

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

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

**June 30, 2014 and 2013**

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**STATE OF CONNECTICUT CLEAN WATER FUND -  
WATER POLLUTION CONTROL AUTHORITY FEDERAL  
REVOLVING LOAN ACCOUNT (STATE REVOLVING FUND)  
June 30, 2014 and 2013**

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# SEWARD AND MONDE

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## INDEPENDENT AUDITORS' REPORT

Ms. Denise L. Nappier, Treasurer

Mr. Robert J. Klee, 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, 2014 and 2013, 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 audit. 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 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 opinions.

### ***Basis for Adverse Opinion***

As discussed in Note 1, the financial statements present only the State of Connecticut Clean Water Fund - Water Pollution Control Authority Federal Revolving Loan Account. U.S. generally accepted accounting principles require that State of Connecticut's financial statements present the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of State of Connecticut.

### ***Adverse Opinion***

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion" paragraph, the financial statements referred to above do not present fairly the financial position of the State of Connecticut as of June 30, 2014 and 2013, or the changes in financial position or cash flows thereof for the years then ended.

### ***Unmodified 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, 2014 and 2013, and the changes in financial position and cash flows thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

### ***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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 4, 2014 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 4, 2014

**OFFICE OF THE TREASURER  
STATE OF CONNECTICUT  
CLEAN WATER FUND  
FISCAL YEAR ENDED JUNE 30, 2014  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

This Management Discussion and Analysis (MD&A) of the State of Connecticut Clean Water Fund - Water Pollution Control Federal Revolving Loan Account (State Revolving Fund) provides an introduction to the major activities affecting the operation of the state revolving fund and is a narrative overview of the financial performance for the fiscal year ended June 30, 2014. The information contained in this discussion should be considered in conjunction with the Fund's basic financial statements and the notes thereto.

**Financial Highlights**

Changes in the Fund's Net Position - The Clean Water Fund's net position at the close of fiscal year 2014 was \$715,856,449 with total assets of \$1,447,141,130 plus deferred outflows of \$11,189,487 offset by liabilities of \$742,474,168 compared to fiscal year 2013's net position of \$696,789,235. The net position of the fund increased by \$19,067,214, or 2.7%, the resulting net impact of the increase in loans receivable and decreases in the bond proceeds fund and bonds payable.

Assets of the Clean Water Fund are categorized as follows:

Restricted - includes 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 - includes all assets not restricted and available for any program purpose.

Liabilities of the Clean Water Fund are categorized as follows:

Bonds Outstanding - No new bonds were issued during the year. The Fund's total debt outstanding decreased during the fiscal year by \$70,603,430 to \$672,756,701 due to scheduled amortization.

The financial statements show funds restricted for loans of \$544,970,963 an increase of \$17,146,943 or 3.2% above the 2013 balance.

Loans Receivable - Total loans receivable increased by \$29,447,412 from \$937,737,849 to \$967,185,261 reflecting new loans of \$102,399,490 and loan repayments of \$72,952,078.

Operating Revenues - The Fund's gross operating revenue increased by \$2,380,661 or 13.5% to \$20,040,348.

Capitalization Grants - During the year, \$20,314,088 was drawn from the EPA for projects and administrative expenses. To date, since inception, the State has drawn \$501,963,513. Cumulative federal wastewater capitalization grant awards totaled \$505,280,448.

The state must provide matching funds in the amount of 20% of the federal non-ARRA capitalization grant. As of the end of fiscal year 2014, the state has provided \$100,079,722 in match funds, exceeding the 20% required by the federal government. The match has been provided by the state and used for program purposes in accordance with the State's operating agreement with US EPA.

### **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 the reporting of 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 state 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 Statements of Revenues, Expenses and Changes in Net Position divide the activities of the Fund into two categories:

Operating Activities, including the Clean Water State Revolving Fund project financing program (the Loan Program); and

Nonoperating Activities, including the revenue bonds issued for the Fund (the Revenue Bond Program) and the investment of the Clean Water State Revolving Fund assets.

For the Loan Program activities, 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 Clean Water Fund 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 Clean Water Fund issues revenue bonds and uses the proceeds to provide financing for Clean Water and Drinking Water projects. Where necessary, due to the issuance of bonds and investment activities for both the Clean Water Fund and Drinking Water Fund, bond proceeds, interest income and expenses may be allocated between the Clean Water Fund and the Drinking Water Fund. 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 Clean Water Fund 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 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 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 financing obligations (PLOs) which are signed after projects are completed. 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.

Construction loans in progress totaled \$179,677,431 an increase of \$79,629,593. Payments to municipalities for ongoing projects totaled \$102,399,490. Completed projects which were permanently financed during the year totaled \$18,665,225. New construction loan commitments totaled \$72,892,920.

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 provided matching funds are used to provide leveraged financing for eligible projects in the state. Federal capitalization grants and the match are deposited into the State Revolving Fund accounts held by the Trustee in the form of either cash or permitted investments. State contributions are held by the Trustee in the form of cash, permitted investments or State general obligation bonds and are used as they are deposited for program purposes.

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



## **The Bond Program**

The Connecticut Clean Water Fund has issued long-term debt obligations backed by the pledge of specific assets including loans, reserve funds and other program assets. 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 Clean Water Fund bond issues since 1991. Proceeds are used for program purposes including the funding of loans to Clean Water Fund borrowers. During fiscal year 2014, the state issued no additional new money or refunding bonds. Further information about outstanding bonds can be found in the Notes to the Financial Statements.

The issuance of bonds under the 2002 general bond resolution resulted in the creation of three additional fund accounts and including the Senior Sinking Fund and the Support Fund which are restricted accounts and the General Revenue Revolving Fund account is unrestricted. All three accounts are held by the Trustee.

The program's advisors are:

Bond Counsel - Squire Patton Boggs, LLP

Bond Counsel - Hardwick Law Firm, LLC

Financial Advisors - Lamont Financial Services Corporation

Financial Advisors - First Southwest

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 Clean Water Fund 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

	2014	2013	Increase (Decrease)
Total Net Position	\$ 715,856,449	\$ 696,789,235	\$ 19,067,214
Loans Outstanding - current and long term portions	\$ 967,185,261	\$ 937,737,849	\$ 29,447,412
Bonds Payable	\$ 672,756,701	\$ 743,360,131	(\$ 70,603,430)
Interest Expense	\$ 36,747,675	\$ 39,221,948	(\$ 2,474,273)
Operating Revenues- Interest on Loans	\$ 20,040,348	\$ 17,659,687	\$ 2,380,661
Interest on Investments	\$ 9,919,817	\$ 13,095,551	(\$ 3,175,734)
Federal Capitalization Grants Drawn	\$ 20,314,088	\$ 57,473,274	(\$ 37,159,186)

## ECONOMIC CONDITIONS AND OUTLOOK

Connecticut continued to experience slow growth through 2014. Like other states, Connecticut has maintained a persistent focus on economic development and job creation. Recovery continued during fiscal year 2014, the state's unemployment rate steadily declined from a high of 7.9 percent in July 2013 to 6.7 percent in June 2014 and initial claims for unemployment insurance also decreased by 1.0 percent June 2014 over June 2013. The average annual wage in Connecticut increased by 0.2 percent to \$62,283, while the number of business establishments increased by 1.6 percent over the previous year. Budget deficits have been dealt with using various strategies and programs designed to bring a variety of manufacturing and technology and research companies to the state have been successful. By the end of the fiscal year, the State's economic and financial situation continued to slowly improve and as a result, the state ended fiscal year 2014 with an estimated \$120 million budget surplus. Concern remains about Connecticut's debt levels despite several mitigating factors including Connecticut's ranking highest in per capita income, legislative approval of additional funding for the State Employee's Retirement Plan, changes in state employee pension and health benefits, and expectations of job growth over the next year.

With its diversified economy, measures to spur economic growth will mean continued need for transportation and water infrastructure upgrades and energy improvements. The state's adopted fiscal year 2014 and fiscal year 2015 capital budget includes a significant increase in authorizations for clean water revenue bonds (historic high). With the infusion of over \$700 million in new Clean Water and Drinking Water revenue bond authorizations over the FY 2013-2015 biennium, the state's Clean Water Fund and the Drinking Water State Revolving Funds will be able to continue its significant efforts to get necessary funding to as many communities as possible. Local, state and federal budget constraints will continue to mean greater pressure on the Fund 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 Clean Water Fund.

The major focus for the Clean Water Fund 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 municipalities, 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. The Notes provide additional information that is 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:

Clean Water Fund Financial Administrator  
Connecticut State Treasurer's Office  
Debt Management Division  
55 Elm Street  
Hartford, CT 06106-1773  
Telephone (860) 702-3000  
[www.ct.gov/ott](http://www.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](http://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, 2014 and 2013**

	2014	2013
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 3,606,611	\$ 1,821,787
Interest receivable - investments	2,963,180	3,952,287
Interest receivable - loans	3,716,517	1,508,715
Grants receivable	-	312,389
Due from other funds	41,132	-
Loans receivable	244,970,396	169,070,629
Total current assets	255,297,836	176,665,807
Noncurrent assets:		
Loans receivable	722,214,865	768,667,220
Revolving fund	241,742,616	168,585,605
Restricted assets:		
Bond proceeds fund	21,104,167	117,712,882
Revolving fund	34,267,016	73,103,269
Debt service fund	103,323,738	113,115,702
Support fund	69,190,892	84,824,157
Total restricted assets	227,885,813	388,756,010
Total noncurrent assets	1,191,843,294	1,326,008,835
Total assets	1,447,141,130	1,502,674,642
<b>DEFERRED OUTFLOW OF RESOURCES</b>		
Deferred charges on refundings	11,189,487	16,123,604
Total deferred outflow of resources	11,189,487	16,123,604
<b>LIABILITIES</b>		
Current liabilities:		
Interest payable on revenue and refunding bonds	9,440,400	10,208,424
Due to other funds	-	1,374,295
Bonds payable	70,351,030	70,603,431
Total current liabilities	79,791,430	82,186,150
Noncurrent liabilities:		
Premiums on revenue and refunding bonds	60,277,067	67,066,161
Bonds payable	602,405,671	672,756,700
Total noncurrent liabilities	662,682,738	739,822,861
Total liabilities	742,474,168	822,009,011
<b>NET POSITION</b>		
Restricted for loans	544,970,963	527,824,020
Unrestricted	170,885,486	168,965,215
Total net position	\$ 715,856,449	\$ 696,789,235

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, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>OPERATING REVENUES</b>		
Interest on loans	\$ 20,040,348	\$ 17,659,687
<b>OPERATING EXPENSES</b>		
Salaries	242,804	417,953
Employee benefits	198,928	296,449
Other	33,304	143,824
Project grants	2,617,861	10,112,931
Total operating expenses	<u>3,092,897</u>	<u>10,971,157</u>
Operating income	<u>16,947,451</u>	<u>6,688,530</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest on investments	9,919,817	13,095,551
Amortization of bond premium	6,789,096	7,690,393
Interest expense	<u>( 36,747,675)</u>	<u>( 39,221,948)</u>
Total nonoperating revenues (expenses)	<u>( 20,038,762)</u>	<u>( 18,436,004)</u>
Loss before federal capitalization grants and transfers	<u>( 3,091,311)</u>	<u>( 11,747,474)</u>
<b>FEDERAL CAPITALIZATION GRANTS</b>		
Project funds - loans	16,939,606	28,252,152
Project funds - grants	2,617,861	10,112,931
Administrative set-asides	444,232	715,696
Total federal capitalization grants	<u>20,001,699</u>	<u>39,080,779</u>
<b>OPERATING TRANSFERS</b>	<u>2,156,826</u>	<u>988,615</u>
Change in net position	19,067,214	28,321,920
<b>NET POSITION, beginning</b>	<u>696,789,235</u>	<u>668,467,315</u>
<b>NET POSITION, ending</b>	<u>\$ 715,856,449</u>	<u>\$ 696,789,235</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, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Interest received on loans	\$ 17,832,546	\$ 20,669,343
Loan originations	( 102,399,490)	( 124,387,153)
Principal paid on loans receivable	72,952,078	68,495,900
Payments to employees for salaries and benefits	( 441,732)	( 714,402)
Payments on project grants	( 2,617,861)	( 10,112,931)
Other payments	( 33,304)	( 143,824)
Net cash used by operating activities	<u>( 14,707,763)</u>	<u>( 46,193,067)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Federal capitalization grants	<u>20,314,088</u>	<u>57,473,274</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Repayment of bonds payable	( 70,603,430)	( 70,578,437)
Proceeds from bonds payable	-	160,928,833
Premium received on bonds payable	-	31,756,400
Payment to refunded revenue bond escrow agent	-	( 128,960,547)
Interest paid on bonds payable	( 32,581,582)	( 33,057,146)
Operating transfers	741,401	( 4,533,053)
Net cash used by noncapital financing activities	<u>( 102,443,611)</u>	<u>( 44,443,950)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received on investments	10,908,924	13,241,362
Decrease (increase) in bond proceeds fund	96,608,715	( 36,333,330)
Decrease (increase) in revolving fund	( 73,157,011)	33,212,153
Decrease in restricted assets	64,261,482	21,329,708
Net cash provided by investing activities	<u>98,622,110</u>	<u>31,449,893</u>
Net change in cash and cash equivalents	1,784,824	( 1,713,850)
<b>CASH AND CASH EQUIVALENTS, beginning</b>	<u>1,821,787</u>	<u>3,535,637</u>
<b>CASH AND CASH EQUIVALENTS, ending</b>	<u>\$ 3,606,611</u>	<u>\$ 1,821,787</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Operating income	\$ 16,947,451	\$ 6,688,530
Adjustments to reconcile operating income to net cash used by operating activities:		
Changes in assets and liabilities:		
Decrease (increase) in interest receivable - loans	( 2,207,802)	3,009,656
Increase in loans receivable	( 29,447,412)	( 55,891,253)
Net cash used by operating activities	<u>(\$ 14,707,763)</u>	<u>(\$ 46,193,067)</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, 2014 and 2013

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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, 2014 and 2013.

### 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 expended 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 statement 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 statement 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 statement 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 4, 2014, the date the financial statements were available to be issued.

### 3 - CASH DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

#### Cash and cash equivalents

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

As of June 30, 2014 and 2013 funds held by the State Comptroller were \$3,606,355 and \$1,821,531, 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, 2014 the Trustee held principal cash in the amount of \$79,978 which is included in the debt service fund.

As of June 30, 2014 funds held by STIF were \$274,770,235, of which \$21,104,167 is included in the bond proceeds fund, \$227,179,941 is included in the revolving fund, \$26,485,871 is included in the debt service fund and \$256 is included in cash on the Statement of Net Position. As of June 30, 2013 funds held by STIF were \$284,078,733, of which \$117,712,882 is included in the bond proceeds fund, \$152,217,146 is included in the revolving fund, \$14,148,449 is included in the debt service fund and \$256 is included in cash on the Statement of Net Position.

STIF is a money market investment pool, rated AAAM as of June 30, 2014 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, 2014 funds held in Fidelity Institutional Government Money Market (FIGMM) were \$6,150,189, all of which is included in the debt service fund on the Statement of Net Position. As of June 30, 2013 funds held in FIGMM were \$7,908,424, all of which is included in the debt service fund on the Statement 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, 2014, 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	\$ 36,336,710	\$ 12,052,829	\$ 18,348,087	\$ 3,921,720	\$ 2,014,074	AA+
Guaranteed Investment Contracts	17,086,949	-	-	6,117,506	10,969,443	AA+
Guaranteed Investment Contracts	33,654,206	-	33,654,206	-	-	A
Guaranteed Investment Contracts	85,859,939	-	13,646,331	14,372,688	57,840,920	A-
Connecticut General Obligation Bonds	15,690,479	-	7,370,159	8,320,320	-	AA
	<u>\$ 188,628,283</u>	<u>\$ 12,052,829</u>	<u>\$ 73,018,783</u>	<u>\$ 32,732,234</u>	<u>\$ 70,824,437</u>	

As of June 30, 2013, 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	\$ 48,968,628	\$ 12,631,919	\$ 29,475,573	\$ 4,847,063	\$ 2,014,073	AA+
Guaranteed Investment Contracts	17,871,575	-	-	6,117,506	11,754,069	AA+
Guaranteed Investment Contracts	37,368,718	-	17,703,437	19,665,281	-	A
Guaranteed Investment Contracts	94,647,789	-	22,802,081	14,473,633	57,372,075	A-
Guaranteed Investment Contracts	48,733,615	-	12,317,847	36,415,768	-	A2
Connecticut General Obligation Bonds	17,764,389	-	1,395,930	16,368,459	-	AA
	<u>\$ 265,354,714</u>	<u>\$ 12,631,919</u>	<u>\$ 83,694,868</u>	<u>\$ 97,887,710</u>	<u>\$ 71,140,217</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 72.4% and 74.9%, at June 30, 2014 and 2013, respectively, in long-term investment agreements with AIG Matched Fund Corp., Natixis Funding Corp., Societe Generale, 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>2014</u>	<u>2013</u>
Construction in process	\$ 179,677,431	\$ 100,047,838
Completed projects	<u>787,507,830</u>	<u>837,690,011</u>
	<u>\$ 967,185,261</u>	<u>\$ 937,737,849</u>

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

<u>Year ending June 30</u>	
2015	\$ 65,292,965
2016	64,381,668
2017	61,548,368
2018	59,382,563
2019	59,123,189
Thereafter	<u>477,779,077</u>
	<u>\$ 787,507,830</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>2014</u>	<u>2013</u>
Awarded	\$ 457,270,148	\$ 440,999,148
Drawn	<u>453,953,213</u>	<u>433,639,127</u>
Available federal letter of credit	<u>\$ 3,316,935</u>	<u>\$ 7,360,021</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 drawdowns. As of June 30, 2014 and 2013, the required State match was \$90,790,643 and \$86,727,825, respectively. As of June 30, 2014 and 2013, the State match provided was \$100,079,722.

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

	<u>2014</u>	<u>2013</u>
Awarded	\$ 48,010,300	\$ 48,010,300
Drawn	<u>48,010,300</u>	<u>48,010,300</u>
Available federal letter of credit	<u>\$ -</u>	<u>\$ -</u>

## 6 - RESTRICTED ASSETS

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

	<u>2014</u>	<u>2013</u>
Cash	\$ 79,978	\$ -
Cash equivalents:		
Money market investment pool	53,740,227	139,769,755
Investments:		
U.S. Treasury State & Local Governments	36,336,710	48,968,628
Guaranteed Investment Contracts	136,601,094	198,621,697
Connecticut General Obligation Bonds	<u>1,127,804</u>	<u>1,395,930</u>
	<u>\$ 227,885,813</u>	<u>\$ 388,756,010</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, 2014 and 2013, the basic rates were 81.93% and 70.93%, respectively, of the SRF wages and the amounts charged aggregated \$198,928 and \$296,449, respectively.

## 8 - BONDS PAYABLE

A summary of changes in bonds payable during the year ended June 30, 2014 is as follows:

	Balance June 30, 2013	Issued	Principal Defeasance	Principal Paydowns	Balance June 30, 2014
Revenue bonds	\$ 553,924,213	\$ -	\$ -	\$ 42,454,196	\$ 511,470,017
Refunding bonds	189,435,918	-	-	28,149,234	161,286,684
	<u>\$ 743,360,131</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 70,603,430</u>	<u>\$ 672,756,701</u>

A summary of changes in bonds payable during the year ended June 30, 2013 is as follows:

	Balance June 30, 2012	Issued	Principal Defeasance	Principal Pay downs	Balance June 30, 2013
Revenue bonds	\$ 583,900,726	\$ 124,935,000	\$ 115,321,705	\$ 39,589,808	\$ 553,924,213
Refunding bonds	184,430,714	35,993,833	-	30,988,629	189,435,918
	<u>\$ 768,331,440</u>	<u>\$ 160,928,833</u>	<u>\$ 115,321,705</u>	<u>\$ 70,578,437</u>	<u>\$ 743,360,131</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 Par Amount	Balance Outstanding June 30, 2014
01/01/1991	Clean Water Fund Revenue Bonds, 1991 Series	\$ 100,000,000	\$ -
01/01/1992	Clean Water Fund Revenue Bonds, 1992 Series	105,000,000	-
01/01/1993	Clean Water Fund Revenue Bonds, 1993 Series	50,000,000	-
06/01/1994	Clean Water Fund Revenue Bonds, 1994 Series	75,000,000	-
03/01/1996	Clean Water Fund Revenue Bonds, 1996 Series	80,000,000	-
03/15/1996	Clean Water Fund Subordinate Revenue Refunding Bonds, 1996 Series	48,445,000	-
09/01/1997	Clean Water Fund Revenue Bonds, 1997 Series	110,000,000	-
04/15/1999	Clean Water Fund Revenue Bonds, 1999 Series	125,000,000	-
05/01/1999	Clean Water Fund Subordinate Revenue Refunding Bonds, 1999 Series	78,995,000	-
06/01/2001	Clean Water Fund Revenue Bonds, 2001 Series	100,000,000	-
07/10/2003	State Revolving Fund General Revenue Bonds, 2003 Series A	118,085,000	-
07/10/2003	State Revolving Fund Refunding General Revenue Bonds, 2003 Series B	115,785,000	38,257,851
07/10/2003	State Revolving Fund Refunding General Revenue Bonds, 2003 Series C-1	55,000,000	-
07/10/2003	State Revolving Fund Refunding General Revenue Bonds, 2003 Series C-2	66,375,000	-
07/27/2006	State Revolving Fund General Revenue Bonds, 2006 Series A	150,000,000	20,614,167
07/27/2006	State Revolving Fund Refunding General Revenue Bonds, 2006 Series B	30,070,000	-
08/06/2008	State Revolving Fund General Revenue Bonds, 2008 Series A	196,195,000	48,565,000
06/25/2009	State Revolving Fund General Revenue Bonds, 2009 Series A	199,440,000	167,535,000
06/25/2009	State Revolving Fund Refunding General Revenue Bonds, 2009 Series B	44,560,000	1,525,000
07/30/2009	State Revolving Fund Refunding General Revenue Bonds, 2009 Series C	115,835,000	85,510,000
03/24/2011	State Revolving Fund General Revenue Bonds, 2011 Series A	182,935,000	152,820,850
02/21/2013	State Revolving Fund General Revenue Bonds, 2013 Series A	124,935,000	121,935,000
02/21/2013	State Revolving Fund Refunding General Revenue bonds, 2013 Series B	37,235,000	35,993,833
Total		<u>\$ 2,308,890,000</u>	<u>\$ 672,756,701</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 2003 Series A dated July 10, 2003 pursuant to the General Bond Resolution adopted December 17, 2002. In accordance with the State Revolving Fund General Revenue Bonds, 2003 Series Plan of Finance, the State allocated the proceeds of 2003 Series Bonds between the SRF and the Drinking Water Fund with \$85,021,200 allocated to the SRF and \$33,063,800 allocated to the Drinking Water Fund. The Drinking 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 of Connecticut to finance the costs of infrastructure needed to achieve or maintain compliance with the Safe Drinking Water Fund Act. After a review of the total expenditures from both programs since 2003, as of July 1, 2006, the State transferred \$10,210,105 in 2003 bond proceeds from the Drinking Water Fund to the Clean Water Fund. An equal principal amount of 2003 Series Bonds will now be designated Clean Water bonds and will be payable from Clean Water revenues for their remaining term. The 2003 Support Fund balances for each program are similarly impacted by the reassignment. Available money equal



to \$1,734,740 in the Clean Water Fund's General Revenue Revolving Fund has been deposited in the Clean Water Fund's 2003 Support Fund and \$1,734,740 in the Drinking Water 2003 Support Fund has become available money in the Drinking Water Fund's General Revenue Revolving Fund. Other related accounts were affected and adjusted to reflect the transfer.

The State of Connecticut issued State Revolving Fund General Revenue Bonds 2006 Series A dated July 27, 2006 pursuant to the General Bond Resolution adopted December 17, 2002. In accordance with the State Revolving Fund General Revenue Bonds, 2006 Series Plan of Finance, the State allocated the proceeds of 2006 Bond Series between the SRF and the Drinking Water Fund with \$145,000,000 allocated to the SRF and \$5,000,000 allocated to the Drinking Water Fund.

The State of Connecticut issued State Revolving Fund General Revenue Bonds 2008 Series A dated August 6, 2008 pursuant to the General Bond Resolution adopted December 17, 2002. In accordance with the State Revolving Fund General Revenue Bonds, 2008 Series Plan of Finance, the State allocated the proceeds of 2008 Series Bonds between the SRF and the Drinking Water Fund with \$171,195,000 allocated to the SRF and \$25,000,000 allocated to the Drinking Water Fund.

The State of Connecticut issued State Revolving Fund General Revenue Bonds 2009 Series A dated June 25, 2009 pursuant to the General Bond Resolution adopted December 17, 2002. In accordance with the State Revolving Fund General Revenue Bonds, 2009 Series Plan of Finance, the State allocated the proceeds of 2009 Series Bonds between the SRF and the Drinking Water Fund with \$194,765,000 allocated to the SRF and \$4,675,000 allocated to the Drinking Water Fund.

The State of Connecticut issued State Revolving Fund General Revenue Bonds 2011 Series A dated March 24, 2011 pursuant to the General Bond Resolution adopted December 17, 2002. 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 pursuant to the General Bond Resolution adopted December 17, 2002. 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.

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

	<u>2014</u>	<u>2013</u>
Serial bonds, with interest rates from 1.00% to 5.00%, maturing from 2013 through 2031	<u>\$ 511,470,017</u>	<u>\$ 553,924,213</u>

### Refunding Bonds - 2003 Series

On July 10, 2003 the State issued \$115,785,000 of State Revolving Fund Refunding General Revenue Bonds 2003, Series B with interest rates of 2.0% to 5.9% and \$121,375,000 of State Revolving Fund Refunding General Revenue Bonds, 2003 Series C (2003 Series B and C Refunding Bonds) as auction rate bonds to advance refund Clean Water Fund 1991, 1992, 1994, 1996, 1997, 1999 and 2001 Series Revenue Bonds (Refunded Bonds) with principal balances totaling \$272,805,000 and interest rates of 4.3% to 7.0%. The State allocated \$7,572,339 of the 2003 Series B Refunding Bonds to the Drinking Water Fund.

The net proceeds of the 2003 Series B and C Refunding Bonds of \$291,594,387 were used to purchase U.S. Government securities and those securities were placed in an irrevocable trust with an escrow agent to provide debt service payments until the Refunded Bonds were redeemed on October 1, 2011. The advance refunding met the requirements of an in-substance debt defeasance and, accordingly, the Refunded Bonds with a principal balance of \$254,971,000 were removed from the SRF's Statement of Net Position.

The difference of \$37,699,081 between the book value of the Refunded Bonds and the amount deposited to the irrevocable trust to fund their debt service represents a loss which has been deferred and will be recognized as an adjustment of interest expense through June 30, 2016. Amortization of the deferred loss for the years ended June 30, 2014 and 2013 totaled \$1,221,872 and \$1,593,449, respectively.

The Series C bonds were defeased on July 30, 2009. See Refunding bonds - 2009 Series C.

### Refunding Bonds - 2006 Series

On July 27, 2006 the State issued \$30,070,000 of State Revolving Fund Refunding General Revenue Bonds 2006, Series B (2006 Series B Refunding Bonds) with interest rates of 3.75% to 5.0% to advance refund Clean Water Fund 1996 Series Revenue and Refunding Bonds (Refunded Bonds) with principal balances totaling \$34,065,000 and interest rates of 4.6% to 5.6%.

The net proceeds of the 2006 Series B Refunding Bonds of \$34,422,009 were used to purchase U.S. Government securities and those securities were placed in an irrevocable trust with an escrow agent to provide debt service payments until the Refunded Bonds were redeemed on September 8, 2006. The advance refunding met the requirements of an in-substance debt defeasance and, accordingly, the Refunded Bonds with a principal balance of \$34,065,000 were removed from the SRF's Statement of Net Position.

The difference of \$357,009 between the book value of the Refunded Bonds and the amount deposited to the irrevocable trust to fund their debt service represents a loss which has been deferred and will be recognized as an adjustment of interest expense through June 30, 2013. Amortization of the deferred loss for the years ended June 30, 2014 and 2013 totaled \$-0- and \$696, respectively.

### Cash Defeasance - 2008

On June 30, 2008 the SRF paid \$109,472,658 to advance refund Clean Water Fund 1993, 1997, 1999 and 2001 Series Revenue and Refunding Bonds (Refunded Bonds) with principal balances totaling \$105,025,734 and interest rates of 4.0% to 6.0%.

The \$109,472,658 was used to purchase U.S. Government securities and those securities were placed in an irrevocable trust with an escrow agent to provide debt service payments and the call premium until the Refunded Bonds were redeemed on various dates through October 1, 2012. The advance refunding met the requirements of an in-substance debt defeasance and, accordingly, the Refunded Bonds with a principal balance of \$105,025,734 were removed from the SRF's Statement of Net Position. As of June 30, 2014 and 2013 the outstanding principal balances of the Refunded Bonds were \$-0-.

The difference of \$5,107,760 between the book value of the Refunded Bonds and the amount deposited to the irrevocable trust to fund their debt service represents a loss which has been deferred and will be recognized as an adjustment of interest expense through June 30, 2013. Amortization of the deferred loss for the years ended June 30, 2014 and 2013 totaled \$-0- and \$1,418,822, respectively.

### Refunding Bonds - 2009 Series B

On June 25, 2009 the State issued \$44,560,000 of State Revolving Fund Refunding General Revenue Bonds 2009, Series B (2009 Series B Refunding Bonds) with interest rates of 2.0% to 5.0% to refund on a current basis Clean Water Fund Subordinate Revenue Refunding Bonds, Series 1999, maturing after July 15, 2009, which were previously cash defeased on June 30, 2008. The Bonds were called on July 15, 2009.

The net proceeds of the 2009 Series B Refunding Bonds of \$46,616,550 were used to purchase U.S. Government securities and those securities were placed in an irrevocable trust with an escrow agent to provide debt service payments until the Refunded Bonds were paid on July 15, 2009.

### 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 (2009 Series C Refunding Bonds) 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.

The net proceeds of the 2009 Series C Refunding Bonds of \$121,375,000 were used to purchase U.S. Government securities and those securities were placed in an irrevocable trust with an escrow agent to provide debt service payments until the Refunded Bonds were redeemed on July 31 and August 3, 2009. The advance refunding met the requirements of an in-substance debt defeasance and, accordingly, the Refunded Bonds with a principal balance of \$121,375,000 were removed from the SRF's Statement of Net Position.

The difference of \$6,728,739 between the book value of the Refunded Bonds and the amount deposited to the irrevocable trust to fund their debt service represents a loss which has been deferred and will be recognized as an adjustment of interest expense through June 30, 2023. Amortization of the deferred loss for the years ended June 30, 2014 and 2013 totaled \$629,371 and \$675,110, respectively.

#### Cash Defeasance - 2011

On March 24, 2011 the SRF paid \$31,553,641 to advance refund Clean Water Fund 2003 Series A Revenue (Refunded Bonds) with principal balances totaling \$27,961,164 and an interest rate of 5.0%. The Refunded Bonds were scheduled to mature at various dates through October 1, 2019, but have a redemption date of October 1, 2013.

The \$31,553,641 was used to purchase U.S. Government securities and those securities were placed in an irrevocable trust with an escrow agent to provide debt service payments until the Refunded Bonds are called on October 1, 2013. The advance refunding met the requirements of an in-substance debt defeasance and, accordingly, the Refunded Bonds with a principal balance of \$27,961,164 were removed from the SRF's Statement of Net Position. The outstanding principal balance of the Refunded Bonds for the years ended June 30, 2014 and 2013 was \$-0- and \$27,961,164, respectively.

The difference of \$2,258,466 between the book value of the Refunded Bonds and the amount deposited to the irrevocable trust to fund their debt service represents a loss which has been deferred and will be recognized as an adjustment of interest expense through June 30, 2014. Amortization of the deferred loss for the years ended June 30, 2014 and 2013 totaled \$702,634.

#### Refunding Bonds - 2013 Series B

On February 21, 2013 the State issued \$37,235,000 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 a redemption date of July 1, 2016.

The net proceeds of the 2013 Series B Refunding Bonds of \$43,568,463 were used to purchase U.S. Government securities and those securities were placed in an irrevocable trust with an escrow agent to provide debt service payments until the Refunded Bonds will be called on July 1, 2016. The advance refunding met the requirements of an in-substance debt defeasance and, accordingly, the Refunded Bonds with a principal balance of \$36,322,500 were removed from the SRF's Statement of Net Position. The outstanding principal balance of the Refunded Bonds for the year ended June 30, 2014 and 2013 was \$36,322,500.

The SRF advance refunded the Refunded Bonds to reduce its total debt service payments over 15 years by \$4,095,367 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$3,312,384. The difference of \$5,607,894 between the book value of the Refunded Bonds and the amount deposited to the irrevocable trust to fund their debt service represents a loss which has been deferred and will

be recognized as an adjustment of interest expense through June 30, 2017. Amortization of the deferred loss for the years ended June 30, 2014 and 2013 totaled \$1,121,579.

### Cash Defeasance - 2013

On February 21, 2013 the SRF paid \$87,030,371 to advance refund Clean Water Fund 2003 Series A Revenue with principal balances totaling \$34,261,871 and interest rates of 3.0% to 4.5% and Clean Water Fund 2006 Series A Revenue with principal balances totaling \$44,737,333 and interest rates of 4.25% to 5.0%. The 2003 Series A bonds were scheduled to mature at various dates through October 1, 2025, but will be redeemed on October 1, 2013. The 2006 Series A bonds were scheduled to mature at various dates through July 1, 2027, but will be redeemed on July 1, 2016.

The \$87,030,371 was used to purchase U.S. Government securities and those securities were placed in an irrevocable trust with an escrow agent to provide debt service payments until the Refunded Bonds are redeemed. The advance refunding met the requirements of an in-substance debt defeasance and, accordingly, the Refunded Bonds with a principal balance of \$78,999,205 were removed from the SRF's Statement of Net Position. The outstanding principal balance of the Refunded Bonds for the year ended June 30, 2014 and 2013 was \$78,999,205.

The difference of \$6,293,305 between the book value of the Refunded Bonds and the amount deposited to the irrevocable trust to fund their debt service represents a loss which has been deferred and will be recognized as an adjustment of interest expense through June 30, 2017. Amortization of the deferred loss for the years ended June 30, 2014 and 2013 totaled \$1,258,661.

### Bond Maturities

Requirements at June 30, 2014 to retire the SRF's revenue and refunding bonds are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 70,351,030	\$ 29,716,940
2016	73,776,538	26,543,346
2017	59,002,200	23,759,255
2018	53,036,450	21,387,978
2019	44,911,100	19,194,484
2020-2024	226,308,016	62,449,272
2025-2029	123,616,367	19,431,657
2030-2031	21,755,000	1,585,000
	<u>\$ 672,756,701</u>	<u>\$ 204,067,932</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 2003, 2006, 2008, 2009 and 2011 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, 2014 and 2013.

## 10 - NET POSITION

The following represents an analysis of net position for the years ended June 30, 2014 and 2013:

	<u>Unrestricted</u>	<u>Restricted for Loans</u>	<u>Total</u>
Balance at June 30, 2012	\$168,688,111	\$499,779,204	\$ 668,467,315
Change in net position	<u>277,104</u>	<u>28,044,816</u>	<u>28,321,920</u>
Balance at June 30, 2013	168,965,215	527,824,020	696,789,235
Change in net position	<u>1,920,271</u>	<u>17,146,943</u>	<u>19,067,214</u>
Balance at June 30, 2014	<u>\$170,885,486</u>	<u>\$544,970,963</u>	<u>\$ 715,856,449</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>2014</u>	<u>2013</u>
State funded loan repayments	\$ 606,062	\$ 576,211
Transfer from state account	172,280	-
Operating expenses transfer	444,232	715,697
Operating expenses reimbursement	( 486,261)	( 673,667)
State funded loan and grant reclassifications	-	( 13,097)
Transfer related to cost of issuance of bond offerings	-	( 999,923)
Transfer related to DWF debt service	<u>1,420,513</u>	<u>1,383,394</u>
	<u>\$ 2,156,826</u>	<u>\$ 988,615</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>2014</u>	<u>2013</u>
Total funds committed to municipalities	\$ 1,330,724,986	\$ 1,417,407,750
Loan amount outstanding to municipalities	<u>967,185,261</u>	<u>937,737,849</u>
Loan commitments outstanding	<u>\$ 363,539,725</u>	<u>\$ 479,669,901</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.

# SEWARD AND MONDE

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

Ms. Denise L. Nappier, Treasurer

Mr. Robert J. Klee, Commissioner,  
Department of Energy and Environmental Protection,  
State of Connecticut

We have audited, 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, 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, 2014, and the related notes to the financial statements, and have issued our report thereon dated September 4, 2014.

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

### ***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 4, 2014

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## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Ms. Denise L. Nappier, Treasurer

Mr. Robert J. Klee, 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 Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the SRF's major federal programs for the year ended June 30, 2014. 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 the requirements of laws, regulations, contracts and grants 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; 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 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 each of its major federal programs for the year ended June 30, 2014.

### ***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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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 requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Seward and Monde*

North Haven, Connecticut  
September 4, 2014

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, 2014

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<u>Federal Grantor; Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
ENVIRONMENTAL PROTECTION AGENCY		
Direct:		
Capitalization Grants for State Revolving Fund	66.458	<u>\$ 20,001,699</u>

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, 2014

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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 - 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

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

B - SUBRECIPIENTS

Loans disbursed to subrecipients during year ended June 30, 2014 totaled \$16,939,606. Grants disbursed to subrecipients during year ended June 30, 2014 totaled \$2,617,861.

C - MUNICIPAL LOAN BALANCES

The balance of outstanding loans to municipalities totaled \$967,185,261 as of June 30, 2014.

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, 2014

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SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?  Yes  No

Significant deficiency(ies) identified?  Yes  None reported

Noncompliance material to financial statements noted?  Yes  No

Federal Awards

Internal control over major programs:

Material weakness(es) identified?  Yes  No

Significant deficiency(ies) identified?  Yes  None reported

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

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

Identification of Major Programs:

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

Dollar threshold used to distinguish between type A and type B programs \$ 600,051

Auditee qualified as low risk auditee?  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, 2014

. . . Continued . . .

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SECTION II - FINANCIAL STATEMENT FINDINGS

No findings are reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No findings or questioned costs are reported.