

**STATE OF CONNECTICUT CLEAN WATER FUND -
WATER POLLUTION CONTROL AUTHORITY FEDERAL
REVOLVING LOAN ACCOUNT (STATE REVOLVING FUND)**

**AUDIT REPORTS AND SCHEDULES IN
ACCORDANCE WITH THE UNIFORM GUIDANCE**

June 30, 2020 and 2019

**STATE OF CONNECTICUT CLEAN WATER FUND -
WATER POLLUTION CONTROL AUTHORITY FEDERAL
REVOLVING LOAN ACCOUNT (STATE REVOLVING FUND)
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SEWARD AND MONDE

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INDEPENDENT AUDITORS' REPORT

Mr. Shawn T. Wooden, Treasurer

Ms. Katie Dykes, Commissioner,
Department of Energy and Environmental Protection,
State of Connecticut

Report on the Financial Statements

We have audited the accompanying financial statements of the State of Connecticut Clean Water Fund - Water Pollution Control Authority Federal Revolving Loan Account (State Revolving Fund) (SRF) (an enterprise fund of the State of Connecticut) as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 - Water Pollution Control Authority Federal Revolving Loan Account as of June 30, 2020 and 2019, and the changes in financial position and cash flows thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

Emphasis of a Matter

As discussed in Note 1, the financial statements present only the financial position of the State of Connecticut Clean Water Fund - Water Pollution Control Authority Federal Revolving Loan Account and do not purport to, and do not, present fairly the financial position of the State of Connecticut, as of June 30, 2020 and 2019, the changes in its financial position, or its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 4 - 9 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements of the State of Connecticut Clean Water Fund - Water Pollution Control Authority Federal Revolving Loan Account. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2020 on our consideration of the State of Connecticut Clean Water Fund - Water Pollution Control Authority Federal Revolving Loan Account's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the SRF's internal control over financial reporting and compliance.

Seward and Monde

North Haven, Connecticut
September 10, 2020

**OFFICE OF THE TREASURER
STATE OF CONNECTICUT
CLEAN WATER FUND
FISCAL YEAR ENDED JUNE 30, 2020
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The Management Discussion and Analysis (MD&A) of the State of Connecticut Clean Water Fund - Water Pollution Control Authority Federal Revolving Loan Account (State Revolving Fund) (SRF) provides an introduction to the major activities affecting the operation of the SRF and is a narrative overview of the financial performance for the fiscal year ended June 30, 2020. The information contained in this discussion should be considered in conjunction with the Fund's basic financial statements and the notes thereto.

Financial Highlights

The Fund's net position at the close of fiscal year 2020 was \$832.1 million with total assets of \$1,853.9 million plus deferred outflows of \$5.9 million offset by liabilities of \$1,027.7 million. Compared to the fiscal year 2019 net position of \$809.4 million, the fund increased by \$22.7 million, or 2.8%. The major factor influencing the increase was an increase in loans receivable of \$25.9 million. The increase in the Revolving Fund of \$149.4 million was used to fund project loan amounts thereby increasing the loans receivable as bond proceeds from the 2019 bond sale have been fully expended and continuation of funding project loan payments has been done through the Revolving Fund. At the closing of the 2019 bond sale the funds transferred from the Revolving Fund have been returned.

Restricted assets include assets that have been restricted in use in accordance with the terms of an award, agreement or by state law. The majority of the assets are invested and portions are restricted in accordance with the requirements of state statutes and the federal Clean Water Act. Restricted assets represent the amount of assets which relate to the federal capitalization grants and associated state match. Unrestricted assets include all assets not restricted and available for any program purpose.

The Fund's net revenue before federal capitalization grants and transfers decreased to a negative \$2.7 million after showing a gain in FY 2019 of \$3.5 million. The net loss of \$6.2 million is higher due to increased interest expense.

Overview of the Financial Statements

The Clean Water Fund financial statements are reported by the Office of the Treasurer in conjunction with the Department of Energy and Environmental Protection (DEEP). The Treasurer is responsible for reporting the detailed financial information in the Clean Water Fund financial statements. The Clean Water Fund is classified as an Enterprise Fund within the Proprietary Funds of the State of Connecticut. Proprietary funds focus on the determination of the change in the statement of net position, change in financial position, and cash flows for governmental activities that operate similar to a commercial enterprise. Proprietary funds use the accrual basis of accounting.

The loan program activities shown on the financial statements indicate the amount of loans financed and the amount of repayments collected during the past year. Fund financial statements also provide information about activities of the Fund as a recipient of federal capitalization grants and state matching funds. The amount of capitalization grants remaining for future use is disclosed in the Notes to the Financial Statements.

The Revenue Bond Program is the leveraged financing strategy implemented by the Connecticut SRF that maximizes the financing capacity of the respective federal capitalization grants, the required 20% state match for these grants and the Fund's assets. Based on this strategy, the Connecticut SRF issues revenue bonds and uses the proceeds to provide financing for Clean Water and Drinking Water projects. Where necessary, due to the issuance of bonds and investment activities for both the Clean Water Fund and Drinking Water Fund, bond proceeds, interest income and expenses may be allocated between the Clean Water Fund and the Drinking Water Fund. For the Revenue Bond Program activities, the financial statements indicate the amount of the bonds issued and retired, and the remaining amount of bonds to be repaid in the future.

The financial statements indicate the amount of interest income generated by the investment of funds and describe the structure of the investments.

Since 2001, the proceeds of the Connecticut SRF bonds have been used for both clean water and drinking water projects. All of the currently outstanding bonds were issued under the 2002 general bond resolution as further described in the Notes to the Financial Statements. All of the accounts established under the 2002 general bond resolution, whether restricted or unrestricted, are held by US Bank (the Trustee), as further described in the Notes to the Financial Statements.

Operating Activities

The Wastewater Loan Program

Loans are made to municipalities for project funding and consist of construction loans or interim funding obligations (IFOs) which accrue interest during construction and long-term permanent loan obligations (PLOs) which are initiated after project completion. The PLOs have 20 year repayment terms and can be prepaid at any time without penalty. There are several state grants available to participants in this program.

During fiscal year 2020, payments to municipalities for ongoing projects totaled \$132.7 million. Completed projects which were permanently financed during the year totaled \$77.6 million while new construction loan commitments totaled \$180.6 million.

Further details about the loans can be found in the Notes to the Financial Statements.

Loan repayment collection services are provided by the Trustee, US Bank. Repayments on the loans made by the DEEP since 1987 are paid to the Clean Water Fund account held at US Bank. These funds provide security for the Bonds and any new Bonds issued thereafter.

Non-Operating Activities

Investment of Funds

The federal capitalization grants and the state matching funds are used to provide leveraged financing for eligible projects in the state. All other state contributions that are held by the Trustee are used as they are deposited for program purposes. The federal capitalization grants, the state matching funds and all other state contributions are deposited into the State Revolving Fund accounts held by the Trustee in the form of either cash or permitted investments.

The State currently invests in the State's Short Term Investment Fund (STIF) and in guaranteed investment agreements with financial institutions. Certain monies currently held in the Fund are invested pursuant to investment agreements with providers which are collateralized with securities issued or guaranteed by the U.S. Government or agencies or instrumentalities whose market value is at least 100% of the funds invested.

The Bond Program

The Connecticut SRF has issued long-term debt obligations backed by the pledge of specific assets including loans, reserve funds and other program assets. Pursuant to the 2002 bond resolution and the State Act, the long-term debt obligations of the Fund are special obligations of the State which are payable only from the revenues or monies available in the Fund. Currently, bonds are outstanding under the 2002 General Revenue Bond Resolution, the latest of three resolutions used for Connecticut SRF bond issues since 1991. Proceeds are used for program purposes including the funding of loans to Clean Water Fund borrowers. Further information about outstanding bonds can be found in the Notes to the Financial Statements.

The program's advisors are:

Bond Counsel - Hardwick Law Firm, LLC

Financial Advisors - Sycamore Advisors

Financial Advisors - Hilltop Securities

Trustee - US Bank

Loan Repayment Collection Services - US Bank

Verification Agent - AMTEC

Arbitrage Rebate Calculation Services - AMTEC

Auditor - Seward & Monde CPAs

General Counsel - Attorney General of the State of Connecticut

Credit Ratings

The Connecticut SRF is the recipient of credit ratings from three nationally recognized credit rating agencies as follows: AAA from Standard and Poor's, AAA from Fitch Investors Services and Aaa from Moody's Investor Services.

SELECTED FINANCIAL INFORMATION

	2020	2019	Increase/ (Decrease)
Total Net Position	\$ 832,083,520	\$ 809,370,950	\$ 22,712,570
Total Loans Outstanding	\$ 1,243,827,125	\$ 1,217,931,467	\$ 25,895,658
Bonds Payable	\$ 883,775,966	\$ 744,424,383	\$ 139,351,583
Interest Expense	\$ 44,303,211	\$ 37,957,290	\$ 6,345,921
Operating Revenues - Interest on Loans	\$ 24,869,319	\$ 24,242,763	\$ 626,556
Interest on Investments	\$ 12,821,640	\$ 12,888,171	(\$ 66,531)
Federal Capitalization Grants Drawn	\$ 15,293,531	\$ 21,851,252	(\$ 6,557,721)

ECONOMIC CONDITIONS AND OUTLOOK

Connecticut's economy is showing signs of recovery from the devastating effects of the COVID-19 pandemic. There may be additional support and investment coming from the federal government to support Connecticut businesses and families through this time.

The global impact of COVID-19 has resulted in unprecedented pause to economies all over the world. In April, U.S. payroll employment fell by 20.5 million jobs with declines reported in all 50 states. Connecticut lost a historic 266,300 new jobs, a 15.9% decline in just one month. On an encouraging note, Connecticut has recently begun to reverse this trend, adding back an estimated 77,300 net jobs in June 2020 and another 26,500 in July 2020 as reported by Connecticut Department of Labor. However, the economic impact of COVID-19 has not yet fully materialized. Forecast data provided by IHS shows the State unemployment rate growing to 15.5% in Fiscal Year 2021 compared to an estimated 7.4% in Fiscal Year 2020. Connecticut Department of Labor's Office of Research estimates the State's average annual unemployment rate as of April 2020 to be in the range of 17.5%. All of these estimates are based on models developed for different circumstances and should not be viewed as anything other than an indication of the significant impact of COVID-19 on the State. Real Gross State Product is expected to contract by 2.8% in Fiscal Year 2021, the year in which the full economic impact of the pandemic is expected.

Economic indicators show that the COVID-19 pandemic is affecting virtually all aspects of the state and national economies. Connecticut continues to navigate this pandemic and is following public health guidelines such as mask-wearing and social distancing.

Connecticut's housing sector shows mixed results compared to this time last year. Berkshire Hathaway HomeServices reported a drop of nearly 15% in home sales in June 2020 compared to June 2019. However, the median sale price increased by over 5% during that same time period. The firm reported stronger results for the Connecticut housing market for July 2020, as compared to July 2019, with sales of single family homes up 14.3% and median sale prices up 15.5%.

The Office of Policy and Management, in its August 20, 2020 letter, is estimating a General Fund surplus for FY 2020 of \$52.3 million. The final result for fiscal year 2020 will be reported by the State Comptroller on September 30, 2020. Any surplus will be deposited to the Budget Reserve Fund along with a projected transfer of \$582.9 million from the State's volatility cap provision. Following these deposits, the Budget Reserve Fund is expected to reach over \$3 billion, more than 15% of General Fund expenditures. This will help the State address a \$2.1 billion General Fund budget deficit in fiscal year 2021 projected by the Office of Policy and Management. This projected shortfall represents 10.3 percent of net General Fund appropriations and is primarily due to significant revenue reductions related to the impact of the ongoing coronavirus pandemic.

Public Act 20-1 effective March 12, 2020 increased the State's Clean Water and Drinking Water Fund revenue bond authorization by \$84.0 million in FY 2021 bringing the total authorization for both revenue bonding programs to nearly \$4.0 billion since inception. This enables the State Revolving Fund (SRF) programs to continue their efforts to provide necessary funding to as many communities as possible. Local, state and federal budget constraints will continue to mean greater pressure on the SRF programs to provide timely and innovative financial assistance for critical projects. All of these factors impact how Connecticut municipalities plan and implement the capital projects funded by the SRF programs.

The major focus for the Clean Water SRF continues to be setting priorities and providing financing for critical work. The Connecticut Department of Energy and Environmental Protection and the Office of the Treasurer, working together, will continue to assist state legislators and municipal officials in determining the most cost effective and efficient way to meet the water quality needs of the communities within the state.

The Office of the Treasurer Debt Management Division continually monitors the impact of credit ratings of investment providers and borrowers, assists in the preparation of comments on financial regulation and participates in industry discussions on infrastructure, including water and transportation, as well as the economic development and growth potential for the state.

REQUIRED SUPPLEMENTARY INFORMATION

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

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

CONTACTS

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

SRF Financial Administrator
Connecticut State Treasurer's Office
Debt Management Division
165 Capitol Avenue
Hartford, CT 06106
Telephone (860) 702-3000
<https://portal.ct.gov/OTT>

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

Connecticut Department of Energy and Environmental Protection
Bureau of Water Protection and Land Reuse
79 Elm Street
Hartford, CT 06106
Telephone (860) 424-3704
www.ct.gov/deep

**STATE OF CONNECTICUT CLEAN WATER FUND -
WATER POLLUTION CONTROL AUTHORITY FEDERAL
REVOLVING LOAN ACCOUNT (STATE REVOLVING FUND)
STATEMENTS OF NET POSITION
June 30, 2020 and 2019**

	2020	2019
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 5,300,225	\$ 4,960,740
Interest receivable - investments	1,334,444	1,591,659
Interest receivable - loans	3,819,451	2,076,187
Loans receivable	258,664,805	214,744,898
Total current assets	269,118,925	223,373,484
Noncurrent assets:		
Loans receivable	985,162,320	1,003,186,569
Revolving fund	372,307,353	222,921,993
Restricted assets:		
Bond proceeds fund	856	880
Revolving fund	5,605,467	8,023,880
Debt service fund	202,120,634	179,294,921
Support fund	19,588,995	23,484,311
Total restricted assets	227,315,952	210,803,992
Total noncurrent assets	1,584,785,625	1,436,912,554
Total assets	1,853,904,550	1,660,286,038
DEFERRED OUTFLOW OF RESOURCES		
Deferred charges on refundings	5,907,094	6,866,633
Total deferred outflow of resources	5,907,094	6,866,633
LIABILITIES		
Current liabilities:		
Interest payable on revenue and refunding bonds	12,517,558	9,555,506
Bonds payable	48,569,399	58,363,416
Total current liabilities	61,086,957	67,918,922
Noncurrent liabilities:		
Premiums on revenue and refunding bonds	131,434,600	103,801,832
Bonds payable	835,206,567	686,060,967
Total noncurrent liabilities	966,641,167	789,862,799
Total liabilities	1,027,728,124	857,781,721
NET POSITION		
Restricted for loans	623,328,089	617,328,205
Unrestricted	208,755,431	192,042,745
Total net position	\$ 832,083,520	\$ 809,370,950

The notes to financial statements are an integral part of this statement.

**STATE OF CONNECTICUT CLEAN WATER FUND -
WATER POLLUTION CONTROL AUTHORITY FEDERAL
REVOLVING LOAN ACCOUNT (STATE REVOLVING FUND)
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Years Ended June 30, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
OPERATING REVENUES		
Interest on loans	<u>\$ 24,869,319</u>	<u>\$ 24,242,763</u>
OPERATING EXPENSES		
Salaries	447,769	504,259
Employee benefits	387,311	452,451
Other	192,481	59,683
Project grants	8,458,566	3,661,212
Total operating expenses	<u>9,486,127</u>	<u>4,677,605</u>
Operating income	<u>15,383,192</u>	<u>19,565,158</u>
NONOPERATING REVENUES (EXPENSES)		
Interest on investments	12,821,640	12,888,171
Amortization of bond premium	13,405,540	8,967,940
Interest expense	<u>(44,303,211)</u>	<u>(37,957,290)</u>
Total nonoperating revenues (expenses)	<u>(18,076,031)</u>	<u>(16,101,179)</u>
Income (loss) before federal capitalization grants and transfers	<u>(2,692,839)</u>	<u>3,463,979</u>
FEDERAL CAPITALIZATION GRANTS		
Project funds - loans	5,999,885	17,233,330
Project funds - grants	8,458,566	3,661,212
Administrative set-asides	835,080	956,710
Total federal capitalization grants	<u>15,293,531</u>	<u>21,851,252</u>
OPERATING TRANSFERS	<u>10,111,878</u>	<u>335,504</u>
Change in net position	22,712,570	25,650,735
NET POSITION, beginning	<u>809,370,950</u>	<u>783,720,215</u>
NET POSITION, ending	<u>\$ 832,083,520</u>	<u>\$ 809,370,950</u>

The notes to financial statements are an integral part of this statement.

**STATE OF CONNECTICUT CLEAN WATER FUND -
WATER POLLUTION CONTROL AUTHORITY FEDERAL
REVOLVING LOAN ACCOUNT (STATE REVOLVING FUND)
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest received on loans	\$ 23,126,055	\$ 24,227,364
Loan originations	(132,680,001)	(155,325,261)
Principal paid on loans receivable	106,784,343	91,324,996
Payments to employees for salaries and benefits	(835,080)	(956,710)
Payments on project grants	(8,458,566)	(3,661,212)
Other payments	(192,481)	(59,683)
Net cash used by operating activities	<u>(12,255,730)</u>	<u>(44,450,506)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Federal capitalization grants	<u>15,293,531</u>	<u>21,851,252</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Repayment of bonds payable	(58,363,417)	(53,831,100)
Proceeds from bonds payable	229,845,000	-
Premium received on bonds payable	41,038,310	-
Payment to refunded revenue bond escrow agent	(32,786,058)	-
Interest paid on bonds payable	(39,725,560)	(37,496,923)
Operating transfers	10,111,878	335,504
Net cash provided (used) by noncapital financing activities	<u>150,120,153</u>	<u>(90,992,519)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received on investments	13,078,851	13,155,670
Decrease (increase) in revolving fund	(149,385,360)	121,390,707
Increase in restricted assets	(16,511,960)	(21,054,981)
Net cash provided (used) by investing activities	<u>(152,818,469)</u>	<u>113,491,396</u>
Net change in cash and cash equivalents	339,485	(100,377)
CASH AND CASH EQUIVALENTS, beginning	<u>4,960,740</u>	<u>5,061,117</u>
CASH AND CASH EQUIVALENTS, ending	<u>\$ 5,300,225</u>	<u>\$ 4,960,740</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH USED BY OPERATING ACTIVITIES		
Operating income	\$ 15,383,192	\$ 19,565,158
Adjustments to reconcile operating income to net cash used by operating activities:		
Changes in assets and liabilities:		
Increase in interest receivable - loans	(1,743,264)	(148,675)
Increase in loans receivable	(25,895,658)	(63,866,989)
Net cash used by operating activities	<u>(\$ 12,255,730)</u>	<u>(\$ 44,450,506)</u>

The notes to financial statements are an integral part of this statement.

**STATE of CONNECTICUT CLEAN WATER FUND - WATER POLLUTION CONTROL
AUTHORITY FEDERAL REVOLVING LOAN ACCOUNT (STATE REVOLVING FUND)
NOTES to FINANCIAL STATEMENTS
June 30, 2020 and 2019**

1 - NATURE OF ORGANIZATION

The State of Connecticut Clean Water Fund - Water Pollution Control Authority Federal Revolving Loan Account (State Revolving Fund or SRF), an enterprise fund of the State of Connecticut, established pursuant to Connecticut General Statutes Section 22a-475 to 22a-499, provides financial assistance to the municipalities of Connecticut for the planning, design and construction of water quality projects. The SRF is funded through revenue bonds, State contributions, and federal grants as established under Title VI of the Water Quality Act of 1987 (Act), 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 governmental units. The following is a summary of the SRF's significant accounting policies:

Measurement Focus and Basis of Accounting

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

Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Operating and Nonoperating Revenues and Expenses

The SRF's principal operation consists of making low interest loans and grants to municipalities 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 these loans and project grants.

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

Revenue Recognition

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

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 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, adopted by the State Bond Commission on December 17, 2002 (the "Resolution").

Investments

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

There were no material investment gains or losses for the years ended June 30, 2020 and 2019.

Loans, Allowance for Loan Losses and Credit Risk

The SRF makes loans to municipalities in the State of Connecticut for planning, design and construction of water quality projects. Interest on the loans is calculated at two percent of the outstanding balance and recognized as it is earned. The loans are secured by the full faith and credit or revenue pledges of the municipalities, or both. No allowance for loan losses is considered necessary based on management's evaluation of the collectability of the loans. The evaluation takes into consideration such factors as changes in the size of the municipal loans, overall quality, review of specific problem loans, and current economic conditions and trends that may affect the borrowers' ability to pay.

Restricted Assets

Restricted assets consist of investments, which are segregated into funds and accounts in accordance with the Resolution as previously described, plus amounts determined to be prudent by management including amortizing long-term investments. The Resolution restricts investments to: a) the State Treasurer's Short-Term Investment Fund (STIF), b) 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 c) Investment Obligations as defined in the Resolution.

Bond Premiums/Deferred Loss

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

The deferred losses on early retirement of bonds (Note 8) are being amortized over the shorter of the life of the refunded or refunding debt.

Revenue Bonds

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

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

Deferred outflows/inflows of resources

In addition to assets, the Statements of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The SRF only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the Statements of Net Position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price.

In addition to liabilities, the Statements of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The SRF does not have any items that qualify for reporting in this category.

Net Position

Net position is classified in the following categories:

- a. Net investment in capital assets - consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. The SRF does not have capital assets.
- b. Restricted - consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.
- c. Unrestricted - consists of the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Subsequent Events

Management of the SRF has evaluated subsequent events through September 10, 2020, the date the financial statements were available to be issued.

Subsequent to June 30, 2020, certain municipalities made early payments of \$71,335,537 to pay off their CWF project loans. The SRF expects to use this prepayment to fund new project loans.

3 - CASH DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

Cash and cash equivalents

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

As of June 30, 2020 and 2019 funds held by the State Comptroller were \$5,299,954 and \$4,960,473, respectively. These funds are included with other State of Connecticut accounts, and custodial credit risk cannot be determined at the SRF level. As of June 30, 2020 and 2019 cash included in restricted assets was \$15,067,464 and \$25,017,078, respectively. As of June 30, 2020 and 2019, the Trustee held principal cash in the amount of \$0 and \$303, respectively, which is included in the revolving fund.

As of June 30, 2020 funds held by STIF were \$511,013,732, of which \$856 is included in the bond proceeds fund, \$369,502,594 is included in the revolving fund, \$141,510,011 is included in the debt service fund and \$271 is included in cash on the Statements of Net Position. As of June 30, 2019 funds held by STIF were \$319,652,423, of which \$880 is included in the bond proceeds fund, \$218,034,045 is included in the revolving fund, \$101,617,231 is included in the debt service fund and \$267 is included in cash on the Statements of Net Position.

STIF is a money market investment pool, rated AAAM as of June 30, 2020 and 2019 by Standard and Poor's, in which the State, municipal entities, and political subdivisions of the State are eligible to invest. The State Treasurer with the advice of the Investment Advisory Council, whose members include outside investment professionals and pension beneficiaries, establishes investment policies and guidelines. The State Treasurer is authorized to invest STIF funds in U.S. government and agency obligations, certificates of deposit, commercial paper, corporate bonds, savings accounts, bankers' acceptances, repurchase agreements, asset-backed securities, and student loans.

As of June 30, 2020 funds held in Fidelity Institutional Government Money Market (FIGMM) were \$15,067,464, all of which is included in the debt service fund on the Statements of Net Position. As of June 30, 2019 funds held in FIGMM were \$25,017,078, all of which is included in the debt service fund on the Statements of Net Position.

FIGMM is a money market investment pool, managed by Fidelity Investments, normally investing at least 80% of assets in U.S. Government securities and repurchase agreements for those securities and generally maintaining a dollar-weighted average maturity of 60 days or less.

Investments

As of June 30, 2020, the SRF had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in years)				Rating
		Less than 1	1 - 5	6 - 10	More than 10	
U.S. Treasury State & Local Governments	\$ 5,935,794	\$ -	\$ 3,921,721	\$ 2,014,073	\$ -	AA+
Connecticut General Obligation Bonds	2,804,759	-	2,804,759	-	-	A+
Guaranteed Investment Contracts	41,161,276	-	-	41,161,276	-	A-
Guaranteed Investment Contracts	12,420,816	-	12,420,816	-	-	BBB+
Guaranteed Investment Contracts	11,219,735	-	5,605,467	5,614,268	-	NR
	<u>\$ 73,542,380</u>	<u>\$ -</u>	<u>\$ 24,752,763</u>	<u>\$ 48,789,617</u>	<u>\$ -</u>	

As of June 30, 2019, the SRF had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in years)				Rating
		Less than 1	1 - 5	6 - 10	More than 10	
U.S. Treasury State & Local Governments	\$ 6,861,136	\$ 925,343	\$ 3,921,720	\$ 2,014,073	\$ -	AA+
Connecticut General Obligation Bonds	4,887,646	1,947,886	2,939,760	-	-	A+
Guaranteed Investment Contracts	7,906,374	7,906,374	-	-	-	A
Guaranteed Investment Contracts	43,603,516	-	-	43,603,516	-	A-
Guaranteed Investment Contracts	13,070,853	-	13,070,853	-	-	BBB+
Guaranteed Investment Contracts	12,726,923	-	6,117,505	6,609,418	-	NR
	<u>\$ 89,056,448</u>	<u>\$ 10,779,603</u>	<u>\$ 26,049,838</u>	<u>\$ 52,227,007</u>	<u>\$ -</u>	

Interest Rate Risk

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

Credit Risk

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

Concentration of Credit Risk

The SRF currently invests approximately 87.9% and 86.8%, at June 30, 2020 and 2019, respectively, in long-term investment agreements with AIG Matched Fund Corp., Trinity Plus Funding and Bank of America.

4 - LOANS RECEIVABLE

The SRF loans funds to qualified municipalities at an annual interest rate of two percent, secured by the full faith and credit or revenue pledges of the municipalities, or both. 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 or annual installments. Prepayments are not subject to any penalty.

Loans receivable by type are as follows as of June 30:

	<u>2020</u>	<u>2019</u>
Construction in process	\$ 169,605,252	\$ 121,460,063
Completed projects	<u>1,074,221,873</u>	<u>1,096,471,404</u>
	<u>\$ 1,243,827,125</u>	<u>\$ 1,217,931,467</u>

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

<u>Year ending June 30</u>	
2021	\$ 89,059,553
2022	87,770,325
2023	84,449,689
2024	83,333,568
2025	82,898,916
Thereafter	<u>646,709,822</u>
	<u>\$ 1,074,221,873</u>

5 - FEDERAL LETTER OF CREDIT

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

	<u>2020</u>	<u>2019</u>
Awarded	\$ 563,223,148	\$ 543,758,148
Drawn	<u>553,613,923</u>	<u>538,320,392</u>
Available federal letter of credit	<u>\$ 9,609,225</u>	<u>\$ 5,437,756</u>

As part of the State grant agreements with EPA and in accordance with State and Federal statutes, the State is required to provide a 20% match on all federal grant awards. As of June 30, 2020 and 2019, the required State match was \$112,644,630 and \$108,751,630, respectively. As of June 30, 2020 and 2019, the State match provided was \$117,079,722.

6 - RESTRICTED ASSETS

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

	<u>2020</u>	<u>2019</u>
Cash equivalents:		
Cash	\$ 15,067,464	\$ 25,017,078
Money market investment pool	141,510,867	101,618,111
Investments:		
U.S. Treasury State & Local Governments	5,935,794	6,861,136
Guaranteed Investment Contracts	<u>64,801,827</u>	<u>77,307,667</u>
	<u>\$ 227,315,952</u>	<u>\$ 210,803,992</u>

7 - RELATED PARTY TRANSACTIONS

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

Investments

The SRF has invested in the State Treasurer's Short Term Investment Fund and also holds State General Obligation Bonds as presented in Note 3.

Allocation of Expenses

Fringe benefit costs which are incurred at the State level are applied as a percentage of salaries to all State governmental units, including the SRF. For the years ended June 30, 2020 and 2019, the basic rates were 86.50% and 89.73%, respectively, of the SRF wages and the amounts charged aggregated \$387,311 and \$452,451 respectively.

8 - BONDS PAYABLE

A summary of changes in bonds payable during the year ended June 30, 2020 is as follows:

	<u>Balance June 30, 2019</u>	<u>Issued</u>	<u>Principal Refunded</u>	<u>Principal Paydowns</u>	<u>Balance June 30, 2020</u>
Revenue bonds	\$ 563,840,550	\$ 200,000,000	\$ -	\$ 26,210,750	\$ 737,629,800
Refunding bonds	<u>180,583,833</u>	<u>29,845,000</u>	<u>32,130,000</u>	<u>32,152,667</u>	<u>146,146,166</u>
	<u>\$ 744,424,383</u>	<u>\$ 229,845,000</u>	<u>\$ 32,130,000</u>	<u>\$ 58,363,417</u>	<u>\$ 883,775,966</u>

A summary of changes in bonds payable during the year ended June 30, 2019 is as follows:

	<u>Balance June 30, 2018</u>	<u>Issued</u>	<u>Principal Refunded</u>	<u>Principal Paydowns</u>	<u>Balance June 30, 2019</u>
Revenue bonds	\$ 608,236,650	\$ -	\$ -	\$ 44,396,100	\$ 563,840,550
Refunding bonds	<u>190,018,833</u>	<u>-</u>	<u>-</u>	<u>9,435,000</u>	<u>180,583,833</u>
	<u>\$ 798,255,483</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 53,831,100</u>	<u>\$ 744,424,383</u>

Revenue Bonds

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

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

Issue Date	Issue Name	Original Allocated Par Amount	Balance Outstanding June 30, 2020
3/24/2011	State Revolving Fund General Revenue Bonds, 2011 Series A	\$ 166,470,850	\$ 53,034,800
2/21/2013	State Revolving Fund General Revenue Bonds, 2013 Series A	124,935,000	99,125,000
2/21/2013	State Revolving Fund Refunding General Revenue Bonds, 2013 Series B	35,933,833	28,676,166
5/6/2015	State Revolving Fund General Revenue Bonds, 2015 Series A	197,525,000	185,470,000
6/15/2017	State Revolving Fund General Revenue Bonds, 2017 Series A	200,000,000	200,000,000
6/15/2017	State Revolving Fund Refunding General Revenue Bonds, 2017 Series B	102,640,000	87,625,000
7/9/2019	State Revolving Fund General Revenue Bonds, 2019 Series A	200,000,000	200,000,000
7/9/2019	State Revolving Fund Refunding General Revenue Bonds, 2019 Series B	29,845,000	29,845,000
		<u>\$ 1,057,349,683</u>	<u>\$ 883,775,966</u>

Debt service on the outstanding bonds will be paid solely from Available Moneys in the SRF and the Drinking Water Fund. Available Moneys include all funds in the SRF legally available therefore and can be used for any lawful purpose. The bond proceeds fund, the debt service fund and the support fund, the investments thereof and the proceeds of such investments, if any, are pledged for the payment of all bonds issued under the 2002 Resolution.

The State of Connecticut issued State Revolving Fund General Revenue Bonds 2011 Series A dated March 24, 2011. In accordance with the State Revolving Fund General Revenue Bonds, 2011 Series Plan of Finance, the State allocated the proceeds of 2011 Series Bonds between the SRF and the Drinking Water Fund with \$166,470,850 allocated to the SRF and \$16,464,150 allocated to the Drinking Water Fund.

The State of Connecticut issued State Revolving Fund General Revenue Bonds 2013 Series A dated February 21, 2013. In accordance with the State Revolving Fund General Revenue Bonds, 2013 Series Plan of Finance, the State allocated 100% of the proceeds of 2013 Series Bonds to the SRF.

The State of Connecticut issued State Revolving Fund General Revenue Bonds 2015 Series A dated May 6, 2015. In accordance with the State Revolving Fund General Revenue Bonds, 2015 Series Plan of Finance, the State allocated the proceeds of 2015 Series Bonds between the SRF and the Drinking Water Fund with \$197,525,000 allocated to the SRF and \$52,475,000 allocated to the Drinking Water Fund.

The State of Connecticut issued State Revolving Fund General Revenue Bonds 2017 Series A dated June 15, 2017. In accordance with the State Revolving Fund General Revenue Bonds, 2017 Series Plan of Finance, the State allocated the proceeds of 2017 Series Bonds between the SRF and the Drinking Water Fund with \$200,000,000 allocated to the SRF and \$50,000,000 allocated to the Drinking Water Fund.

The State of Connecticut issued State Revolving Fund General Revenue Bonds 2019 Series A dated July 9, 2019. In accordance with the State Revolving Fund General Revenue Bonds, 2019 Series Plan of Finance, the State allocated the proceeds of 2019 Series Bonds between the SRF and the Drinking Water Fund with \$200,000,000 allocated to the SRF and \$50,000,000 allocated to the Drinking Water Fund.

Revenue bonds payable consist of the following as of June 30:

	<u>2020</u>	<u>2019</u>
Serial bonds, with interest rates from 1.00% to 5.00%, maturing through 2039	<u>\$ 737,629,800</u>	<u>\$ 563,840,550</u>

Refunding Bonds - 2009 Series C

On July 30, 2009 the State issued \$115,835,000 of State Revolving Fund Refunding General Revenue Bonds 2009, Series C with interest rates of 1.5% to 5.0% to refund on a current basis Clean Water Fund Refunding General Revenue Bonds, Series 2003 C-1 and C-2 (Refunded Bonds). The Refunded Bonds were scheduled to mature at various dates through October 1, 2022, but have been redeemed on July 31, 2009.

The outstanding principal balance of the Refunding Bonds as of June 30, 2020 and 2019 was \$0 and \$41,950,000, respectively.

Amortization of the deferred loss on early retirement of bonds for the years ended June 30, 2020 and 2019 totaled \$678,005 and \$354,999, respectively.

Refunding Bonds - 2013 Series B

On February 21, 2013 the State issued \$35,993,833 of State Revolving Fund Refunding General Revenue Bonds 2013, Series B with interest rates of 2.0% to 5.0% to refund on a current basis Clean Water Fund Refunding General Revenue Bonds, Series 2006 B (Refunded Bonds). The Refunded Bonds were scheduled to mature at various dates through July 1, 2027, but have been redeemed on July 1, 2016.

The outstanding principal balance of the Refunding Bonds as of June 30, 2020 and 2019 was \$28,676,166 and \$35,993,833, respectively.

Refunding Bonds - 2017 Series B

On June 15, 2017 the State issued \$102,640,000 of State Revolving Fund Refunding General Revenue Bonds 2017, Series B with interest rates of 3.625% to 5.0% to refund on a current basis Clean Water Fund Refunding General Revenue Bonds, Series 2009 A (Refunded Bonds). The Refunded Bonds were scheduled to mature at various dates through June 1, 2027, but have been redeemed on June 1, 2019.

The outstanding principal balance of the Refunding Bonds as of June 30, 2020 and 2019 was \$87,625,000 and \$102,640,000, respectively.

Amortization of the deferred loss on early retirement of bonds for the years ended June 30, 2020 and 2019 totaled \$773,579 for both years.

Refunding Bonds - 2019 Series B

On July 9, 2019 the State issued \$29,845,000 of State Revolving Fund Refunding General Revenue Bonds 2019, Series B with interest rates of 4.0% to 5.0% to refund on a current basis Clean Water Fund Refunding General Revenue Bonds, Series 2009 C (Refunded Bonds). The Refunded Bonds were scheduled to mature at various dates through October 1, 2022.

The outstanding principal balance of the Refunding Bonds as of June 30, 2020 was \$29,845,000.

Amortization of the deferred loss on early retirement of bonds for the year ended June 30, 2020 was \$164,015.

Bond Maturities

Requirements at June 30, 2020 to retire the SRF's revenue and refunding bonds are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2021	\$ 48,569,399	\$ 41,578,597
2022	58,568,900	39,426,527
2023	59,008,450	36,723,678
2024-2028	294,724,217	140,759,697
2029-2033	244,265,000	73,957,450
2034-2037	140,325,000	22,933,000
2038-2039	38,315,000	2,451,500
	<u>\$ 883,775,966</u>	<u>\$ 357,830,448</u>

9 - ARBITRAGE LIABILITY

The Internal Revenue Code provides that interest on certain obligations issued by states, including SRF revenue bonds, is not taxable to the holder provided that bond proceeds are not invested in higher yielding investments, which is referred to as arbitrage. To mitigate arbitrage with respect to the SRF's 2011, 2013, 2015, 2017 and 2019 series revenue bonds, the SRF is required to remit excess investment income to the federal government. Based on calculations made by an independent arbitrage rebate agent, there was no arbitrage liability at June 30, 2020 and 2019.

10 - NET POSITION

The following represents an analysis of net position for the years ended June 30, 2020 and 2019:

	<u>Unrestricted</u>	<u>Restricted for Loans</u>	<u>Total</u>
Balance at June 30, 2018	\$ 183,625,340	\$ 600,094,875	\$ 783,720,215
Change in net position	<u>8,417,405</u>	<u>17,233,330</u>	<u>25,650,735</u>
Balance at June 30, 2019	192,042,745	617,328,205	809,370,950
Change in net position	<u>16,712,686</u>	<u>5,999,884</u>	<u>22,712,570</u>
Balance at June 30, 2020	<u>\$ 208,755,431</u>	<u>\$ 623,328,089</u>	<u>\$ 832,083,520</u>

The net position restricted for loans represents amounts accumulated from federal drawdowns, less administrative expenses (not exceeding 4% of the federal grant) and subsidies, and the State's match of federal funds.

11 - OPERATING TRANSFERS

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

	<u>2020</u>	<u>2019</u>
State funded loan repayments	\$ 296,546	\$ 271,834
Operating expenses transfer	835,080	956,710
Operating expenses reimbursement	(835,080)	(956,710)
Transfer related to cost of issuance of bond offerings	(657,643)	-
Transfer related to bond proceeds	10,472,975	-
Transfer related to DWF debt service	-	<u>63,670</u>
	<u>\$ 10,111,878</u>	<u>\$ 335,504</u>

12 - LOAN FUNDING COMMITMENTS

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

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

	<u>2020</u>	<u>2019</u>
Total funds committed to municipalities	\$ 1,715,478,738	\$ 1,901,192,477
Loan amount outstanding to municipalities	<u>1,243,827,125</u>	<u>1,217,931,467</u>
Loan commitments outstanding	<u>\$ 471,651,613</u>	<u>\$ 683,261,010</u>

13 - RISK MANAGEMENT

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

14 - RISKS AND UNCERTAINTIES

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China and has since spread to other countries, including the U.S. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, multiple jurisdictions in the U.S. have declared a state of emergency. It is anticipated that these impacts will continue for some time. Future potential impacts to the SRF may include a decrease in planned projects and borrowers' ability to pay their loan payments. The future effects of these issues are unknown.

SEWARD AND MONDE

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

Mr. Shawn T. Wooden, Treasurer

Ms. Katie Dykes, Commissioner,
Department of Energy and Environmental Protection,
State of Connecticut

We have audited, in accordance with the 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, the financial statements of the State of Connecticut Clean Water Fund - Water Pollution Control Authority 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, 2020, and the related notes to the financial statements, and have issued our report thereon dated September 10, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the SRF's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the SRF's internal control. Accordingly, we do not express an opinion on the effectiveness of the SRF's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Seward and Monde

North Haven, Connecticut
September 10, 2020

SEWARD AND MONDE

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Mr. Shawn T. Wooden, Treasurer

Ms. Katie Dykes, Commissioner,
Department of Energy and Environmental Protection,
State of Connecticut

Report on Compliance for Each Major Federal Program

We have audited the State of Connecticut Clean Water Fund - Water Pollution Control Authority Federal Revolving Loan Account's (State Revolving Fund) (SRF) (an enterprise fund of the State of Connecticut) compliance with the types of compliance requirements described in *OMB Compliance Supplement* that could have a direct and material effect on each of the SRF's major federal programs for the year ended June 30, 2020. The SRF's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the SRF's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 on compliance for each major federal program. However, our audit does not provide a legal determination on the SRF's compliance.

Opinion of Each Major Federal Program

In our opinion, the SRF complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2020.

Report on Internal Control Over Compliance

Management of the SRF is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the SRF's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the SRF's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Seward and Monde

North Haven, Connecticut
September 10, 2020

**STATE OF CONNECTICUT CLEAN WATER FUND - WATER POLLUTION CONTROL
 AUTHORITY FEDERAL REVOLVING LOAN ACCOUNT (STATE REVOLVING FUND)
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the year ended June 30, 2020**

<u>Federal Grantor; Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>	<u>Expenditures to Subrecipients</u>
ENVIRONMENTAL PROTECTION AGENCY			
Direct:			
Capitalization Grants for State Revolving Fund	66.458	\$ 15,293,531	\$ 14,458,451

See notes to schedule.

**STATE OF CONNECTICUT CLEAN WATER FUND - WATER POLLUTION CONTROL
AUTHORITY FEDERAL REVOLVING LOAN ACCOUNT (STATE REVOLVING FUND)
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2020**

A - ACCOUNTING BASIS

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the State of Connecticut Clean Water Fund - Water Pollution Control Authority 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 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Revenues are recognized to the extent of expenditures. Expenditures have been recognized to the extent that administrative costs have been incurred by the SRF and charged to the grant and federal funds have been loaned or granted to municipalities during the year.
2. The SRF did not use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

C - SUBRECIPIENTS

Loans disbursed to subrecipients during year ended June 30, 2020 totaled \$5,999,885. Grants disbursed to subrecipients during year ended June 30, 2020 totaled \$8,458,566.

D - MUNICIPAL LOAN BALANCES

The balance of outstanding loans to municipalities totaled \$1,243,827,125 as of June 30, 2020.

**STATE OF CONNECTICUT CLEAN WATER FUND - WATER POLLUTION CONTROL
 AUTHORITY FEDERAL REVOLVING LOAN ACCOUNT (STATE REVOLVING FUND)
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the year ended June 30, 2020**

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:
 Material weakness(es) identified? Yes X No
 Significant deficiency(ies) identified? Yes X None reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

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

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a) of the Uniform Guidance? Yes X No

Identification of Major Programs:

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

Dollar threshold used to distinguish between type A and type B programs \$750,000

Auditee qualified as low risk auditee? X Yes No

. . . Continued . . .

**STATE OF CONNECTICUT CLEAN WATER FUND - WATER POLLUTION CONTROL
AUTHORITY FEDERAL REVOLVING LOAN ACCOUNT (STATE REVOLVING FUND)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2020
. . . Continued . . .**

SECTION II - FINANCIAL STATEMENT FINDINGS

No findings are reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No findings or questioned costs are reported.