water Works Association
- Atlantic States Rural Water & Wastewater Association
- University of Connecticut – Water borne Disease Center
- Connecticut / Rhode Island Rural Water Association
- Council of Small Towns (COST)

## Source Water Assessment & Protection (SWAP)

Funding for this activity was for Federal Fiscal Year (FFY) 1997. The purpose of the is to “protect public health by preventing contamination of a public water supply”. The SWAP should accomplish the following:

- Delineate Source Water Protection Areas
- Inventory Potential Sources of Contamination

- Perform Susceptibility Analysis (of potential contaminations)

## Public Water Supply Supervision Program (PWSS)

Generally, these funds are used to bolster an existing grant from the Environmental Protection Agency (EPA) to help augment funding of the primacy agency, DPH, to enforce the Safe Drinking Water Act in Connecticut.

## Capacity Development

These funds are intended to help public water systems become and maintain viability, that is, that they have the technical, managerial, and financial capability to operate as a public water system.

## Wellhead Protection Program

These funds are primarily designated to the DEP to determine potential protective measures needed for ground water sources used by public water systems. This program goes hand and glove with the SWAP program.

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

## 2003 Program Initiatives

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

## Short Term Goals

The short-term goals indicated below are:

1. Continue to implement:
  - Effective and efficient fiscal management of DWSRF funds.
  - Routine procedures for entering into project funding agreements with recipients.
  - Plans to improve communication and information connections among State agencies .
  - Procedures for the technical review and approval of DWSRF projects.
  - Responsibilities delineated in the DWSRF Interagency MOU.
  - Routine procedures for monitoring oversight and contract compliance of DWSRF set-aside projects.
2. Utilize a leveraging plan to secure the integrity and perpetuity of the DWSRF while simultaneously meeting loan demands.
3. Study need and mechanism for small systems.
4. Update draft of the DWSRF Standard Operating Procedures (SOP) Manual.
5. Complete the annual review of DWSRF programmatic elements as required by EPA.

The Interagency Committee intends to commit the remainder of the 1999 federal grant funds to projects on the 2003 Priority List

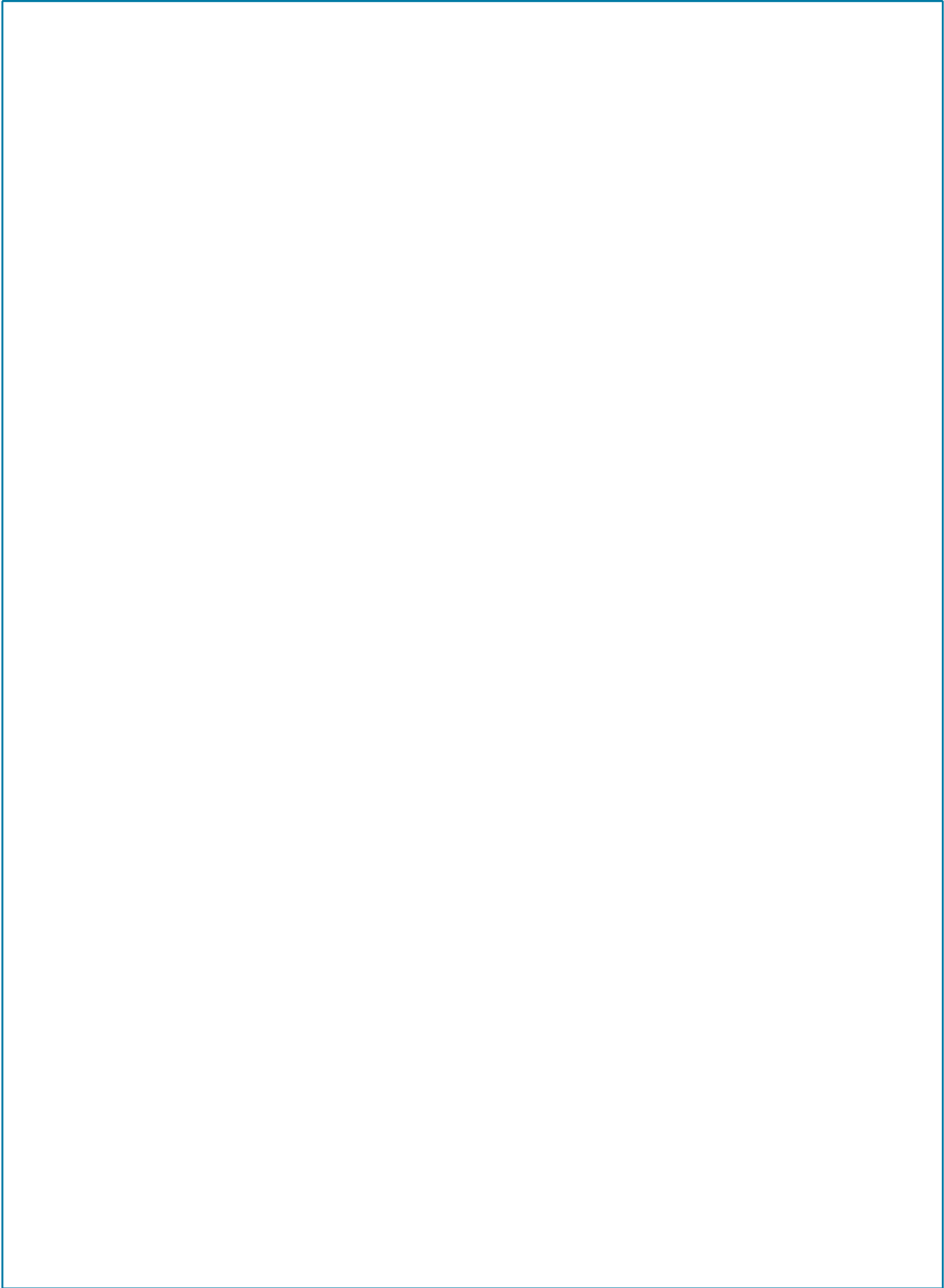
and has already designated 2000 and 2001 project funds.

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

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

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

The Long-Term Projections of Project Funding have not been completed. Connecticut participated in the EPA sponsored 1995 Drinking Water Infrastructure Needs Survey and is currently included in the EPA's federally mandated 1999 National Needs Survey. A new report is expected in 2003. There is significant need throughout the State for funding capital improvements.







# FINANCIAL STATEMENTS

The internally prepared statements for the Fund's State Account are included in this report. The audited statements for Federal Accounts, prepared by Seward & Monde, CPAs are also included in this report.

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

(in thousands)	Fiscal Year Ended June 30, 2002	Fiscal Year Ended June 30, 2001
<b>ASSETS</b>		
Cash and equivalents	-	-
Loans receivable IFO—State	-	
Loans receivable PLO—State	-	-
Interest receivable IFO Loans—State	-	
Cost of Issuance	103	309
<b>Total assets</b>	<b>103</b>	<b>309</b>
<b>FUND BALANCE:</b>		
Prior fund balance	309	2,007
Net Income/(Loss)	(206)	(1,698)
Current fund balance	103	309
<b>Total fund balance</b>	<b>103</b>	<b>309</b>

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

REVENUE:		
Interest on IFO loans-State	0	28
	<hr/>	<hr/>
Interest Income	4	
	4	28
EXPENSES:		
Cost of issuance expense	210	22
	<hr/>	<hr/>
	210	22
Income before Operating transfers	<hr/> (206)	<hr/> 6
Operating transfers:		
Other operating transfers	0	(1,704)
	<hr/>	<hr/>
Total Operating Transfers	<hr/> 0	<hr/> (1,704)
	<hr/>	<hr/>
Net Income after Transfers:	<hr/> (206)	<hr/> (1,698)
<u>Fund Balance</u>		
Beginning of the year	309	2,007
End of the year	103	309

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# AUDITED FINANCIAL STATEMENTS

**STATE OF CONNECTICUT CLEAN WATER FUND -**

**DRINKING WATER FEDERAL REVOLVING**

**LOAN ACCOUNT (STATE REVOLVING FUND)**

**AUDITED FINANCIAL STATEMENTS**

**JUNE 30, 2002 AND 2001**

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The audited statements provided on the following pages have been prepared by the auditors, Seward & Monde, CPAs of North Haven, CT. for the DWSRF as of June 30, 2002. These statements are also available in a separate report dated August 23, 2002 from the auditors.

# SEWARD AND MONDE

CERTIFIED PUBLIC ACCOUNTANTS

296 STATE STREET

NORTH HAVEN, CONNECTICUT 06473

## INDEPENDENT AUDITORS' REPORT

Ms. Denise L. Nappier, Treasurer

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

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

We have audited the balance sheet 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, 2002, and the related statements of revenues, expenses and changes in fund net assets and cash flows for the year then ended. 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 audit. The financial statements of State of Connecticut Clean Water Fund – Drinking Water Federal Revolving Loan Account - SRF as of June 30, 2001, were audited by other auditors whose report dated September 6, 2001, expressed an unqualified opinion on those statements.

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. 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 audit provides a reasonable basis for our opinion.

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, 2002, and the results of its operations and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 2, the SRF adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments* and Governmental Accounting Standards Board Statement No. 38, *Certain Financial Statement Note Disclosures*. This resulted in a change in the format and content of the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 23, 2002 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 grants. That report is an integral part of an audit performed in



accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

## **Seward and Monde**

North Haven, Connecticut  
August 23, 2002

**STATE OF CONNECTICUT  
OFFICE OF THE TREASURER  
STATE OF CONNECTICUT  
DRINKING WATER FUND  
FISCAL YEAR ENDED JUNE 30, 2002**

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Management of the State of Connecticut Drinking Water Fund in the Office of the Treasurer provides this *Management's Discussion and Analysis* of the Drinking Water Fund. This is a narrative overview and analysis of the activities of the State of Connecticut Drinking Water Fund for the fiscal year ended June 30, 2002. We encourage readers to read it in conjunction with the Fund's financial statements that follow.

The Drinking Water Fund has implemented Governmental Accounting Standards Board (GASB) Statement No. 34 during the fiscal year ended June 30, 2002.

**FINANCIAL HIGHLIGHTS**

*Changes in Net Assets* - The Fund net assets under management in the Drinking Water Fund at the close of the fiscal year were \$38.5 million (including assets of \$69.1 million and liabilities of \$30.6 million) compared to \$32.6 million (including assets of \$62.8 million and liabilities of \$ 30.2 million) in fiscal year 2001. The Fund net assets increased by \$5.9 million or 18.1% reflecting a higher number of loans outstanding. The statements also show \$20.8 million in restricted fund net assets which is \$6.6 million or 4.6% above the 2001 balance.

*Statement of Revenues, Expenses and Changes in Fund Net Assets* - Although interest income for both loans and investments grew, the fund experienced operating losses as it implemented its leveraging program and issued bonds at the end of fiscal year 2001. The change in fund net assets after federal capitalization grants and operating transfers was \$5.9 million in 2002 and \$31.0 million in 2001. The 2002 results were considerably lower than 2001 because transfers were made in 2001 to implement the leverage strategy. In addition, the 2002 federal capitalization drawdowns reflected changes in 2002's project drawdowns, as the fund will continue to experience adjustments due to the leverage strategy for the next few years.

*Statement of Cash Flows* - The Statement of Cash Flows shows a positive change in cash for the year of \$45,648.

*Debt Outstanding* - The Fund's total debt remained at \$29.6 million. During the year, the State did not issue bonds for the Fund.

*Loan Receivables* - Total Loans Receivable increased by 43% from \$18.8 million to \$26.8 million as the Fund began to finance its loans with revenue bond proceeds.

*Capitalization Grants* - There were \$7.8 million in new Federal drinking water capitalization grants awarded in fiscal year 2002. During the year, drawdowns were \$6.6 million or about half of the drawdowns of \$13.2 million in fiscal year 2001. At June 30<sup>th</sup>, \$23.3 million of \$51.5 million in cumulative federal drinking water capitalization grant awards have been drawn.

**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 accountable for the detailed financial information of the Fund.

The Drinking Water Fund is part of the Clean Water Fund Revenue Bond Program which is an AAA/Aaa/AAA rated (Standard & Poor's/Moody's Investors Service/FITCH) enterprise fund. The Drinking Water Fund within the Clean Water Fund is included in the activities of the State of Connecticut's Fund Financial Statements. In the State of Connecticut, a fund is a fiscal and accounting entity with a self-balancing set of accounts that the State of Connecticut uses to keep track of specific sources of funding and spending for a particular purpose. The Fund Financial Statements report additional and detailed information about the activities of the Fund (rather than the State as a whole which can be found in the State's Government-wide Financial Statements). The primary focus of these statements is to ensure and demonstrate compliance with finance related laws and regulations and are presented by the State of Connecticut in three categories, Governmental Funds, Proprietary Funds, and Fiduciary Funds.

Proprietary Funds focus on the determination of the change in fund net assets, financial position, and cash flows for governmental activities that operate similar to a commercial enterprise. Proprietary funds use the accrual basis of accounting. The statements consist of enterprise funds, one of which is the State of Connecticut Clean Water Fund including the Drinking Water Fund, and internal service funds.

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

The Balance Sheets include all the assets and liabilities of the Fund using the accrual basis of accounting. There have been no significant changes in our processes, procedures, and recognition of revenue and expenses and valuation of assets because of our compliance with GASB 34.

In the Statements of Revenues, Expenses and Changes in Fund Net Assets we divide the activity of the Fund into two categories: 1. Operating Activities, including the Drinking Water Loan Program; and 2. Nonoperating Activities, including Investment of the Funds and the Revenue Bond Program. For the Drinking Water Loan Program activities, these statements tell how the loans were financed in the short term as well as what remains for future spending. For the investment of the Funds, these statements tell how interest income is generated and

describe the long term structure of our investments. For the Revenue Bond Program activities, these statements tell how the bonds were paid in the short term as well as what remains to be repaid in the future. Fund financial statements also provide information about activities of the Fund as a recipient of federal capitalization grants. Where necessary, interest income and expenses may be allocated between the Clean Water Fund and the Drinking Water Fund.

## *Operating Activities*

### *The Drinking Water Loan Program*

Loan Status Project funding consists of construction loans or interim funding obligations (IFOs) which accrue interest during construction and the long term permanent financing obligations (PLOs) which are signed after the projects are completed. The PLOs have 20 year repayment terms and can be prepaid at any time. There are no state grants available to participants in this program.

Construction loans in progress totaled \$6.7 million representing a decrease of \$6.2 million from 2001, primarily due to cyclical fluctuations in project starts. Completed projects totaled \$20.0 million, \$14.1 million higher than in 2001. There are no delinquent loans in the Drinking Water Loan Program. Further detail about the loans can be found in the notes to the financial statements.

## *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 and to provide reserves as a source of payment for the senior debt obligations issued to fund Loans under the SRF Programs. Federal capitalization grants used to meet the Debt Service Reserve Fund Requirement are held by the Trustee in the form of either (a) cash or (b) permitted investments. State Contributions used to meet the Debt Service Reserve Fund Requirement are held by the Trustee in the form of (a) cash or (b) permitted investments, that may include State general obligation bonds.

The State currently invests a significant portion of the funds and accounts created under the General Bond Resolution in investment agreements with financial institutions. The investment agreements are with, or guaranteed by, institutions with ratings at least equal to the rating on the Bonds given by Standard & Poor's and Moody's Investors Service. Certain monies currently held in the Debt Service Reserve Fund are invested pursuant to investment agreements, collateralized with securities issued or guaranteed by the U.S. Government or agencies or instrumentalities thereof whose market value is at least 100% of the funds invested. Such agreements are subject to early termination upon certain events. In addition, such agreements may be subject to certain other risks, including the bankruptcy or insolvency of the party with which such funds have been invested under such agreements or which has guaranteed such agreements.

### *The Bond Program*

Long-term debt obligations of the Fund consist of special obligations of the State issued as part of the Clean Water Fund Revenue Bonds which are payable from the revenues or monies pledged to the Fund as provided in the State Act. Revenue dedicated bond payments are made from Pledged Receipts. Further detail about outstanding bonds can be found in the notes to the financial statements.

## SUMMARIZED FINANCIAL STATEMENTS

	2002	2001	Increase (Decrease)
<b>Operating Revenues</b>	\$ 624,764	\$ 311,301	\$ 313,463
<b>Federal Capitalization Grants</b>	6,646,489	13,157,330	( 6,510,841)
<b>Interest on Investments</b>	2,094,672	169,236	1,925,436
<b>Operating Expenses</b>	1,540,884	1,190,703	350,181
<b>Interest Expense</b>	1,375,338	114,612	1,260,726
<b>Change in Fund Net Assets</b>	5,892,811	31,017,712	( 25,124,901)

## ECONOMIC CONDITIONS AND OUTLOOK

Fiscal year 2002 began with economic indicators reflecting an overall leveling or temporary cooling in the national and state economy. America now finds itself in the midst of an economic recession exacerbated by the tragedies of September 11<sup>th</sup>. The September attacks and subsequent related events have inflicted economic pain, beyond the human tragedy, that contrasts sharply with the preceding decade of growth and

prosperity. Connecticut has not been immune to these events. The impact of the recession is being widely observed.

The major impact of the economic outlook is the possible slowdown in the initiation and planning of drinking water projects as municipalities may evaluate other choices for the uses of their resources. The Fund will continue to monitor planning activities and will assist municipalities in determining the most effective and cost efficient ways to meet their water quality needs. In addition, DPH, DEP and the Treasurer's Office continue to work with municipalities to plan compliance with federal water quality laws.

### **REQUIRED SUPPLEMENTARY INFORMATION**

The Drinking Water Fund does not separately report required supplementary information that contains budgetary comparison schedules, or schedules presenting infrastructure assets, and required supplementary pension fund information. This information is recorded by the State of Connecticut and as such, compliance with GASB Statement 34 is not applicable.

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

### **CONTACTING THE DRINKING WATER FUND FINANCIAL ADMINISTRATOR IN THE OFFICE OF THE TREASURER**

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

Drinking Water Fund Financial Administrator  
Connecticut State Treasury  
55 Elm Street  
Hartford, CT 06106-1773  
Telephone (860) 702-3134  
[www.state.ct.us/ott](http://www.state.ct.us/ott)

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

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

**STATE OF CONNECTICUT CLEAN WATER FUND -  
DRINKING WATER FEDERAL REVOLVING LOAN ACCOUNT  
(STATE REVOLVING FUND)  
BALANCE SHEETS  
June 30, 2002 and 2001**

	2002	2001
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 59,106	\$ 13,458
Interest receivable - investments	999,576	108,202
Interest receivable - loans	287,936	213,641
Due from other funds	24,775	-
Loans receivable	8,081,678	13,193,748
Total current assets	<u>9,453,071</u>	<u>13,529,049</u>
Noncurrent assets:		
Loans receivable	18,672,996	5,594,160
Restricted assets:		
Loan fund	6,261,027	14,141,641
Debt service reserve fund	16,289,526	16,285,500
Debt service fund	18,383,265	13,284,668
Total restricted assets	<u>40,933,818</u>	<u>43,711,809</u>
Total noncurrent assets	<u>59,606,814</u>	<u>49,305,969</u>
Total assets	<u>\$ 69,059,885</u>	<u>\$ 62,835,018</u>
<b>LIABILITIES</b>		
Current liabilities:		
Interest payable on revenue bonds	\$ 349,593	\$ 116,531
Due to other funds	13,503	-
Deferred interest on investments	24,776	-
Deferred grant revenue	93,809	10,061
Total current liabilities	<u>481,681</u>	<u>126,592</u>
Noncurrent liabilities:		
Premium on revenue bonds	468,337	491,370
Revenue bonds payable	29,614,747	29,614,747
Total noncurrent liabilities	<u>30,083,084</u>	<u>30,106,117</u>
Total liabilities	<u>30,564,765</u>	<u>30,232,709</u>
<b>FUND NET ASSETS</b>		
Unrestricted	17,742,681	18,369,639
Restricted for loans	20,752,439	14,232,670
Total fund net assets	<u>38,495,120</u>	<u>32,602,309</u>
Total liabilities and fund net assets	<u>\$ 69,059,885</u>	<u>\$ 62,835,018</u>
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  
June 30, 2002 and 2001**

	2002	2001
<b>OPERATING REVENUES</b>		
Interest on loans pledged as security for revenue bonds	\$ 624,764	\$ 311,301
<b>OPERATING EXPENSES</b>		
Salaries	760,562	564,204
Employee benefits	321,642	221,508
Other	458,680	404,991
Total operating expenses	1,540,884	1,190,703
Operating loss	( 916,120)	( 879,402)
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest on investments	2,094,672	169,236
Interest expense	( 1,375,338)	( 114,612)
Total nonoperating revenues (expenses)	719,334	54,624
Loss before federal capitalization grants and transfers	( 196,786)	( 824,778)
<b>FEDERAL CAPITALIZATION GRANTS</b>		
Project funds	4,548,958	11,317,425
Set-aside activities	2,097,531	1,839,905
Total federal capitalization grants	6,646,489	13,157,330
<b>OPERATING TRANSFERS</b>	( 556,892)	18,685,160
Change in fund net assets	5,892,811	31,017,712
<b>FUND NET ASSETS, beginning</b>	32,602,309	1,584,597
<b>FUND NET ASSETS, ending</b>	\$ 38,495,120	\$ 32,602,309

See notes to financial statements.

**STATE OF CONNECTICUT CLEAN WATER FUND -  
DRINKING WATER FEDERAL REVOLVING LOAN ACCOUNT  
(STATE REVOLVING FUND)  
STATEMENTS OF CASH FLOWS  
June 30, 2002 and 2001**

	2002	2001
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Interest received on loans pledged as security for revenue bonds	\$ 535,914	\$ 103,104
Loan originations	( 8,466,504)	( 17,510,003)
Principal paid on loans receivable	514,293	257,732
Payments to employees	( 1,082,204)	( 785,712)
Other payments	( 458,680)	( 403,945)
Net cash used by operating activities	( 8,957,181)	( 18,338,824)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Federal capitalization grants	6,730,237	13,166,345
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Proceeds from revenue bonds payable	-	30,108,036
Interest payments on bonds	( 1,165,309)	-
Operating transfers	( 543,389)	18,685,160
Net cash provided (used) by noncapital financing activities	( 1,708,698)	48,793,196
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received on investments	1,203,299	62,080
(Increase) decrease in restricted assets	2,777,991	( 43,669,339)
Net cash provided (used) by investing activities	3,981,290	( 43,607,259)
Net increase in cash and cash equivalents	45,648	13,458
<b>CASH AND CASH EQUIVALENTS, beginning</b>	13,458	-
<b>CASH AND CASH EQUIVALENTS, ending</b>	<b>\$ 59,106</b>	<b>\$ 13,458</b>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Operating loss	(\$ 916,120)	(\$ 879,402)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Changes in assets and liabilities:		
Increase in interest receivable - loans	( 74,295)	( 207,151)
Increase in loans receivable	( 7,966,766)	( 17,252,271)
Net cash used by operating activities	<b>(\$ 8,957,181)</b>	<b>(\$ 18,338,824)</b>

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, 2002 and 2001

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## 1 - NATURE OF ORGANIZATION

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

## 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### Basis of Accounting

The financial statements are prepared using the accrual basis of accounting and the flow of economic resources as specified by the Governmental Accounting Standards Board's (GASB) requirements for an enterprise fund. Under GASB Statement No. 20, *Accounting and Reporting for Proprietary funds and other Governmental Entities that Use Proprietary Fund Accounting*, the SRF has elected to apply all Financial Accounting Standards Board Statements and Interpretations issued on or before November 30, 1989, except those that conflict with or contradict GASB pronouncements.

### Estimates

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

### Operating Revenues and Expenses

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

### Revenue Recognition

Federal capitalization grants are reported as nonoperating revenue and are recognized as federal funds are loaned to public water systems and as the SRF expenditures for administration are made.

## Cash and Cash Equivalents

For purposes of the statements of cash flows, the SRF considers all highly liquid investments with an

original maturity of three months or less to be cash equivalents. However, the SRF's policy is to exclude restricted assets from cash and cash equivalents for purposes of the statements of cash flows due to the limitations imposed on their use by the Clean Water Fund Revenue Bond Program General Bond Resolution, as amended and supplemented and a Series Resolution, adopted by the State Bond Commission on December 15, 2000 (collectively, the "Resolution"). The SRF had no cash equivalents as of June 30, 2002 and 2001, except as reflected in Note 6.

### Investments

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

There were no material investment gains or losses for the years ended June 30, 2002 and 2001.

### Loans, Allowance for Loan Losses and Credit Risk

The SRF makes loans to public water systems in the State of Connecticut to finance the costs of infrastructure needed to achieve or maintain compliance with the SDWA. Interest rates on the loans range from 2.5% to 4.68% and interest income is recognized as it is earned. The loans are secured by the full faith and credit or revenue pledges of the public water systems, or both. No allowance for loan losses is considered necessary based on management's evaluation of the collectibility of the loans. The evaluation takes into consideration such factors as changes in the size of the public water system loans, overall quality, review of specific problem loans, and current economic conditions and trends that may affect the borrowers' ability to pay.

### Restricted Assets

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

### Premium on Revenue Bonds

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

### Revenue Bonds

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

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

#### 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.

### Financial Statement Presentation

During the year ended June 30, 2002, the SRF adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments* and Governmental Accounting Standards Board Statement No. 38, *Certain Financial Statement Note Disclosures*. These statements established new financial reporting requirements for state and local governments, including creating new information and restructuring much of the information that governments have presented in the past.

### Reclassifications

Certain 2001 amounts have been reclassified to conform with the 2002 presentation.

## *3 - CASH DEPOSITS AND INVESTMENTS*

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

### Cash Deposits

For purposes of this disclosure, cash deposits include cash held by the State Comptroller and money market funds which are included in restricted assets. As of June 30, 2002 both the institution balance and carrying amount of the SRF's deposits total \$1,564,874, of which \$1,505,768 is included in restricted assets. For purposes of GASB No. 3, the SRF's deposits of \$1,564,874 are considered Category 1, registered in the SRF's name.

### Investments

Investments consist of State General Obligation Bonds and various investment contracts which for purposes of GASB No. 3 are considered Category 1, registered in the SRF's name.

#### 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:

	2002	2001
Construction in process	\$ 6,737,497	\$ 12,876,580
Completed projects	20,017,177	5,911,328
	<u>\$ 26,754,674</u>	<u>\$ 18,787,908</u>

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

Year ending June 30	
2003	\$ 1,344,181
2004	988,185
2005	995,682
2006	1,003,406
2007	1,011,365
Thereafter	14,674,358
	<u>\$ 20,017,177</u>

#### 5 - FEDERAL LETTER OF CREDIT

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

	2002	2001
Awarded	\$ 51,539,400	\$ 43,750,300
Requested	23,263,784	16,533,548
Available federal letter of credit	<u>\$ 28,275,616</u>	<u>\$ 27,216,752</u>

#### 6 - RESTRICTED ASSETS

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



	2002	2001
Cash equivalents:		
Money market funds	\$ 1,505,768	\$ 417,570
Investments:		
Investment Contracts	36,348,996	40,215,185
State General Obligation Bonds	3,079,054	3,079,054
	\$ 40,933,818	\$ 43,711,809

## 7 - RELATED PARTY TRANSACTIONS

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

### Allocation of Expenditures

Fringe benefit costs which are incurred at the State level are applied as a percentage of salaries to all State governmental units, including the SRF. For the years ended June 30, 2002 and 2001, the basic rates were 42.29% and 39.26%, respectively, of the SRF wages and the amounts charged aggregated \$321,642 and \$221,508, respectively.

### Investments

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

## 8 - BONDS PAYABLE

### Revenue Bonds

The State of Connecticut issued Clean Water Fund, Revenue Bonds 2001 series, dated May 24, 2001. The proceeds of these bonds are to be used to provide funds to make loans to Connecticut municipalities and public water systems, for use in connection with the financing or refinancing of waste water and drinking water treatment projects. These bonds are payable solely from funds pledged pursuant to the Resolution. In accordance with the State of Connecticut ("State") Clean Water Fund Revenue Bonds, 2001 Series Plan of Finance, the State allocated the proceeds between the SRF and the State of Connecticut Clean Water Fund - State Revolving Fund ("Clean Water Fund")

(collectively, "The Obligated Group") with \$29,614,747 allocated to the SRF and \$70,385,253 allocated to the Clean Water Fund. The Clean Water Fund (an enterprise fund of the State of Connecticut) was also established pursuant to Connecticut General Statutes Section 22a-475 to 22a-483, and provides assistance to municipalities and public water systems of Connecticut for the planning, design and construction of water quality projects. Debt service on the 2001 series bonds is to be paid from pledged receipts, earnings on investments held in the debt service reserve funds and maturing principal and interest on investments held in the interest subsidy funds. "Pledged receipts" means payments of principal and interest on municipal obligations, including both timely and delinquent payments with late charges, if any, and includes any fees and charges, fines and penalties collected or held by the State. Pledged receipts include the repayments of loans made by the Obligated Group, including all loans

previously funded as well as future loans. Although amounts attributable to the Obligated Group will be tracked separately for federal reporting purposes, all pledged receipts will secure all bonds of the Clean Water Fund Revenue Bond Program. The State Act and the Resolution permit the pledging of assets of both the SRF and the Clean Water Fund SRF to secure these revenue bonds.

The SRF's revenue bonds payable are serial bonds, of which \$29,614,747 was outstanding as of June 30, 2002 and 2001. The serial bonds mature on October 1, 2022 with interest rates ranging from 4% to 5.5%.

Bond Maturities

Principal payments begin October 1, 2003. Requirements at June 30, 2002 to retire the SRF's revenue bonds are as follows:

Year ending June 30,	Principal	Interest
2003	\$ -	\$ 1,398,371
2004	1,199,397	1,374,383
2005	1,226,051	1,325,874
2006	1,252,704	1,276,299
2007	1,280,838	1,225,628
2008-2012	6,821,757	5,323,174
2013-2017	7,588,779	3,681,487
2018-2022	8,444,645	1,577,854
2023	1,800,576	45,913
	<b>\$ 29,614,747</b>	<b>\$ 17,228,983</b>

## 9 - FUND NET ASSETS

The following represents an analysis of fund net assets for the years ended June 30, 2002 and 2001.

	Unrestricted	Restricted for Loans	Total
Balance at June 30, 2000	\$ 1,584,597	\$ -	\$ 1,584,597
Change in fund net assets	16,785,042	14,232,670	31,017,712
Balance at June 30, 2001	18,369,639	14,232,670	32,602,309
Change in fund net assets	( 626,958)	6,519,769	5,892,811
Balance at June 30, 2002	\$ 17,742,681	\$ 20,752,439	\$ 38,495,120

## 10 - OPERATING TRANSFERS

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

	2002	2001
State operating transfers	\$ 556,892	\$ 2,892,949
Transfers related to bond offerings	-	15,792,211
	\$ 556,892	\$ 18,685,160

## 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:

	2002	2001
Total funds committed to public water systems	\$ 111,840,724	\$ 56,712,493
Loan amount outstanding to public water systems	26,754,674	18,787,908
Loan commitments outstanding	\$ 85,086,050	\$ 37,924,585

## 12 - RISK MANAGEMENT

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

# SEWARD AND MONDE

CERTIFIED PUBLIC ACCOUNTANTS

296 STATE STREET

NORTH HAVEN, CONNECTICUT 06473

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

Ms. Denise L. Nappier, Treasurer

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

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

We have audited the 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, 2002, and have issued our report thereon dated August 23, 2002. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### COMPLIANCE

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

### INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the SRF's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not

necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts

that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

## **Seward and Monde**

North Haven, Connecticut  
August 23, 2002

# SEWARD AND MONDE

CERTIFIED PUBLIC ACCOUNTANTS

296 STATE STREET

NORTH HAVEN, CONNECTICUT 06473

## REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM, ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133, AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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Ms. Denise L. Nappier, Treasurer

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

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

### COMPLIANCE

We have audited the compliance of the State of Connecticut Clean Water Fund - Drinking Water Federal Revolving Loan Account (State Revolving Fund) (SRF) (an enterprise fund of the State of Connecticut) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2002. The SRF's major federal program is identified in the summary of auditors' results section of the accompanying schedule of federal findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the SRF's management. Our responsibility is to express an opinion on the SRF's compliance based on our audit.

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

In our opinion, the SRF complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2002.

### INTERNAL CONTROL OVER COMPLIANCE

The management of the SRF is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the SRF's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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

#### SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

We have audited the financial statements of the SRF as of and for the year ended June 30, 2002, and have issued our report thereon dated August 23, 2002. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

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

## **Seward and Monde**

North Haven, Connecticut  
August 23, 2002

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, 2002

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Federal Grantor: Program Title	Federal CFDA Number	Expenditures
ENVIRONMENTAL PROTECTION AGENCY		
Direct:		
Capitalization Grants for Drinking Water State Revolving Fund	66.468	\$ 6,646,489
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, 2002

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## A - ACCOUNTING BASIS

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

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

## B - MUNICIPAL LOANS

The balance of outstanding loans to public water systems totaled \$26,754,674 as of June 30, 2002.

STATE of CONNECTICUT CLEAN WATER FUND - DRINKING WATER  
FEDERAL REVOLVING LOAN ACCOUNT (STATE REVOLVING FUND)  
SCHEDULE of FEDERAL FINDINGS and QUESTIONED COSTS  
For the year ended June 30, 2002

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SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?  Yes  No  
Reportable condition(s) identified not considered to  
be material weaknesses?  Yes  None reported

Noncompliance material to financial statements noted?  Yes  No

Federal Awards

Internal control over major programs:

Material weakness(es) identified?  Yes  No  
Reportable condition(s) identified not considered to  
be material weaknesses?  Yes  None reported

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

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

Identification of Major Programs:

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

Auditee qualified as low-risk auditee?  Yes  No

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

SECTION II - FINANCIAL STATEMENT FINDINGS

No findings are reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No findings or questioned costs are reported.



# APPENDICES

**Appendix I: State Authorizations & Federal Capitalization Grants**  
As of June 30, 2002

Federal Funding Authorizations				
		Project Funds	Administrative Funds	Total
Federal Funding	FY 97	14,771,658	6,646,542	21,408,200
Federal Funding	FY 98	4,913,697	2,207,603	7,121,300
Federal Funding	FY 99	5,150,022	2,313,778	7,463,800
Federal Funding	FY 00	5,352,330	2,404,670	7,757,000
Federal Funding	FY 01	5,374,479	2,414,621	7,789,100
Federal Funding	FY 02	5,556,225	2,496,275	8,052,500
<b>Total Federal Funding</b>		<b>41,118,411</b>	<b>18,483,489</b>	<b>59,901,900</b>

FEDERAL CAPITALIZATION GRANTS						
	CWF-DWF REVOLVING LOAN ACCOUNT	DRINKING WATER REVOLVING LOANPROGRAM SET-ASIDE	DRINKING WATER REVOLVING LOAN PROGRAM- STATE MANAGE- MENT	DWSRF 2% TECHNICAL ASSISTANCE SET- ASIDE	LOCAL ASSISTANCE SET-ASIDE	TOTAL
	3105-6868-999	0000-4001-991	0000-4001-992	0000-4001-993	0000-4001-994	
1997 AWARD	\$ 14,771,658	\$ 856,328	\$ 2,140,820	\$ 428,164	\$ 3,211,230	\$ 21,408,200
DRAWN THRU 6/30/02	\$ 14,771,658	\$ 856,328	\$ 2,027,953	\$ 428,164	\$ 1,521,622	\$ 19,605,725
BALANCE	\$ -	\$ -	\$ 112,867	\$ -	\$ 1,689,608	\$ 1,802,475
1998 AWARD	\$ 4,913,697	\$ 284,852	\$ 712,130	\$ 142,426	\$ 1,068,195	\$ 7,121,300
DRAWN THRU 6/30/02	\$ 2,644,388	\$ 284,852	\$ -	\$ 142,426	\$ -	\$ 3,071,666
<b>BALANCE</b>	<b>\$ 2,269,309</b>	<b>\$ -</b>	<b>\$ 712,130</b>	<b>\$ -</b>	<b>\$ 1,068,195</b>	<b>\$ 4,049,634</b>
1999 AWARD	\$ 5,150,022	\$ 298,552	\$ 746,380	\$ 149,276	\$ 1,119,570	\$ 7,121,300
DRAWN THRU 6/30/02	\$ -	\$ 298,552	\$ -	\$ 149,276	\$ -	\$ 447,828
<b>BALANCE</b>	<b>\$ 5,150,022</b>	<b>\$ -</b>	<b>\$ 746,380</b>	<b>\$ -</b>	<b>\$ 1,119,570</b>	<b>\$ 6,673,472</b>
2000 AWARD	\$ 5,352,330	\$ 310,280	\$ 775,700	\$ 155,140	\$ 1,163,550	\$ 7,757,000
DRAWN THRU 6/30/02	\$ -	\$ 89,656	\$ -	\$ 48,909	\$ -	\$ 138,565
<b>BALANCE</b>	<b>\$ 5,352,330</b>	<b>\$ 220,624</b>	<b>\$ 775,700</b>	<b>\$ 106,231</b>	<b>\$ 1,163,550</b>	<b>\$ 7,618,435</b>
2001 AWARD	\$ 5,374,479	\$ 311,564	\$ 778,910	\$ 155,782	\$ 1,168,365	\$ 7,789,100
DRAWN THRU 6/30/02	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
BALANCE	\$ 5,374,479	\$ 311,564	\$ 778,910	\$ 155,782	\$ 1,168,365	\$ 7,789,100
TOTAL AWARD TO DATE	\$ 35,562,186	\$ 2,061,576	\$ 5,153,940	\$ 1,030,788	\$ 7,730,910	\$ 51,196,900
DRAWN THRU 6/30/02	\$ 17,416,046	\$ 1,529,388	\$ 2,027,953	\$ 768,775	\$ 1,521,622	\$ 23,263,784
TOTAL BALANCE	\$ 18,146,140	\$ 532,188	\$ 3,125,987	\$ 262,013	\$ 6,209,288	\$ 27,933,116

## Appendix II: Credit Quality— Financial Assistance by Bond Rating

Borrower	A & above	Not Rated	Total Loans
<b>PUBLIC</b>			
City of Groton DPUCI	550,000.00		550,000.00
Metropolitan District Commission	36,070,042.34		36,070,042.34
City of Meriden	4,370,000.00		4,370,000.00
City of New Britain	36,682,987.00		36,682,987.00
Newtown High School	516,000.00		516,000.00
Norwalk W.D.	15,000,000.00		15,000,000.00
Norwich Water Company	2,737,000.00		2,737,000.00
Town of Portland	2,225,716.61		2,225,716.61
Town of Sharon: Sewer & Water Comm	2,759,150.91		2,759,150.91
Southington W.D.	5,820,000.00		5,820,000.00
Unionville Water	1,800,000.00		1,800,000.00
Watertown Fire District	1,385,500.00		1,385,500.00
<b>PRIVATE</b>			
Bridgeport Hydraulic Company (BHC)		391,038.00	391,038.00
Cook Willow Realty		662,719.07	662,719.07
Crystal Lake Condominium Assoc.		309,935.74	309,935.74
Harrybrooke Park Condominium Assoc.		207,946.33	207,946.33
Hillside Water Corporation*		170,000.00	170,000.00
Twin Hill		182,687.73	182,687.73
<b>Totals</b>	<b>109,916,396.86</b>	<b>1,924,326.87</b>	<b>111,840,723.73</b>
Percent of Totals	98.28%	1.72%	100%

## APPENDIX III: Funded Loan Listing Fiscal Year 2002

Closing Date	Borrower	Project No.	SCD	IFO	IFO Amount
<b>PUBLIC</b>					
	New Britain	9802-C	11/30/02	IFO	24,000,000.
<b>PRIVATE</b>					
	Hillside Water	9701-C	02/28/02	PLO	170,000

### New Britain

Funding for New Britain is being used for the construction of a new water treatment plant, which would replace existing older facilities. The existing water filtrations plants were built in 1940 and 1960 respectively. The new plant would ensure the city would comply with all state & federal drinking water regulations, not only as they exist now, but also well into the future as these standards become even more stringent. The project will also improve operating efficiencies by using state-of-the-art treatment practices.

The new water treatment plant is designed for an average day flow rate of 14.3 million gallons (MG) and a maximum day flow of 22 MG. Treated water will be pumped from the plant to a new 4.25 MG clearwell. From the clearwell, water will flow by gravity, into the distribution system. All plant process equipment, pumps and storage will have complete redundancy back-up. Emergency power will be provided to run the entire facility. Once completed in mid 2004, the old treatment plants will be placed off-line and demolished.

The amount of DWSRF loans to date is \$12,682,987 (Phase I) and \$24,000,000. (Phase II).

### Hillside Water Company

The intent of this project is to replace a 60-year old water main and distribution system with a new system to provide better water quality and quantity to all homes served by the public water system.

The impact of the project would be improved drinking water quality by eliminating iron and other mineral clogged pipes. The water quantity and pressure at the service lines would be greatly improved. Preventing the systems storage tanks from being drained down by unexpected distribution pipe failure would safeguard the overall performance of the system.

The amount of the DWSRF Loan is \$170,000. The project will be completed by December 2002.

## APPENDIX IV: Pending Projects

BORROWER	LOCATION	COST	STATUS
Sharon Sewer & Water	Sharon	\$655,000	2001 Funding
Newtown High School	Newtown	\$516,000	2002 Funding
Metropolitian District Commission(x)	Farmington	\$2,343,735	2001 Funding
City of Groton	Groton	\$550,000	2001 Funding
Unionville Water Company	Unionville	\$1,800,000	1997 Funding
		TOTAL	\$5,864,735

### Proposed Eligible Projects Potentially to be Funded in FY 2003

APPLICANT	LOCATION	ANTICIPATED LOAN AMOUNT
<b>PUBLIC</b>		
Metropolitan District Commission	Glastonbury	\$175,000
Metropolitan District Commission	Windsor	\$450,000
Southington Water Department	Southington	\$5,304,500
Second Taxing District—Norwalk Water	Norwalk	\$15,000,000 (partial)
Metropolitan District Commission	Bloomfield	\$600,000
Metropolitan District Commission	Glastonbury	\$500,000
Metropolitan District Commission	West Hartford	\$2,450,000
Southington Water Department	Southington	\$515,000
Metropolitan District Commission	Bloomfield	\$5,000,000
Metropolitan District Commission	Bloomfield	\$2,000,000
Metropolitan District Commission		\$2,882,000
Metropolitan District Commission		\$5,000,000
Metropolitan District Commission	<b>Htfd., Blmfld., Wndsr</b>	\$1,150,000
Metropolitan District Commission	Portland	\$500,000
Metropolitan District Commission	West Hartford	\$2,425,000
Metropolitan District Commission		\$1,350,000
Metropolitan District Commission		\$550,000
Watertown Fire District	Watertown	\$435,500
Metropolitan District Commission	Htfd., Blmfld., Wndsr.	\$1,949,000
Metropolitan District Commission	W Hartford, Farmington	\$2,500,000
Metropolitan District Commission	West Hartford.	\$587,500
Metropolitan District Commission		\$950,000
Metropolitan District Commission		\$275,000
Metropolitan District Commission		\$287,730
Metropolitan District Commission	West Hartford.	\$287,500
City of Meriden	Meriden.	\$70,000
City of Meriden	Meriden.	\$500,000
City of Meriden	Meriden	\$1,000,000
City of Meriden	Meriden	\$2,500,000
City of Meriden	Meriden	\$200,000
City of Meriden	Meriden	\$100,000
	<b>TOTAL</b>	<b>\$57,494,230</b>
PRIVATE N/A		



## Appendix V: DWSRF Priority Ranking List for FFY 2003

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

## APPENDIX VI: Application Process

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

- Evaluation and Enforcement (DPH): The proposed project must address the needs cited by the Department and comply with regulatory and statutory requirements for the project.
- Project Administration (DEP): All project costs included in the application must be eligible for funding in accordance with State and Federal Regulations.
- Environmental Review (DPH): Based on information received from the borrowers, DPH prepares an environmental assessment of all activities to be undertaken in order to insure that the project is consistent with the State Plan of Conservation and Development. The assessment report is submitted to the Physical Resource Planning Section of OPM for final concurrence.
- Credit Review (Treasurer's Office, DPUC and the Interagency Committee): The applicant must be creditworthy, and the DWSRF underwriting standards must be met. The Treasurer's office reviews the financial information submitted with each application. The Interagency Committee determines whether, and on what general terms and conditions, financial assistance will be provided. The loan agreements are written to permit eventual financing through a revenue bonding program.

At each level of approval, modifications can be made to address any concerns. Upon

receipt of the signed commitment letter from the borrower, the State Bond Commission approves the project funding. Once all approvals are in place and after completion of an overall review of the Project Loan Agreement and the other loan documents, a closing is scheduled with the Treasurer's Office. The Project Loan Agreement is then executed and signed first by the borrower, then by the DPH Commissioner and the DEP Commissioner. The State Attorney General also reviews and signs the documents.

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

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

## Appendix VII: Summary of Project Grant and Loan Agreements

In accordance with the State's Clean Water Fund and Drinking Water program, as required by the Connecticut General Statutes 22a-475-483, the mechanism by which financial assistance is provided to the municipality is the Project Loan Agreement, between the municipality and the State. Under each loan agreement, the State agrees to make loans for eligible project costs incurred by the Municipality, upon the terms and in the maximum amount specified. Funds are disbursed to a municipality to pay eligible Project costs which have been incurred by the municipality, and the amount of a Municipality loan is equal only to the aggregate of such disbursed amounts. Thus the municipality is obligated to repay only that amount which it actually draws down for the payment of project costs.

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

Each loan is secured by a municipal obligation for which each municipality pledges its full faith and credit and/or a dedicated source of revenue. In 1996, the first loan agreement secured only with a dedicated source of revenue was closed.

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

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

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

### **1. Loan Provisions**

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

### **2. The Project**

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

### **3. Compliance with Law [Section 6.8]**

### **4. Tax Compliance [Section 7.7]**

### **5. Modifications and Amendments [Section 10.10]**

## Appendix VIII: Summary of the General Bond Resolution

### Sections

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

## Appendix IX: Drinking Water Fund Accounts with Trustee

### Investment of Funds

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

The State currently invests a significant portion of the funds and accounts created under the General Bond Resolution in investment agreements with financial institutions. The General Bond Resolution requires that such investment agreements be with, or be guaranteed by, institutions with ratings at least equal to the rating on the Bonds given by Standard & Poor's and Moody's Investor Service or any rating service recognized by the State banking commissioner, provided that such institutions will have a rating from Standard & Poor's and Moody's Investors Service at least equal to the rating on the Bonds.

Certain funds currently held in the Debt Service Reserve Fund are invested pursuant to investment agreements, collateralized with securities issued or guaranteed by the U.S. Government or agencies or instrumentalities thereof whose market value is at least 100% of the funds invested.

Currently the Fund has guaranteed investment contracts with the following entities: AIG, Societe Generale, CDC Funding Group, and Trinity Plus Corp

## Appendix IX: Drinking Water Fund Accounts with Trustee

In June 2001, the State implemented its leveraged financing strategy for the Drinking Water Program. Proceeds from a Clean Water Fund revenue bond provided funding for Drinking Water Fund municipal projects. Information on the bonds, the General Resolution under which the bonds are issued and the accounts and investment of the Fund are provided in the audited financial statements. The major funds created under the General Bond Resolution:

**Revenue Fund.** The Trustee deposits all pledged loan repayments into the Pledged Receipts Account. The Revenue Fund also includes an Earnings Account, Rebate Fund, Federal Letter of Credit and Undesignated Accounts. The Trustee deposits all earnings on funds and investments (except for earnings on amounts held within the Debt Service Reserve Fund) into the Earnings Account. Upon deposit, amounts in the Pledged Receipts Account and the Earnings Account are immediately transferred to the Debt Service Fund for the payment of principal of and interest on the Bonds to the extent required to meet the Debt Service payments due from January 2 through the next succeeding January 1. The order of priority is as follows:

1. first to the Interest Account for the payment of interest,
2. then to the Principal Account for the payment of principal and Sinking Fund Installments, if any.

Then to the extent funds in the Pledged Receipts Account are available therefore they will be transferred to the Debt Service Reserve Fund in the amount necessary to restore the Debt Service Reserve Fund to the Debt Service Reserve Fund Requirement.

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

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

**Debt Service Fund.** Amounts on deposit in the Debt Service Fund will be used for the payment of debt service on the Bonds when due. Earnings on amounts in the Federal Letter of Credit and Undesignated Accounts are deposited into the Debt Service Fund Earnings Account and applied to pay Debt Service on the Bonds prior to the application of other Pledged Receipts and revenues for such purpose. Whenever the funds in the Debt Service Fund are insufficient to pay the interest and principal on outstanding bonds, the Trustee will apply amounts from the following Funds to the extent necessary to make good the deficiency in the following order of priority:

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

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

**Debt Service Reserve Fund (DSRF).** The DSRF is required to be funded in an amount equal to 50% of all Outstanding Bonds. The State chose to fund the DSRF with:

1. federal capitalization grant payments made pursuant to federal capitalization grant agreements,
2. State general obligation bonds and,
3. other amounts provided by the State and received by the Trustee for deposit therein .

Another account, the Interest Subsidy Fund has been established outside of the SRF for only the Clean Water portion of the program, and will be funded in an amount equal to the aggregate debt service payable on Outstanding Bonds minus (a) earnings on investments held in the Debt Service Reserve Fund, (b) repayments of Municipal Obligations, (c) amounts on deposit in the Revenue Fund at the beginning of the applicable period, (d) earnings on certain funds or on such amounts expected to be transferred or received during the applicable period and (e) earnings on the Drinking Water portion of the Debt Service Reserve. Funds in the Interest Subsidy Fund will be used to pay the interest, principal, and Sinking Fund Installments due on Bonds, as provided in the General Bond Resolution. The Interest Subsidy Fund will be funded from maturing principal and interest on state general obligation bonds held in such fund.

**Appendix X: Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2002**

***DEBT SERVICE SCHEDULE FOR THE REVENUE BONDS***

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

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

***NOTES TO THE FINANCIAL STATEMENTS: STATE ACCOUNT***

These are the internally prepared statements for the state account.

## Appendix XI Cumulative Projects Funded by the Drinking Water Fund As of June 30, 2002

APPLICANT	ID #	TOWN	DESCRIPTION	FEDERAL FUNDS	STATE FUNDS	LOAN AMOUNT
BRIDGEPORT HYDRAULIC COMPANY	PDC971350011a	STAMFORD	UPGRADING VINE ROAD PUMP STATION	\$391,038		\$391,038
COOK WILLOW REALTY	DC971110111a	PLYMOUTH	INTERCONNECT WITH CONNECTICUT WATER COMPANY	\$705,332		\$705,332
CRYSTAL LAKE CONDOMINIUM ASSOCIATION	C97121002131a	SALEM	CONSTRUCT NEW WATER SYSTEM	\$325,000		\$325,000
HARRYBROOKE PARK CONDOMINIUM ASSOCIATION	PDC970960131	NEW MILFORD	INTERCONNECT WITH UNITED WATER COMPANY	\$300,000		\$300,000
METROPOLITAN DISTRICT COMMISSION (a)	DC970640011a	BLOOMFIELD	NUMEROUS IMPROVEMENTS	\$2,093,000		\$2,093,000
METROPOLITAN DISTRICT COMMISSION (b)	DC970640011b	WEST HARTFORD	SYSTEM REPAIRS & UPGRADES	\$3,996,250		\$3,996,250
METROPOLITAN DISTRICT COMMISSION (c)	DC970640011c	BLOOMFIELD, HARTFORD, WEST HARTFORD	WATER MAIN REPLACEMENT	\$2,038,000		\$2,038,000
CITY OF NEW BRITAIN	PDC980890011a	NEW BRITAIN	NEW WATER TREATMENT PLANT – PHASE I	\$10,865,967	\$1,817,020	\$12,682,987
NORWICH WATER COMPANY	DC971040011a	NORWICH	REPLACE ASBESTOS PIPE WITH DUCTILE IRON PIPE	\$955,360	\$1,781,640	\$2,737,000
TOWN OF PORTLAND	DC971130011	PORTLAND	INTERCONNECT WITH METROPOLITAN DISTRICT COMMISSION (a)	\$2,500,000		\$2,500,000
TOWN OF SHARON: SEWER & WATER COMMISSION (a)	DC971250011a	SHARON	PUMP STATION	\$210,000		\$210,000
TOWN OF SHARON: SEWER & WATER COMMISSION (b)	DC971250011b	SHARON	INTAKE & PIPELINE UPGRADE, WATER FILTRATION TREATMENT PLANT, STORAGE TANK		\$1,100,000	\$1,100,000
TOWN OF SHARON: SEWER & WATER COMMISSION (a98)	C981250011a	SHARON	WATER MAIN REPLACEMENT (REFINANCE)	\$1,084,010		\$1,084,010
TWIN HILLS TAXING DISTRICT	C970320061a	COVENTRY	DISTRIBUTION & SOURCE IMPROVEMENTS	\$223,500		\$223,500
WATERTOWN FIRE DISTRICT	DC981530011a	WATERTOWN	NEW DISTRIBUTION PUMP STATION	\$950,000		\$950,000
City of NEW BRITAIN	POC980890011a	NEW BRITAIN	NEW WATER TREATMENT PLANT—PHASE II	24,000,000		24,000,000
HILLSIDE WATER CORPORATION	POC000790021a	Marlborough	WATER MAIN & DISTRIBUTION IMPROVEMENTS	170,000		170,000
CUMULATIVE TOTALS			Totals	\$47,758,557	\$7,198,660	\$54,957,217



This report is submitted to supplement the information in the State of Connecticut Drinking Water Fund EPA SRF Annual Report for the fiscal year ended June 30, 2002. The information in this supplement concerns only the State Drinking Water Fund Federal account which has been designated the State Revolving Fund (SRF). This account includes the federal capitalization grant and the required state match in compliance with federal statutes.

### *Financial Ratio Analysis Federal Account*

Using the final EPA Guidance relating to the Financial Assessment of the State Revolving Fund (SRF) Program, management of the Drinking Water Fund performed a ratio analysis for the fiscal years ending June 30, 2001 and 2002. The results are detailed on the attached worksheet. Of note are the following:

The Fund shows more than sufficient liquidity as the current ratio remained strong.

With regard to the quality of the Drinking Water Fund assets, as of June 30, 2002, the Drinking Water Fund federal account had assets totaling \$69.1 million composed mainly of loans receivable, investments held in the debt service reserve fund, the debt service fund and the loan fund.

There was a 43x increase in loans outstanding over 2001, as a result of implementing the leveraging strategy and issuing bonds in 2001.

Total fund net assets was \$38.5 million of which \$20.8 million was restricted for loans.

Liabilities totaled \$30.56 million primarily representing outstanding revenue bonds.

The Fund has a consistently strong capitalization with asset to liability ratio of 1.04 in 2001 and 1.0 in 2002. Total fund balance increased to 2x cumulative capitalization grants reflecting and the use of bond proceeds to finance loans. .



**Appendix XII (Continued)  
Supplement to the EPA SRF Annual Report  
For the Fiscal Year Ended June 30, 2002**

FINANCIAL RATIO ANALYSIS	PREPARED FOR FEDERAL EPA			
	FY 1999	FY 2000	FY 2001	FY 2002
<b>(1) CURRENT RATIO:</b>				
<b>Current Assets:</b>				
Cash & Equivalents	\$0	\$0	\$13,458	\$59,106
Int/recvable Investments	\$0	\$0	\$108,202	\$999,576
Due from other state fund	\$3,041	\$10,501	\$0	\$24,775
Grant Receivable	\$0	\$0	\$0	\$0
Loans Receivable current portion	\$0	\$1,535,637	\$17,252,271	\$8,081,678
Loan Fund	\$0	\$0	\$14,141,641	\$18,672,996
Debt Service Fund	\$0	\$0	\$13,284,668	\$18,383,265
Free-up from reserve fund	\$0	\$0	\$0	\$0
<b>Total Current Assets</b>	<b>\$3,041</b>	<b>\$1,546,138</b>	<b>\$44,800,240</b>	<b>\$46,221,396</b>
<b>Current Liabilities:</b>				
Revenue bond interest payable	\$0	\$0	\$116,531	\$349,593
Due to other state fund	\$0	\$0	\$0	\$13,503
Deferred grant revenue	\$3,041	\$10,501	\$10,061	\$93,809
Revenue bonds payable(current)	\$0	\$0	\$0	\$0
<b>Total Current Liabilities</b>	<b>\$3,041</b>	<b>\$10,501</b>	<b>\$126,592</b>	<b>\$456,905</b>
CA/CL	0	147.24%	353.89%	101.2%
<b>(2) ASSET/LIABILITY RATIO</b>				
<b>Long term assets:</b>				
Interest Receivable	\$0	\$6,490	\$213,641	\$287,936
Loans recble-less current portion	\$0	\$0	\$1,535,637	\$10,591,318
Reserve fund(less free-up)	\$0	\$0	\$16,285,500	\$16,285,500
<b>Short term assets convertible:</b>				
Federal Cap grant	\$682,776	\$2,683,387	\$13,156,284	\$6,646,489
<b>Total</b>	<b>\$682,776</b>	<b>\$2,689,877</b>	<b>\$31,191,062</b>	<b>\$33,811,243</b>
<b>Long Term Debt:</b>				
Rev bonds pyble-less current portion	\$0	\$0	\$29,614,747	\$29,614,747
Deferred grant revenue	\$3,041	\$10,501	\$10,061	\$93,809
Premium on revenue bonds	\$0	\$0	\$491,370	\$468,337
<b>Total</b>	<b>\$3,041</b>	<b>\$10,501</b>	<b>\$30,116,178</b>	<b>\$30,176,893</b>
A/L	224.52%	256.15%	1.04%	1.04%
<b>(3) EQUITY GROWTH</b>				
Capitilization Grants	\$21,408,200	\$35,993,300	\$43,750,300	\$51,539,400
State Match Contribution	\$0	\$1,984,002	\$2,573,420	\$2,573,420
Overmatch Contribution	\$0	\$0	\$7,824,580	\$7,824,580
Net Fund Assets	\$0	\$1,584,597	\$32,602,309	\$38,495,120
<b>Total Equity</b>	<b>\$21,408,200</b>	<b>\$39,561,899</b>	<b>\$86,750,609</b>	<b>\$100,432,520</b>
Equity/Cap grant	1.00%	1.10%	1.98%	1.95%
<b>(4) BINDING COMMITMENT</b>				
Binding Cmtments or closings	\$0	\$1,535,637	\$18,787,908	\$54,957,217
Cap Grants	\$21,408,200	\$35,993,300	\$43,750,300	\$51,539,400
Binding Commitment Ratio	0.00%	4%	43%	106.6%
<b>(5) PROJECT COMPLETION</b>				
Projects Completion	\$0	\$1,059,472	\$5,911,328	\$20,017,177
Cap Grants	\$21,408,200	\$35,993,300	\$43,750,300	\$51,539,400
Project Completion Ratio	0.00%	3%	14%	38.8%
<b>(6) DEFAULT RATIOS</b>				
There have been no defaults				
<b>(7) QUALITY OF INVESTMENTS</b>				
Total Loans	\$0	\$1,535,637	\$18,787,908	\$26,754,674
Total Assets	\$3,041	\$1,595,098	\$62,835,018	\$69,059,885
TL/TA	0.00%	96%	30%	38.7%

