

Missouri Drinking Water

State Revolving Fund Biennial Report
Fiscal Years 2009-2010



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I. Introduction

The State of Missouri is pleased to submit this Biennial Report for Missouri's Drinking Water State Revolving Fund, also known as SRF, for state fiscal year 2009 and 2010 as required by the U.S. Environmental Protection Agency (EPA) Drinking Water SRF Program guidelines. This report addresses operation of the Drinking Water SRF Program during the time period from July 1, 2008 through June 30, 2010.

During that time period, Missouri was awarded the American Recovery and Reinvestment Act (ARRA) of 2009 capitalization grant. The terms and conditions of this capitalization grant required that not less than 50 percent of assistance provided be in the form of additional loan subsidies, such as principle forgiveness, negative interest loans or grants. Missouri chose to provide the required subsidization through grants. ARRA projects were funded through a combination of 50 percent grant and 50 percent loan with a maximum grant of \$2,000,000 per applicant. Disadvantaged communities were eligible for a 75 percent grant with a 25 percent direct loan.

The Missouri Department of Natural Resources provides this report detailing the activities undertaken to reach the goals and objectives set forth in the Intended Use Plan developed for state fiscal year 2010. This report documents the status of the program by describing progress made toward long and short term program goals, the sources (e.g., federal grants) and uses of all funds (e.g. loans), financial status of the Drinking Water SRF, and compliance with Federal Drinking Water State Revolving Fund requirements.

II. Executive Summary

The State of Missouri's Drinking Water State Revolving Fund Program has received a total of \$195,445,358 in Environmental Protection Agency Capitalization Grants and Amendments through June 30, 2010. This amount does include an in-kind amount of \$1,444 on the FS997629-00 grant and the in-kind amount of \$100,000 on the FS997629-06 grant and on the FS997629-08 grant. All of these amounts are not available to be drawn. The Drinking Water SRF Program fund includes state match of \$34,704,549, which includes \$19,200,000 of revenue bonds. Since the inception of the program, the State of Missouri had made 73 leveraged loan commitments totaling \$250,735,000. In addition, the department has made 23 direct loans totaling \$30,964,700.

The EPA capitalization grant provided by ARRA required that not less than 50 percent of assistance provided be in the form of additional loan subsidies, such as principle forgiveness, negative interest loans or grants. As a result, the Drinking Water SRF program began issuing grants in state fiscal year 2010 for the first time. Nineteen communities received grants totaling \$18,948,152. Grants were limited to 50 percent of the project costs or \$2,000,000. Disadvantaged communities were eligible for a 75 percent grant up to a maximum of \$2,000,000.

Below is a list of all the Drinking Water SRF Capitalization Grant awards from the inception of the program through state fiscal year 2010.

Drinking Water SRF Capitalization Grants

Drinking Water SRF Federal Fiscal Year	Award Amount	Cumulative
1997	\$21,856,417	\$21,856,417
1998	\$9,572,970	\$31,429,387
1999	\$10,034,771	\$41,464,158
2000	\$10,429,700	\$51,893,858
2001	\$10,472,900	\$62,366,758
2002	\$11,702,600	\$74,069,358
2003	\$11,633,700	\$85,703,058
2004	\$12,066,800	\$97,769,858
2005	\$12,041,300	\$109,811,158
2006	\$15,978,200	\$125,789,358
2007	\$15,978,000	\$141,767,358
2008	\$15,816,000	\$157,583,358
ARRA	\$37,862,000	\$195,445,358

During state fiscal year 2009, one pooled leveraged loan closing occurred and during state fiscal year 2010, no pooled leveraged loan closings occurred. Five communities or entities were included in the 2008A loan closing which totaled \$10,805,000. One direct loan was made totaling \$2,900,000 during state fiscal year 2009. Twenty-one direct loans were made totaling \$23,901,700 during state fiscal year 2010. (Refer to the table below)

Below is a summary of Drinking Water SRF binding commitments. The cumulative total Drinking Water SRF binding commitment on June 30, 2010 is \$300,647,852. The Drinking Water SRF has never had a recipient default on their loan.

Binding Commitment Summary

State Fiscal Year 2009 Binding Commitments	Amount
Leveraged Loans	\$10,805,000
Direct Loans	\$2,900,000
2009 Binding Commitments	13,705,000
State Fiscal Year 2010 Binding Commitments	
ARRA Grants	\$18,948,152
Direct Loans	\$23,901,700
2010 Binding Commitments	\$42,849,852
Cumulative Binding Commitments	
Leveraged Loans	\$250,735,000
Direct Loans	\$30,964,700
ARRA Grants	\$18,948,152
Total Binding Commitments	\$300,647,852

The Wastewater Loan Revolving Fund, Fund 0602, was established to receive loan repayments, which are then used to make new loans. As of June 30, 2009, the Wastewater Loan Revolving Fund had a balance of \$11,260,214 and as of June 30, 2010, the Wastewater Loan Revolving Fund had a balance of \$14,310,383. The EPA Capitalization Grant Balance for Drinking Water SRF projects only was \$45,085,547 as of June 30, 2010. The EPA Capitalization Grant Balance related to the Drinking Water Set-asides was \$7,172,125 as of June 30, 2010. The EPA Capitalization Grant Balance total is \$52,257,672.

III. State Fiscal Year 2009 and 2010 Binding Commitments

The department entered into 5 leveraged loans and twenty two direct loan commitments as well as nineteen grant commitments totaling \$56,554,852 during state fiscal year 2009 and state fiscal year 2010.

Drinking Water SRF Commitments During State Fiscal Years 2009 and 2010

Recipient	Type	Loan Commitment Amount	Grant Commitment Amount	Date	Project ID
Ashland	LL	\$1,240,000		10/30/2008	DW291043-02
Cole County PWSD #4	LL	\$2,045,000		10/30/2008	DW291208-01
Holcomb	LL	\$355,000		10/30/2008	DW291186-01
Livingston County PWSD #3	LL	\$970,000		10/30/2008	DW291201-01
Poplar Bluff	LL	\$6,195,000		10/30/2008	DW291204-01
Sullivan County PWSD #1	DL	\$2,900,000		04/14/2009	DW291212-01
Cameron	DL	\$1,390,500	\$1,390,500	11/02/2009	DW291193-03
Ava Municipal Water System	DL	\$1,445,400	\$1,445,400	11/17/2009	DW291214-01
Clarence Cannon	DL	\$2,390,000	\$2,000,000	11/23/2009	DW291070-03
Platte County PWSD #8	DL	\$444,800		11/17/2009	DW291273-01
Drexel	DL	\$2,368,000	\$2,000,000	11/23/2009	DW291236-01
Clinton Co PWSD #3	DL	\$1,100,000	\$1,100,000	11/25/2009	DW291227-01
Rockaway Beach	DL	\$862,000	\$862,000	12/09/2009	DW291230-01
Monroe Co PWSD #2	DL	\$1,065,200	\$1,065,200	12/14/2009	DW291213-01
Pilot Grove	DL	\$505,000	\$505,000	12/23/2009	DW291232-01
Adrian	DL	\$473,800	\$473,800	12/29/2009	DW291245-01
Harry S Truman PWSD #2	DL	\$1,172,000	\$1,172,000	12/29/2009	DW291239-01
Weston	DL	\$2,033,400	\$2,033,300	12/29/2009	DW291220-01
King City	DL	\$199,100	\$597,300	01/06/2010	DW291265-01
Linn Creek	DL	\$305,300	\$916,100	01/12/2010	DW291223-01
Ste Genevieve	DL	\$781,300	\$781,440	01/12/2010	DW291281-01
Clay Co PWSD #8	DL	\$723,000	\$723,000	01/14/2010	DW291235-01

Recipient	Type	Loan Commitment Amount	Grant Commitment Amount	Date	Project ID
Cape Girardeau	DL	\$1,000,000	\$1,000,000	01/15/2010	DW291010-03
Newburg Water System	DL	\$162,200	\$162,200	01/19/2010	DW291229-01
Cole County PWSD #4	DL	\$324,000	\$324,000	01/21/2010	DW291208-02
Wardsville	DL	\$396,700	\$396,862	01/28/2010	DW291218-01
Clarence Cannon	DL	\$4,760,000		06/24/2010	DW291070-04
State Fiscal Years 2009 and 2010 Total		\$37,606,700	\$18,948,152		

LL – Leveraged Loan DL – Direct Loan

IV. Cumulative Binding Commitments

The cumulative Drinking Water SRF binding commitment (leveraged, direct loan and grant commitments) total is \$300,647,852. Since the inception of the Drinking Water SRF Program, 118 commitments have been made. Of the 118 commitments entered into, 73 were leveraged loans, 26 were direct loans and 19 were grants. To date, three direct loans were repaid when they closed on a leveraged loan.

The innovative financing provided through the SRF allows communities to save a considerable percentage of the interest cost of conventional loans. To date, Missouri's Drinking Water SRF Program has saved communities an estimated \$70,232,757 in interest compared to the higher interest rates of conventional financing.

V. Drinking Water SRF Applications and Loans Awarded

Below is a summary of the number of new and carry-over Drinking Water SRF applications for state fiscal year 2009 and state fiscal year 2010 (includes ARRA applications). This information was taken from the Intended Use Plans for 2009 and 2010.

Drinking Water SRF Applications			
Projects Accepted	State Fiscal Year 2009	State Fiscal Year 2010	Total
Number of New Projects	21	130	151
Number of Carry-over Projects	18	10	28
Total Number of Projects	39	140	179
Total \$ Request of New Projects	\$60,345,000	\$381,969,457	\$442,314,457
Total \$ Request of Carry-over Projects	\$80,663,000	\$16,107,000	\$96,770,000
Total \$ Request of Projects	\$141,008,000	\$398,076,457	\$539,084,457
Total Population Served for New Projects	126,537	3,232,914	3,359,451
Total Population Served for Carry-over Projects	137,041	55,776	192,817
Total Population Served	263,578	3,288,690	3,552,268

The table below summarized the number of projects approved, the amounts of the loans, and the total population served for those projects.

Drinking Water SRF Loan Projects Approved and Loans Awarded			
Projects Approved and Loans Awarded	State Fiscal Year 2009	State Fiscal Year 2010	Total
Number of Projects Approved (Closed Loans)	6	21	27
Total Amount Of Loans Closed	\$13,705,000	\$23,901,700	\$37,606,700
Total Population Served	36,992	143,333	180,325

The following table shows the cumulative Drinking Water SRF leveraged loan closings since the beginning of the program.

Cumulative Drinking Water SRF Leveraged Loans

Cumulative Drinking Water SRF Leveraged Loans				
Bond Pool	Number of Loans	Total Loan Amount	Subsidized Interest Rate + 0.5 Administrative Fee	Cumulative Amount
1998A	2	\$28,795,000	3.58%	\$28,795,000
1999A	1	\$2,315,000	3.57%	\$31,110,000
1999B	2	\$4,320,000	4.07%	\$35,430,000
2000A	6	\$20,490,000	4.01%	\$55,920,000
2000B	4	\$6,810,000	3.87%	\$62,730,000
2001A	4	\$6,295,000	3.43%	\$69,025,000
2001C	7	\$23,400,000	3.95%	\$92,425,000
2002A	4	\$10,370,000	2.93%	\$102,795,000
2002B	4	\$26,705,000	2.93%	\$129,500,000
2003B	4	\$11,445,000	2.68%	\$140,945,000
2003C	5	\$11,290,000	2.20%	\$152,235,000
2004B	2	\$3,605,000	2.13%	\$155,840,000
2004C	5	\$9,719,000	2.13%	\$165,560,000
2005A	3	\$28,105,000	2.27%	\$193,665,000
2005C	4	\$29,780,000	1.84%	\$223,445,000
2006A	3	\$2,000,000	2.05%	\$225,445,000
2006B	1	\$2,295,000	2.08%	\$227,740,000
2007A	8	\$11,805,000	1.83%	\$239,545,000
2007B	1	\$385,000	2.01%	\$239,930,000
2008A	5	\$10,805,000	2.13%	\$250,735,000

VI. Goals of the Drinking Water State Revolving Fund

Each year the department evaluates the operations and the financial structures of the SRF Program to gauge the program's effectiveness. Long- and short-term objectives are proposed to improve program services and investment returns. An assessment of these objectives is included in the program's Biennial Report. The following sections present the current strategies for program improvements.

Long Term Goals

In order to meet the long term goals (3 – 5 years) of improving the Drinking Water SRF's operations and service to its clients, the department developed the following objectives : 1) To support the department's goal of ensuring that all Missouri citizens will have water that is always safe to drink; 2) To conduct year by year financial analyses of the availability and use of Drinking Water SRF funds to ensure a self-sustaining leveraged loan program to facilitate compliance with the Safe Drinking Water Act by all public drinking water systems; and 3) To promote coordination of efforts both within and outside the agency for the purpose of expediting the funding of projects.

Short Term Goals

In order to meet the short term goals (1 – 3 years) of improving the immediate operations and the availability of services to its clients, the department developed the following objectives: 1) To update the Drinking Water SRF Priority Point Criteria and Readiness to Proceed Criteria by having criterion updated and approved by the Missouri Safe Drinking Water Commission at least 60 days prior to the initial application receipt deadline; 2) To maximize the use of available leveraged loan funds for eligible loan projects in accordance with the priority and procedures described in the Intended Use Plan; 3) To develop a combined Clean Water SRF and Drinking Water SRF annual report for public distribution; 4) To evaluate and recommend Drinking Water SRF related regulation changes needed to remove unnecessary delays and restrictions, and improve the coordination with the U.S. Department of Agriculture, Rural Development (USDA RD) and the Department of Economic Development (DED) on loan processing; and 5) To revise the structure of the Drinking Water SRF loan program to allow for additional flexibility in challenging financial times.

VII. Progress Toward Achieving Goals

This section of the Annual Report discusses the progress that has been made in meeting those long and short term goals for the period from July 1, 2009 to June 30, 2010.

Progress Toward Meeting the Long Term Goals

The department has developed the following long-term (3-5 years) objectives with the goal of improving the Drinking Water SRF's operations and availability of services to its clients.

Objective 1: Support the department's goal of ensuring that all Missouri citizens will have water that is always safe to drink.

The department has met this objective by providing affordable financing to public water systems to fund improvements to drinking water infrastructure. These improvements allow public water systems to continue providing safe, clean and abundant drinking water to the citizens of Missouri. The Public Drinking Water Branch continues to provide oversight of all public water systems in the state to ensure compliance with the Safe Drinking Water Act.

Objective 2: Conduct year by year financial analyses of the availability and use of Drinking Water SRF funds to ensure a self-sustaining leveraged loan program to facilitate compliance with the Safe Drinking Water Act by all public drinking water systems.

The department continues to monitor the availability of funds in conjunction with the demand for those funds. During this fiscal period, the department focused on the distribution of funding provided through the American Recovery and Reinvestment Act of 2009 (ARRA). However, many discussion and planning meetings were conducted with bond counsel and finance team members to design and implement a new form of leveraging, since guaranteed returns on Missouri's reserve model were no longer available. It is important for the State of Missouri to continue to leverage the program since this is the only source of match available at the present time.

Objective 3: Promote coordination efforts both within and outside the agency for the purpose of expediting the funding of projects.

Program staff continue to meet with other department staff as well as other state and federal agencies in an effort to expedite project development and to make most efficient use of available funding from each agency. This takes place through the Missouri Water and Wastewater Review Committee, comprised of the Department of Natural Resources, the Department of Economic Development and the U.S. Department of Agriculture, Rural Development Program.

In November 2007, the department received \$50 million funding for the state grant and loan programs. A portion of these funds were made available to small communities which allowed them to complete a funding package to finance drinking water system improvements.

Progress Toward Meeting the Short Term Goals

The department developed the following short-term (1-3 years) objectives with the goal of improving the Drinking Water SRF's immediate operations and the availability of services to its clients.

Objective 1: Update the Drinking Water SRF Priority Point Criteria and Readiness to Proceed Criteria. Have both criterion updated and approved by the Missouri Safe Drinking Water Commission at least 60 days prior to the initial application receipt deadline.

This objective was accomplished on May 27, 2009 for state fiscal year 2010 and September 2, 2009 for state fiscal year 2011.

Objective 2: Maximize the use of available leveraged loan funds for eligible loan projects in accordance with the priority and procedures described in the Intended Use Plan.

Program staff continue to work with applicants to achieve readiness to proceed status. The incorporation of readiness to proceed criteria in the review process has enabled projects to proceed to loan closing in a more timely manner thus enabling the program to maximize the use of available funds.

The dramatic increase of funding provided through ARRA placated much of the existing demand for drinking water SRF loans. Staff have initiated contact with some of the largest systems in the state in an effort to increase demand.

Objective 3: Develop a combined Clean Water SRF and Drinking Water SRF annual report for public distribution.

This objective was not pursued. Priority was directed to the dramatic increase in reporting requirements associated with the ARRA/SRF funding.

Objective 4: Evaluate and recommend Drinking Water SRF related regulation changes to remove unnecessary delays and restrictions, and improve coordination with the U. S. Department of Agriculture, Rural Development (USDA RD) and the Department of Economic Development (DED) on loan processing.

Program regulations were changed during this fiscal period to reflect the requirements of ARRA funding, specifically, that a portion of the ARRA capitalization grant be distributed as principal forgiveness, negative interest loans, or grants.

Program staff continue to coordinate with the other funding agencies through the Missouri Water and Wastewater Review Committee in an effort to expedite project development and to make most efficient use of available funding from each agency.

Objective 5: Revise the structure of the Drinking Water SRF loan program to allow for additional flexibility in challenging financial times. Specifically, this effort will allow for the implementation of an alternative form of leveraging if necessary.

The department moved toward providing direct loans during the implementation of ARRA to maximize the flexibility required by the large number of funding recipients. This allowed the department and the recipient to close on loans/grants as projects became ready, not having to wait on scheduled, pooled closings.

Also, many discussions and planning meetings were conducted with bond counsel and finance team members to design and implement a new form of leveraging, since guaranteed returns on Missouri's reserve model were no longer available. It is important for the State of Missouri to continue to leverage the program since this is the only source of match available at the present time.

VIII. Set-Aside Activities

When Congress established the Drinking Water SRF in 1996, it included special provisions called “set-asides” for the purpose of helping states better achieve the public health protection objectives of the Safe Drinking Water Act. The set-asides provide funding to enhance state public drinking water programs and assist systems with non-infrastructure needs.

The Safe Drinking Water Act establishes four set-asides to be used for purposes identified in the Safe Drinking Water Act and set limits on the maximum percent of the capitalization grant for each. The set-asides have two overarching purposes: to enhance state programs and to assist public water systems. They offer states the opportunity to balance infrastructure investment and investment in state program development and implementation, with the intended result of more effective public health protection.

States are allowed to reserve up to 31 percent of each year’s capitalization grant for set-aside activities. The department will reserve a total of 26 percent of the federal fiscal year 2009 capitalization grant, which was awarded in state fiscal year 2010. Each of the four set-aside components and the related activities Missouri has funded during state fiscal years 2009 and 2010 are discussed below.

Administration and Technical Assistance

The Safe Drinking Water Act allows states to set-aside and use up to four percent of each capitalization grant for administration of the programs established under Safe Drinking Water Act §1452 (Drinking Water SRF programs) and for technical assistance to public water systems of any size.

In the time period covered by this report, the department used this set-aside for the cost of administering the Drinking Water SRF Loan Program, including paying the salaries and associated expenses of program personnel devoting time to the administration of the fund. Staff has provided assistance to applicants and loan recipients, reviewed projects, assisted systems with the Needs Survey, prioritized projects, issued loans, tracked repayments and performed project inspections. The department has also used the set-aside to obtain all equipment and training for the adequate performance of staff.

The department reserved the entire authorized four percent allowed for these activities for the capitalization grants for federal fiscal years 2008 and 2009. The department banked the unused balance and will use it for the same activities in later years.

Small System Technical Assistance

The Safe Drinking Water Act allows states to set-aside and use up to two percent of each capitalization grant for technical assistance to public water systems serving less than 10,000 people. The department reserved the entire authorized two percent of the 2008 and 2009

capitalization grants for set-aside activities designated for technical assistance to benefit small water systems.

Although this set-aside can be used for systems serving up to 9,999 people, the department has primarily limited its use to systems serving populations of 3,300 or less. Assistance has included helping systems comply with cross-cutting requirements of the loan program and state requirements; locating and obtaining sources of additional funding; complying with the Safe Drinking Water Act; developing technical, managerial and financial capacity; and providing technical assistance using department staff.

A major undertaking with this set-aside has been assistance provided to small systems needing engineering report services. The department makes funding available annually, through a competitive application process, to systems that serve populations of 3,300 or less and to systems that serve 3,301 to 9,999 people if the project will benefit a smaller system. The owners and operators of these very small systems recognize the need and value of an engineering review of their system but are unable to afford the entire cost.

The department reviews and ranks the applications for this funding based on a priority point system similar to the Drinking Water SRF Leveraged Loan Program. Applicants with the greatest need are awarded a contract and go through a solicitation process to select an engineering firm. Upon proof of proper solicitation, the water system owner, the engineer and the department sign a Three Party Payment Agreement.

The engineer evaluates the system and produces a report assessing the needs of the system to achieve and maintain technical, managerial and financial capacity, including all possible alternatives, which may include, for example, regionalization, consolidation or resource sharing. The report also identifies infrastructure improvements needed to ensure Safe Drinking Water Act compliance and public health protection and estimates the cost of these improvements.

The department pays up to 90 percent of the engineering services costs per applicant. In state fiscal years 2009 and 2010 the department awarded a total of \$1,683,475 in engineering service grant to 66 public drinking water systems. The water systems that benefited from these contracts in state fiscal years 2009 and 2010 are listed below:

Engineering Service Awarded in State Fiscal Years 2009/2010		
Water System Name	Grant Amount	
	Regular DWSRF Funding	ARRA DWSRF Funding
Audrain Co. PWSD #2	\$13,500	
Blue Branch Improvement Association		\$6,750
Camden Co. PWSD #1		\$15,300
Cass Co. PWSD #10		\$13,500
Cass Co. PWSD #2		\$13,500
Cass Co. PWSD #3	\$25,200	
City of Boonville		\$45,000
City of Bowling Green		\$13,500
City of Brashear	\$9,000	
City of Braymer	\$10,800	
City of Brookfield		\$15,750
City of Buckner	\$9,675	
City of California	\$45,000	
City of Cameron		\$21,249
City of Cape Girardeau		\$144,540
City of Chaffee		\$10,000
City of Dexter		\$18,000
City of Fredericktown		\$91,890
City of Glasgow	\$9,900	
City of Green Castle	\$9,000	
City of Huntsville	\$9,900	
City of Jameson		\$12,000
City of Kahoka		\$10,170
City of King City	\$9,900	
City of LaPlata		\$12,600
City of Lathrop		\$12,600
City of Liberty		\$157,604
City of Moberly		\$60,750
City of Morehouse		\$6,451
City of New Florence		\$13,500
City of Oak Grove		\$54,900
City of Ozark		\$54,000
City of Pacific		\$35,100
City of Paris	\$10,170	
City of Plattsburg		\$21,483
City of Pleasant Hill		\$48,600
City of Savannah	\$7,508	\$20,932
City of St. James		\$22,050
City of Stewartsville		\$21,773
City of Wright City		\$13,410

Water System Name	Grant Amount	
	Regular DWSRF Funding	ARRA DWSRF Funding
Cole Co. PWSD #3		\$22,500
Cole Co. PWSD #4		\$45,000
Davies Co. PWSD #2		\$34,808
Frontier Estates		\$7,094
Henry Co. PWSD #4		\$9,900
Howell Oregon Co. PWSD #2 North		\$13,500
Howell Oregon Co. PWSD #2 South		\$9,000
Howell Oregon Co. PWSD #2 West		\$9,000
Ivy Bend Water Association		\$15,300
Jackson Co. PWSD #15		\$9,900
Jefferson Co. PWSD #2		\$60,865
Killarney Shores Subdivision	\$9,000	
Lake Ozark		\$15,300
Linn Co. Consolidated PWSD #1	\$9,818	
Macon Co. PWSD #1		\$25,020
Pettis Johnson Saline Co. PWSD #1		\$20,250
City of Pierce City		\$20,250
Saline Co. PWSD #2	\$9,900	
City of Sarcoxie	\$17,955	
St. Charles Co. PWSD #2 Sumac Ridge		\$7,650
St. Charles Co. PWSD #2 Augusta		\$16,650
St. Charles Co. PWSD #2 Foristell		\$43,560
St. Charles Co. PWSD #2 Warren		\$21,150
Taney Co. PWSD #3		24,300
Tri-County Water Authority		\$39,342
Wayne Co. PWSD #2	\$10,008	
Total	\$226,234	\$1,457,241

Public Water System Supervision Program Management

The Safe Drinking Water Act allows states to set-aside and use up to 10 percent of each capitalization grant for state program management. The state must provide a one-to-one match out of state funds in order to utilize this set-aside. Congress established this Set-aside in order to help states administer the public drinking water program, provide technical assistance through source water protection programs to all public water systems, develop and implement a capacity development strategy, assist systems with source water protection and develop and implement an operator certification program.

For both federal fiscal year 2008 and 2009 capitalization grants, the department reserved the entire 10 percent for this set-aside. Various units of the department carry out the activities authorized by this set-aside, including the Public Drinking Water Branch and the Division's regional offices.

The department used this set-aside to:

- Support primacy program activities, such as rule development, compliance and enforcement, inspections and sanitary surveys, information and data management, reports and record keeping and all other activities required of a primacy program.
- Support source water protection activities, such as training and conference presentations on source water protection and technical assistance to water systems.
- Implement and improve the Missouri Capacity Development Strategy.
- Implement and maintain the operator certification program.

The Safe Drinking Water Act requires states to have and implement a strategy to assist all public water systems with achieving and maintaining technical, managerial and financial capacity or lose 20 percent of their annual Drinking Water SRF capitalization grant. Missouri has had an EPA-approved Capacity Development Strategy since September 14, 2000 and continues to implement and refine the goals and objectives of the strategy. Missouri's Strategy and related capacity development documents are available on the Web at <http://www.dnr.mo.gov/env/wpp/pub/CDstrategy.htm>.

The Safe Drinking Water Act also requires all states to develop and implement a public drinking water operator certification program that meet federal requirements or lose 20 percent of their annual Drinking Water SRF capitalization grant. Missouri has had an EPA-approved operator certification program since February 2002. A portion of this Public Water System Supervision set-aside provides some support for the operator certification program. More information about Missouri's operator certification program is available at <http://www.dnr.mo.gov/env/wpp/opcert/oprtrain.htm>. The Drinking Water Operator Certification Program Annual Report for 2010 is provided in Exhibit 3.

Local Assistance and Other State Programs

The Safe Drinking Water Act allows states to set-aside up to 15 percent of the Drinking Water SRF capitalization grant for special loan programs for source water protection, to provide technical and financial assistance to public water systems as part of a capacity development strategy and to establish and implement a wellhead protection program under Section 1428 of the Safe Drinking Water Act. The amount the department has set-aside for these purposes has varied from five percent to ten percent. For the 2008 and 2009 capitalization grants, the department set aside 10 percent to support these activities..

The primary purpose of this funding is to assist systems with capacity development and wellhead protection. In state fiscal years 2009 and 2010, the department continued to use this set-aside to provide funding to encourage wellhead protection, including training and presentations on wellhead protection plans, and encourage public water systems to increase their technical, managerial and financial capacity.

Since 2007 the department has administered two funding opportunities for the proper plugging of abandoned drinking water wells. Through the abandoned well plugging program 35 community public water systems were awarded approximately \$334,334 to properly plug abandoned

drinking water wells. Twenty one community public water systems were awarded funds for Wellhead Protection Project grants in 2007. In 2010 the Wellhead Protection Project grants were revised to accommodate source water protection efforts for surface water systems (in addition to groundwater systems) - this grant program has since been renamed the Source Water Protection Project grant program. Currently, 16 community public water systems are anticipated to receive awards through this program (FY2011) for a total award amount of approximately \$146,000. The Public Drinking Water Branch anticipates continuing to revise and improve both of these programs in an effort to promote additional protection of raw public drinking water sources to existing and potential contamination."

IX. Maintaining Drinking Water SRF Financial Assistance Programs.

The department operates a number of financial assistance programs for drinking water infrastructure.

Financial Assistance Programs

Leveraged Loans

The Drinking Water SRF Leveraged Loan Program is the primary financial tool used by the department to fund public drinking water improvements. For state fiscal year 2009 and 2010, the department reserved 74 percent of the annual capitalization grant for leveraged loans. The department historically issued Drinking Water SRF loans twice a year, once in the fall and once in the spring. The subsidy rate for all leveraged loans awarded in state fiscal year 2009 was 70 percent of the market interest rate. In state fiscal year 2009, the department awarded \$10,805,000 in leveraged loans to 5 different drinking water systems. These loans all have a 20-year term. During the implementation of ARRA, the program has moved toward issuing direct loans rather than leveraged loans through a hybrid cash-flow model.

Direct Loans

Direct loans are financed with funds from the Drinking Water SRF repayment account or EPA capitalization grants. In state fiscal year 2009, the department issued one direct loan to Sullivan County PWS #1 in the amount of \$2,900,000. In state fiscal year 2010, the department issued 21 direct loans totaling \$23,901,700. Refer to Section III for a listing of the direct loans issued during state fiscal year 2010.

Setting Priorities

Each year the department develops written criteria to prioritize the ranking of projects for loans and engineering service contracts so that the most serious problems are given the highest priority. Consistent with the Federal Safe Drinking Water Act, priorities are based on protection of public health, compliance and household affordability. The Safe Drinking Water Commission approves the criteria after public review.

Available capitalization grant funds, state match revenues and interest earned for the state fiscal year will be allocated to new projects according to priority ranking. Projects that had a priority ranking too low to be funded were placed on a contingency list.

Project Reviews

Drinking Water SRF Loans

The normal solicitation period each state fiscal year for accepting new projects for Missouri's Drinking Water SRF Loan Program is a 60-day period running from mid September to mid November. Solicitation is done through news releases and mailings to interested parties. In the event the funds requested by the eligible applications received during the normal solicitation period do not equal or exceed the amount of available SRF leveraged loan money, the department will solicit additional applications as necessary to maximize the use of available funds.

Initially, the department reviews all applications received to determine if the proposed project is an eligible activity and the applicant meets the financial requirements. Eligible projects are then priority ranked as described above and included in the state's Intended Use Plan. Those projects that are technically eligible but cannot meet the financial requirements of the SRF Loan Program are invited to participate in other state and federal loan and grant programs. Before loan closing, the department will review the applicant's engineering documents, environmental documents, contracts and ordinances for compliance with state and federal requirements. The department enters binding commitments and loan agreements after the applicants complete all requirements.

Section 640.107 of the Missouri Safe Drinking Water statute requires that eligible projects for Drinking Water SRF loans for systems serving less than 10,000 people shall be given priority consideration for no less than 35 percent of the available funds. The statute further states that eligible projects for loans for systems that serve 3,300 people or less are given priority consideration for at least 20 percent of the total available loan money.

The department received its first Drinking Water SRF funds in federal fiscal year 1997. This included both the 1996 and 1997 capitalization grants, which were made available for applications received in state fiscal year 1998. The subsidy rate for Drinking Water SRF loans has changed over the years. The total available loan funds and the applicable subsidy rate for each state fiscal year are listed on the following page:

State Fiscal Year	Total Available Funds for Loans (unleveraged) in Millions	Subsidy Rate	Total Available Funds for Loans (leveraged) in Million \$s
1998	\$9.7	33 1/3%	\$29
1999	\$10	33 1/3%	\$30
2000	\$52	33 1/3%	\$156
2001	\$52	33 1/3%	\$155
2002	\$52	50%	\$104
2003	\$36	50%	\$72
2004	\$44.8	70%	\$64
2005	\$28	70%	\$40
2006	\$21	70%	\$30
2007	\$21.1	70%	\$30.2
2008	\$27.9	70%	\$40
2009	\$44.5	70%	\$63.7
2010	\$95.9	70%	\$95.9 (not leveraged)

In state fiscal year 2009, the department awarded 6 loans to 6 drinking water systems for a total loan amount of \$13,705,000. Of the total loan amount for state fiscal year 2009, approximately 54 percent went to systems serving populations of less than 10,000. In state fiscal year 2010, the department awarded twenty one direct loans for a total loan amount of \$23,901,700. Nineteen grants for a total grant amount of \$18,948,152 were awarded in state fiscal year 2010. Of the total loan amount for state fiscal year 2010, approximately 74 percent of the funds went to systems serving populations of less than 10,000.

Through state fiscal year 2009, the department has awarded a cumulative total of 72 drinking water leveraged loans to 64 different community public water supply systems for a total of approximately \$268 million. Of the 72 leveraged loans awarded, 58 loans were awarded to water systems serving populations of less than 10,000. These 58 loans totaled \$125,373,000 or approximately 49 percent of the total. Therefore, the amount of loan funds awarded to systems serving less than 10,000 is above the minimum 35 percent required by the Missouri Safe Drinking Law, and well above the 15 percent minimum required by Federal Safe Drinking Water Act.

Below is a table which summarizes the leveraged and direct loans awarded since the beginning of the program.

Leveraged and Direct Loans Awarded Summary							
Loan Recipient	Population Served	Amount Awarded	SFY Awarded	Loan Recipient	Population Served	Amount Awarded	SFY Awarded
Louisiana*	4,000	\$2,315,000	1999	Glasgow**	1,295	\$2,210,000	2003
Cape Girardeau	36,000	\$25,495,000	1999	Jasper Co. PWSD #1*	4,750	\$1,400,000	2003
Cameron*	8,300	\$3,300,000	1999	Osage Beach	15,000	\$6,075,000	2003
Boonville*	8,202	\$5,110,000	2000	Marshfield*	4,750	\$6,310,000	2004
Jackson	11,500	\$995,000	2000	Pineville**	642	\$550,000	2004
Camden Co. PWSD #2**	800	\$700,000	2000	Cass-Bates Co. PWSD #12**	983	\$330,000	2004
Hallsville**	834	\$825,000	2000	Green City**	671	\$490,000	2004
Perryville*	6,933	\$8,860,000	2000	Knob Noster**	2,350	\$1,000,000	2004
Ray Co. PWSD #2*	8,600	\$3,955,000	2000	Bowling Green**	2,976	\$3,160,000	2004
Marceline**	2,650	\$4,000,000	2000	Brookfield*	4,888	\$3,055,000	2004
Moscow Mills**	1,200	\$365,000	2000	Moberly	13,741	\$5,100,000	2005
Clarence Cannon	35,000	\$4,015,000	2001	Livingston Co. PWSD #1**	1,240	\$1,230,000	2005
Jackson	11,500	\$1,895,000	2001	Kirksville	16,988	\$695,000	2005
Sweet Springs**	1,694	\$445,000	2001	Adair Co. #1*	7,989	\$395,000	2005
Unionville**	2,000	\$455,000	2001	Portageville*	3,600	\$2,300,000	2005
Ozark*	9,600	\$975,000	2001	Fulton	12,120	\$4,500,000	2005
Ray Co. PWSD #2*	8,600	\$790,000	2001	Huntsville**	1,600	\$605,000	2005
Richmond*	6,000	\$3,525,000	2001	Tri-County WA	27,000	\$23,000,000	2005
Vernon Co. PWSD #2**	1,100	\$1,005,000	2001	Kirksville	16,788	\$1,805,000	2006
Butler*	4,100	\$5,000,000	2002	Clarence Cannon WWC	42,000	\$9,700,000	2006
Dunklin Co. PWSD #3**	1,130	\$335,000	2002	Tri-County Water Authority	27,000	\$17,625,000	2006
Festus*	9,000	\$1,885,000	2002	Russellville**	850	\$650,000	2006
Garden City**	1,364	\$730,000	2002	Clarence Cannon WWC	42,000	\$590,000	2006

Loan Recipient	Population Served	Amount Awarded	SFY Awarded	Loan Recipient	Population Served	Amount Awarded	SFY Awarded
Tri-County Water Authority*	27,000	\$2,370,000	2002	Cape Girardeau Co. #4**	692	\$600,000	2006
Camden Co. PWSD #2**	800	\$430,000	2002	Shelby Co. #1*	3,800	\$810,000	2006
Clever**	1,010	\$410,000	2002	Clay Co. #3*	3,800	\$2,295,000	2007
Kearney*	5,500	\$2,645,000	2002	Kirksville	22,836	\$3,500,000	2007
Crystal City*	4,010	\$1,300,000	2002	Ironton**	1,539	\$2,500,000	2007
Jefferson County Water Authority	10,470	\$8,230,000	2002	Osage Beach*	4,100	\$2,550,000	2007
Jefferson County Water Authority	10,470	\$10,435,000	2002	Richland**	1,815	\$1,000,000	2007
Elsberry**	1,272	\$500,000	2003	Seneca**	2,135	\$835,000	2007
Lawson**	2,336	\$1,080,000	2003	Washburn**	448	\$1,420,000	2007
Osage Beach	15,000	\$24,585,000	2003	Hamilton**	2,343	\$385,000	2008
Puxico**	820	\$540,000	2003	Adrian**	1,780	\$4,163,000	2008
Carl Junction*	3,310	\$1,760,000	2003	Ashland**	3,000	\$1,240,000	2009
Cole County PWSD #4 *	9,951	\$2,045,000	2009	Adrian*	4,420	\$473,800	2010
Holcomb**	840	\$355,000	2009	Harry S Truman PWSD #3*	6,000	\$1,172,000	2010
Livingston Co PWSD #3**	2,210	\$970,000	2009	Weston**	1,631	\$2,033,400	2010
Poplar Bluff	16,651	\$6,195,000	2009	King City**	1,500	\$199,100	2010
Sullivan Co PWSD #1*	4,340	\$2,900,000	2009	Linn Creek**	280	\$305,300	2010
Cameron	18,000	\$1,390,500	2010	Ste Genevieve*	4,480	\$781,300	2010
Ava Municipal Water System**	3,021	\$1,445,400	2010	Clay Co PWSD #8**	1,953	\$723,000	2010
Clarence Cannon	42,000	\$2,390,000	2010	Cape Girardeau	35,349	\$1,000,000	2010
Drexel**	1,095	\$2,368,000	2010	Newburg**	474	\$162,200	2010
Clinton Co PWSD #3**	3,275	\$1,100,000	2010	Cole Co PWSD #4	9,978	\$324,000	2010
Rockaway Beach**	577	\$862,000	2010	Wardsville**	976	\$396,700	2010

Loan Recipient	Population Served	Amount Awarded	SFY Awarded	Loan Recipient	Population Served	Amount Awarded	SFY Awarded
Monroe Co PWSD #2*	6,500	\$1,065,200	2010	Platte Co PWSD #8**	1,101	\$444,800	2010
Pilot Grove**	723	\$505,000	2010	Clarence Cannon	42,000	\$4,760,000	2010
					Total	\$281,699,700	

* Systems that serve < 10,000 population

** Systems that serve 3,300 or less population

The following tables summarize the loans awarded in state fiscal years 2009 and 2010, including the need category related to each project. Each loan recipient is an eligible community water system. Projects included expenditures of a type that facilitate compliance with the Safe Drinking Water Act and advance the public health purposes of the Safe Drinking Water Act.

Drinking Water SRF Loans Awarded in State Fiscal Year 2009						
Water System	Amount Awarded	Project Categories				
		Source	Treatment	Storage	Transmission/ Distribution	Other
City of Ashland**	\$1,240,000	X		X		
Cole County PWSD #4*	\$2,045,000	X		X	X	
City of Holcomb**	\$355,000	X		X	X	
Livingston Co PWSD #3**	\$970,000			X	X	
City of Poplar Bluff	\$6,195,000		X	X	X	X
Sullivan Co PWSD #1*	\$2,900,000			X	X	
Total for State Fiscal Year 2009	\$13,705,000					

Drinking Water SRF Loans Awarded in State Fiscal Year 2010						
Water System	Amount Awarded	Project Categories				
		Source	Treatment	Storage	Transmission/ Distribution	Other
City of Adrian*	\$473,800					X
Ava Municipal Water System**	\$1,445,400			X	X	
City of Cameron	\$1,390,500				X	
City of Cape Girardeau	\$1,000,000				X	
Clarence Cannon	\$2,390,000				X	
Clarence Cannon	\$4,760,000				X	
Clay County PWSD #8**	\$723,000			X	X	

Water System	Amount Awarded	Project Categories				
		Source	Treatment	Storage	Transmission/ Distribution	Other
Cole County PWSD #4*	\$324,000				X	
City of Drexel**	\$2,368,000		X	X	X	
Harry S Truman PWSD #2*	\$1,172,000					X
City of King City**	\$199,100			X	X	
City of Linn Creek**	\$305,300			X	X	
Monroe County PWSD #2*	\$1,065,200				X	
City of Newburg**	\$162,200			X	X	
City of Pilot Grove**	\$505,000				X	
Platte County PWSD #8**	\$444,800	X		X	X	
City of Rockaway Beach**	\$862,000					X
City of Ste Genevieve*	\$781,300			X	X	X
City of Wardsville**	\$396,700			X	X	
City of Weston**	\$2,033,400			X	X	X
Total for State Fiscal Year 2010	\$23,901,700					

* Systems that serve less than 10,000 population

** Systems that serve 3,300 or less population

The following tables provide a description of Drinking Water SRF projects awarded in state fiscal years 2009 and 2010.

Drinking Water SRF Projects Approved in State Fiscal Year 2009	
Water System Name Loan Amount \$	Project Description
Sullivan County PWSD #1 \$2,900,000	The project addresses the need for additional finished water storage, replacement of two old booster pump stations, and the replacement of old and under sized water lines. The project includes; 1) The addition of a 200,000 gallon elevated storage tank; 2) The addition of two new booster pump stations; and 3) The addition of approximately three and one half miles of eight inch water lines, nine miles of 6 inch water lines, and nine miles of four inch water lines.
City of Ashland \$1,240,000	The project addresses the need for additional well capacity and finished water storage capacity as well as adding full time disinfection protection of the drinking water. The project includes: 1) The addition of a 400 gallons per minute well; 2) The addition of a new 500,000 gallon elevated storage tank; and 3) The addition of liquid chlorine feed system at each well.

Water System Name Loan Amount \$	Project Description
Cole County PWSD #4 \$2,045,000	The project addresses the need for an additional well and finished water storage capacity, as well as the need to replace old and under sized water lines. The project includes: 1) The addition of two 500 gallons per minute well; 2) The addition of a 250,000 gallon elevated storage tank; and 3) The addition of approximately 8,000 feet of 12-inch water lines, 18,000 feet of 8-inch water lines, and 10,400 feet of 4-inch water lines.
City of Holcomb \$355,000	The project addresses the need for additional well capacity and finished water storage capacity. The project includes: 1) The addition of a 300 gallons per minute well; and 2) The addition of a new 100,000 gallon elevated storage tank.
Livingston County PWSD #3 \$970,000	The project addresses the need for additional finished water storage, adding a new booster pump station, and the replacement of old and under sized water lines. The project includes; 1) The addition of a 200,000 gallon elevated storage tank; 2) The addition of a new 170 gallons per minute booster pump station; and 3) The addition of approximately 16,000 feet of 8 inch water lines, 47,000 feet of 6 inch water lines, and 2,500 feet of 3 inch water lines.
City of Poplar Bluff \$6,195,000	The project addresses the need for additional finished water storage tanks and need to replace old and under sized water lines. The project includes: 1) The addition of a 1.5 million gallon and a 0.5 million gallon elevated storage tanks; and 2) The addition of approximately 7,000 feet of 12 inch water lines.

Drinking Water SRF Project Approved in State Fiscal Year 2010

Water System Name Loan Amounts \$	Project Description
Platte County PWSD #8 \$444,800	The project addresses the need for additional finished water storage capacity and the need for improvements to the water distribution system to address low water pressure. The project includes: 1) The addition of a 100,000 gallon elevated storage tank; and 2) The addition of approximately 16,610 feet of 8-inch water lines, and 9,100 feet of 6-inch water lines.
City of Cameron \$1,390,500	The project addresses the need for additional finished water storage and replacement of old and under sized water lines. The project includes; 1) The addition of a 500,000 gallon elevated storage tank; and 2) The addition of approximately 3,680 feet of 12 inch water lines and 5,500 feet of 8 inch water lines.

Water System Name Loan Amount \$	Project Description
Ava Municipal Water System \$1,445,400	The project addresses the need for an additional well and finished water storage capacity, as well as the need to replace old and under sized water lines. The project includes: 1) The addition of a 350 gallons per minute well; 2) The addition of a 250,000 gallon elevated storage tank; and 3) The addition of approximately 4,000 feet of 12-inch water lines, 17,700 feet of 10-inch water lines, and 14,100 feet of 4-inch water lines.
City of Drexel \$2,368,000	The project addresses deficiencies with source water quality and the need to replace old and under sized water lines. The project includes: 1) Abandoning their current surface water treatment plant by connecting to Tri- County Water Authority by the addition of approximately 123,440 feet of 10-inch water transmission lines; and 2) The addition of approximately 5,030 feet of 10-inch water lines, 9,200 feet of 8-inch water lines, and 10,750 feet of 6-inch water lines.
Clinton County PWSD #3 \$1,100,000	The project addresses the need for finished water storage and to replacement of old and under sized water lines. The project includes: 1) The addition of two elevated storage tanks each with the capacity of 250,000 gallons; 2) The addition of two booster pump stations each with a pumping capacity of 175 gallons per minute; and 3) The addition of approximately 82,000 feet of 6 inch diameter water lines.
Monroe County PWSD #2 \$1,065,200	The project addresses the need for improvements to existing finished water storage tanks and wells, as well as the need to replace old and under sized water lines. The project includes: 1) Rehabilitation and security work for the city's two ground level tanks; 2) The addition of treatment for iron sequestration on Well #1; 3) The addition of full time disinfection on both Well #1 and #2; and 4) The addition of approximately 4,620 feet of 6 inch water lines, 5,463 feet of 6 inch water lines, and 580 feet of 4 inch water lines.
City of Pilot Grove \$505,000	The project addresses the need to replace old and under sized water lines. The project includes the addition of approximately 4,700 feet of 8 inch water lines and 12,000 feet of 6 inch water lines.
City of Adrian \$473,800	The project addresses the lack of treatment plant capacity to continue to provide adequate water as a regional water provider as well as the need to replace old water lines and old water meters. The project includes: 1) The upgrading and expansion of the city's surface water plant to increase treatment capacity from approximately one half million gallons per day to one million gallons per day.; 2) The addition of approximately 16,173 feet of 6-inch water lines; and 3) Replace all of the existing water meters with remote read water meters.

Water System Name Loan Amount \$	Project Description
City of Rockaway Beach \$862,000	The project addresses the need to replace old and under sized water lines. The project includes the addition of approximately 5,274 feet of 8 inch water lines and 10,250 feet of 6 inch water lines.
City of Weston \$2,033,400	The project addresses the need to increase well capacity and provide protection from flooding and vandalism, upgrade the water treatment plant, add sludge storage, add finish water storage capacity, and rehabilitate the existing standpipe. Project includes: 1) Raising the well heads above the 100 year flood elevation; 2) Providing protection from vandalism; 3) Increasing the pumping capacity of the wells by 75 gallons per minute; 4) Upgrading treatment processes; 5) Adding an additional sludge storage basin; 6) Adding a 500,000 gallon elevated storage tank; and 7) Rehabilitating the existing 500,000 gallon standpipe.
City of King City \$199,100	The project addresses the need to rehabilitate their surface water treatment plant as well as to replace old and under sized water lines. The project includes: 1) Various treatment plant improvements including replacing filter media; and 2) The addition of approximately 7,405 feet of 8-inch water lines, 5,360 feet of 6-inch water lines, 100 feet of 4-inch water lines, and 100 feet of 2-inch water lines.
City of Linn Creek \$305,300	The project addresses the need for additional finished water storage, rehabilitating Well#1, and adding full time disinfection to Well #1 and Well #2. Project includes: 1) Replacing the city's 28,000 gallon standpipe with a 100,000 gallon standpipe; 2) Rehabilitate current Well #1 including increasing the capacity to 75 gallons per minute; and 3) Adding a liquid chlorination feed system on both of the city's wells.
City of Ste Genevieve \$781,300	The project addresses the need to rehabilitate their lime softening water treatment plant, add a booster pump station, and to replace old water lines. The project includes: 1) Rehabilitating their claricone unit; 2) Adding a 220 gallons per minute booster pump station; and 3) The addition of approximately 1,030 feet of 12-inch water lines.
Clay County PWS #8 \$723,000	The project addresses the need to abandon their existing raw water source and water treatment plant, rehabilitate their existing elevated storage tank, replace old water lines, and replace old water meters. The project includes: 1) The addition of approximately 17,000 feet of 8 inch diameter finish water transmission lines to connect to and purchase water from Kansas City; 2) Rehabilitate the district's existing 250,000 gallon elevated tank; 3) The addition of approximately 5,500 feet of 8 inch diameter water lines; and 3) Replace all existing water meters with remote read meters.

Water System Name Loan Amount \$	Project Description
City of Cape Girardeau \$1,000,000	The project addresses the need for a better quality of raw water supply and to provide distribution improvements in the northern portion of the city. The project includes: 1) The addition of four alluvial wells each with a capacity of 1,800 gallons per minute; 2) The addition of a one million gallon elevated storage tank; 3) The addition of a booster pump station with a capacity of 1,400 gallons per minute; 4) The addition of approximately 28,300 feet of raw water transmission lines; and 5) The addition of approximately 200 feet of 12 inch diameter distribution lines.
City of Newburg \$162,200	The project addresses the need to treat and disinfect raw water, replace old water lines, and rehabilitate finished water storage tanks. The project includes: 1) The addition of iron sequestration for Well #1; 2) The addition of full time disinfection on both city's wells; 3) The addition of approximately 4,620 feet of 8 inch diameter water lines, 5,463 feet of 6 inch diameter water lines, and 580 feet of 4 inch diameter water lines.
Cole County PWS #4 \$324,000	The project addresses the need to replace existing water lines. The project includes approximately 1,700 feet of 8-inch water lines.
City of Wardsville \$396,700	The project addresses the need for additional finished water storage, increased well capacity, and providing full time disinfection protection. The project includes: 1) The addition of a 250,000 gallon ground level storage tank with a 300 gallons per minute pump station; and 2) The addition of 7,650 feet of 8 diameter water lines.
Clarence Cannon \$4,760,000	The project addresses the need to supply water to the cities of Wellsville and Bowling Green. The project includes: 1) The addition of a one million gallon elevated storage tank; 2) The addition of a booster pump station; and 3) The addition of approximately 40,000 feet of 20 inch diameter finished water transmission lines.

X. EPA Recommendation on Performance Evaluation Report/Annual Program Review

Staff from EPA Region VII conducted an on-site program evaluation of the state fiscal year 2009 SRF programs from March 22 to March 24, 2010. The program evaluation report included the following highlights:

- o Missouri Department of Natural Resources' (MDNR) is to be applauded for successfully administering the ARRA program along with the base SRF program. EPA acknowledges the extraordinary time and effort required to support the ARRA activities during state fiscal year 2009, yet continuing to manage a successful base program.

- MDNR management continues to be actively involved in the SRF program to ensure proper management and that internal control processes are being followed on a day to day basis.
- Missouri's loan pace increased while the national average decreased. Nationally, states' planning and implementation of ARRA caused many states' SRFs to hold-up 2009 loans, while Missouri continued business as usual.
- EPA was given permission from MDNR to share their two checklists for their financial statement and the A-133 audit reports with the other Region 7 states. EPA viewed these checklists as great tools in tracking and ensuring compliance to audit requirements.
- The Missouri SRF system is now a web-based system. EPA SRF personnel will be given password access. In addition, the SRF Accounting Manager gave a demonstration on the overall system capability and internal control structure.
- With the number of reimbursement request more than doubling, it is critical for MDNR to hire additional staff to ensure timely reimbursement to recipients.

Recommendation and observations of the Missouri state fiscal year 2009 review are listed below:

1. MDNR successfully administered the ARRA program along with the base SRF program. EPA acknowledges the extraordinary time and effort required to support ARRA activities during state fiscal year 2009, yet continuing to manage a successful base program.
2. EPA continues to be impressed with MDNR's management knowledge and involvement in the SRF Programs.
3. The financial indicators show a strong, sustainable program.
4. Attention to detail was noted in the processing of reimbursement requests.
5. EPA encourages MDNR to fill the accounting vacancies. With the number of reimbursement requests more than doubling, it is important to maintain timely payments to the SRF recipients. Note: Since this program review, the accounting unit has filled these vacancies.

XI. Policy Summary

The department has implemented regulations and policies to ensure the long-term fiscal health of the Drinking Water SRF, attain and maintain compliance with the Safe Drinking Water Act and carry out other provisions of the law. The department protects the financial health of the Drinking Water SRF by reviewing the creditworthiness of applicants, attaining proper surety and cross-collateralization.

- ◆ Water Protection Program's Financial Assistance Center and the Environmental Improvement and Energy Resources Authority review the creditworthiness of applicants to make sure they can safely meet their obligations in the loan program.

- ◆ As a form of surety, publicly-owned entities must offer revenue or general obligation bonds. Privately-owned entities may offer other appropriate forms of surety. To date, the department has not entered into loan agreements with privately-owned systems.
- ◆ The Drinking Water SRF is cross-collateralized with the Clean Water State Revolving Fund as authorized by federal (P.L. 105-66) and state law (section 655.122, RSMo).

The department attains and maintains compliance with the Safe Drinking Water Act by setting priorities and reviewing projects.

- ◆ As previously addressed, priorities for projects funded through the Loan Program are approved annually by the Safe Drinking Water Commission after public review. The resulting criteria express priorities as a point system by which the department ranks loan applicants. The department awards points to projects that address Safe Drinking Water Act compliance, public health, affordability on a per household basis and security issues.
- ◆ The department reviews all applicants for priority and creditworthiness before issuing its Intended Use Plan. Before loan closing, the department will review the applicant's engineering documents, environmental documents, contracts, bond covenants and ordinances for compliance with state and federal requirements.

The department's review achieves other purposes of the law by providing technical assistance and coordinating with other funding programs.

- ◆ The funding order of projects may not be identical to the fundable priority ranking in the annual Intended Use Plans. Readiness to proceed is an important factor; however, the general order of project ranking will be followed to the extent a project's sponsor is ready to proceed. The department encourages projects to proceed in a timely manner.
- ◆ The department, with approval of the Safe Drinking Water Commission, may by-pass any project on the fundable priority list that is not, in the opinion of the department, making satisfactory progress toward satisfying requirements for Drinking Water SRF assistance. Rules governing by-pass procedures appear in 10 CSR 60-13.020(3)(A).

Any project on the fundable priority list may be by-passed if the applicant fails to submit the documents required for Drinking Water SRF assistance at least 60 days prior to the beginning of the quarter for which the assistance is anticipated. Furthermore, the department may develop schedules to determine whether a Drinking Water SRF project is making satisfactory progress. A project may be by-passed for failure to meet the schedule.

A project that is by-passed will be removed from the fundable priority list, and if the application is still valid, will be placed on a project list, in priority order, for funding consideration in the next federal fiscal year.

- ◆ The department uses authorized set-asides to fund staff that provide technical assistance related to Safe Drinking Water Act compliance and the technical, managerial and financial capacity of water systems.
- ◆ The department coordinates with other agencies that fund water system improvements including the Missouri Department of Economic Development, which operates the Community Development Block Grants Program, U.S. Department of Agriculture Rural Development and the department's state-funded grant program. The department is continuing to try to address the needs of disadvantaged communities by supplementing Drinking Water SRF loans with other sources of funding, especially state grants.

XII. State Environmental Review Process

The department has reviewed each project according to the state environmental review process described in 10 CSR 60-13.030. It has issued findings of no significant impact for each project.

XIII. State Match

In accordance with federal Safe Drinking Water statutes, states are required to provide a match equal to 20 percent of the total capitalization grant. Each state must deposit its match on or before the date of the grant payment. Further, it must make binding commitments equal to the grant minus set-asides plus match within one year of receiving the grant payment, except for the grant of federal fiscal year 1997. Through state fiscal year 2003, the department used general revenue funds to provide the required 20 percent match.

Beginning in state fiscal year 2004, state match was provided through the proceeds of the sale of Environmental Improvement and Energy Resources Authority bonds. Environmental Improvement and Energy Resources Authority bonds are sold to generate 100 percent of the project costs and an appropriate percentage of those bonds are clearly identified as state match. The department submitted to the EPA for approval an amendment to the Drinking Water SRF Operating Agreement (by and between the Missouri Department of Natural Resources and the EPA), to allow the use of the state match bonds. The department received approval for the change on October 28, 2003 and has continued to use this approach for provided state match in state fiscal years 2009 and 2010.

XIV. Details of Activities

Drinking Water SRF Regulations

The department, through the Safe Drinking Water Commission, promulgated all necessary regulations for the Drinking Water SRF loan fund as of April 30, 1999. The rules were amended in 2001 and 2009 to include ARRA provisions.

Assembled Necessary Staff

The department has assembled the staff necessary to implement the Drinking Water SRF. The Drinking Water SRF administrative, financial and technical review staff for the Drinking Water Leveraged Loan Program is primarily located in the Water Protection Program's Financial Assistance Center. Staff administering the programs and activities funded by the set-aside portion of the Drinking Water State Revolving Capitalization Grants is primarily located in the Water Protection Program's Public Drinking Water Branch. The Water Protection Program coordinates with the Environmental Improvement and Energy Resources Authority, a state environmental financing agency, to implement the Leveraged Loan Program. Staff in the department's regional offices provide assistance with Drinking Water SRF and primacy-related field activities.

Coordination with Other Funding Programs

The department coordinates with other agencies that fund water system improvements including the Missouri Department of Economic Development, which operates the Community Development Block Grants Program, the U.S. Department of Agriculture Rural Development, and the department's state-funded grant program. The department tries to address the needs of disadvantaged communities by supplementing Drinking Water SRF loans with other sources of funding, especially state grants.

Grant Conditions Compliance

The department continues to comply with all grant conditions. The following sections address specific compliance issues.

- ◆ **Lobbying.** Lobbying by grant recipients is restricted by Section 607(A) of P.L. 96-74 and by the Anti-Lobbying Act, Section 319 of P.L. 101-121. The department has not engaged in illegal lobbying and has not used grant funds to support lobbying.
- ◆ **Debarment.** The department has agreed to comply with EPA's policy on debarment and suspension under assistance, loan and benefit programs. The department has not solicited subagreements from debarred or suspended parties and has included notice of this policy in solicitations as required.
- ◆ **Disadvantaged business enterprises.** The department has agreed to comply with EPA's Program for Utilization of Small, Minority, and Women's Business Enterprises. It has agreed to negotiate fair share goals. The department and all loan recipients have included in their bid documents the fair share goals, followed the six affirmative steps stated in 40 CFR 31.36(e) and 40 CFR 35.3145(d), and submitted reports on disadvantaged business enterprise use as required. MBE/WBE reports were submitted to EPA for the quarters covering the state fiscal years 2007 and 2008. Presidential Executive Order 11246, issued in 1980, set a goal for minority business enterprises (MBE) and women's business enterprises (WBE), expressed in percent at 14.7 and 6.9 respectively. The tables on the next page illustrates our status towards meeting the goals set for MBE/WBE.

Assistance Activity for SRF State Recipients State Fiscal Year 2009		
	MBE	WBE
Construction	0	0
Equipment	0	0
Services	0	2,976
Supplies	7,421	3,687
Total	7,421	9,638
Percent	0.41%	0.53%
Goal	14.7%	6.9%

Assistance Activity for SRF Loan Recipients State Fiscal Year 2009		
	MBE	WBE
Construction	0	0
Equipment	0	0
Services	0	791,386
Supplies	0	175,000
Total	0	966,386
Percent	0%	53.72%
Goal	14.7%	6.9%

Assistance Activity for SRF Loan Recipients State Fiscal Year 2010		
	MBE	WBE
Construction	0	0
Equipment	0	0
Services	1,500	114,361
Supplies	0	14,584
Total	1,500	128,945
Percent	.12%	10.18%
Goal	14.7%	6.9%

- ◆ **Drinking Water SRF and quarterly project reports.** The department has agreed to submit a biennial report on the state of the Drinking Water SRF Program. This report fulfills the requirement of the biennial report. The department has submitted quarterly project reports to EPA by e-mail.
- ◆ **Use of recycled paper.** The department has agreed to submit required reports to EPA on recycled paper. This report is printed on recycled paper.
- ◆ **Indirect costs.** The department has agreed to charge indirect costs in the year that they are expended and in accordance with the negotiated indirect cost agreement. The department has complied with the agreement and charged indirect costs in the years they were expended.
- ◆ **Federal cross-cutters.** The department has agreed to comply with all federal cross-cutters identified in Appendix A of the Drinking Water SRF Program Guidelines. While loan recipients do not receive assistance directly from the capitalization grant, the department has ensured, by conditions in the loan agreements, that cross-cutting authorities apply to projects equating to at least the amount of the capitalization grants.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a discussion and analysis of the Missouri Department of Natural Resources Drinking Water State Revolving Fund's financial activities for the fiscal year ended June 30, 2010. Readers are encouraged to consider the information presented here in conjunction with additional information that is furnished in the Notes to the Financial Statements.

FINANCIAL HIGHLIGHTS

The assets of the program exceeded liabilities at the close of the most recent fiscal year by \$145,288,559 (net assets). Net assets consist of federal capitalization grant contributions of \$117,125,673, state match contributions of \$15,504,549, transfers from the Clean Water State Revolving Fund Program of \$10,475,000, and net income of \$2,183,337 since the inception of the program. All net assets of the program are restricted. The program's enabling legislation and related regulations require that all money in the fund may be used only for purposes of the program.

Total assets decreased from \$377,021,227 at June 30, 2009 to \$361,740,387 at June 30, 2010. The assets of the enterprise funds increased by \$730,042 while the assets of the agency fund decreased by \$16,010,882. Explanations for these changes are detailed in the Financial Analysis section.

Total liabilities decreased by \$26,340,892. There were three major reasons for the decrease. 1) The project costs payable for the agency fund decreased by \$12,442,283. Project costs payable decreased because the program changed from funding loans in full up front to funding them incrementally as costs are incurred. 2) Rebate payable for the agency fund decreased by \$3,202,974. Rebate payable decreased because rebate payments were made during the year on all of the series that were involved with the guaranteed investment contract terminations in the previous year. Those series made up the majority of the previous year's rebate liability. 3) Bonds payable for the loan fund decreased by \$9,906,524. Bonds payable decreased as a result of the program changing from primarily a leveraged loan program to a direct loan program. Therefore, no new bonds were issued during the year, except for refunding bonds.

During the state fiscal year, the program's total net assets increased by \$11,060,052. Of this amount, \$18,110,578 is capital contributions from EPA and \$7,050,526 is the current year's loss. This loss of income is the result of the DWSRF program making grant payments totaling \$9,007,302 during the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Missouri Department of Natural Resources Drinking Water State Revolving Fund basic financial statements. The program's basic financial statements are comprised of two components: 1) proprietary and fiduciary fund financial statements, and 2) notes to the financial statements.

The proprietary and fiduciary fund financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Fund Net Assets, a Statement of Cash Flows and a Statement of Fiduciary Net Assets.

- The Statement of Net Assets presents the assets, liabilities and net assets of the program. Assets consist of cash, interest receivable from loans and investments, administrative fees receivable, EPA set-aside grant funds receivable and loans receivable. Liabilities include accounts payable, bonds payable and bond interest payable. Net assets are the federal capitalization grant contributions, the state match contributions, and the excess earnings of the program's operations since inception.
- The Statement of Revenues, Expenses and Changes in Fund Net Assets presents information showing how the program's net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows.
- The Statement of Cash Flows is provided to identify the sources and the uses of cash during the fiscal year and to demonstrate that the program has sufficient cash to meet its obligations.
- The Statement of Fiduciary Net Assets provides information about the program's agency fund. The agency fund consists of the assets and liabilities related to the bond/loan proceeds that are held at trustee banks.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the fund financial statements.

FINANCIAL ANALYSIS

Loan Fund:

The following section displays the current and prior year financial statements of the loan fund and describes some of the major reasons for the changes.

	<u>Loan Fund Net Assets</u>		
	2010	2009	Percent Change
Current assets	\$ 36,103,300	\$ 32,002,229	13%
Non-current assets	304,386,302	309,866,252	(2%)
Total assets	340,489,602	341,868,481	0%
Current liabilities	15,550,071	16,068,599	(3%)
Non-current liabilities	186,213,123	197,180,000	(6%)
Total liabilities	201,763,194	213,248,599	(5%)
Net assets	<u>\$ 138,726,408</u>	<u>\$ 128,619,882</u>	<u>8%</u>

Net assets continue to increase over the years as the program matures. The program's continuing efforts to improve water quality resulted in an increase in net assets of \$10,106,526 during the fiscal year. The main reason for the increase in net assets was the \$9,103,276 of EPA capitalization grant revenue that was paid out as loans.

Changes in Loan Fund Net Assets

	2010	2009	Percent Change
Operating revenues	\$ 10,150,969	\$ 10,520,218	(4%)
Operating expenses	9,007,302	1,031,945	773%
Operating income	1,143,667	9,488,273	(88%)
Non-operating revenues (expenses)	8,962,859	(7,845,448)	(214%)
Increase in net assets	10,106,526	1,642,825	515%
Net assets, beginning of year	128,619,882	126,977,057	1%
Net assets, end of year	<u>\$ 138,726,408</u>	<u>\$ 128,619,882</u>	<u>8%</u>

Operating expenses of the loan fund increased dramatically from last year. This was due to the program awarding grants for the first time. There was a \$16,808,307 change in Non-operating revenues (expenses) from an increase in EPA grant revenue. The increase was due to a significant increase in the number of projects being funded as a result of the additional money made available by the American Recovery and Reinvestment Act of 2009.

Loan Fund Cash Flows

	2010	2009	Percent Change
Cash flows from operating activities	\$ 5,057,481	\$ (4,727,472)	(207%)
Cash flows from noncapital financing activities	(1,862,054)	(5,908,825)	(68%)
Increase (Decrease) in cash and cash equivalents	3,195,427	(10,636,297)	(130%)
Cash and cash equivalents, beginning of year	11,323,923	21,960,220	(48%)
Cash and cash equivalents, end of year	<u>\$ 14,519,350</u>	<u>\$ 11,323,923</u>	<u>28%</u>

There were a number of factors that caused a significant change in the loan fund cash flow numbers between SFY 2009 and SFY 2010.

1. Because the reserves for the 2008A bond series, as well as all series involved in the investment agreement terminations, were fully funded during the 2009 state fiscal year, there was an unusually large amount of loan disbursements that year. Loan disbursements went from \$28,645,497 in 2009 to \$10,857,918 in 2010.
2. The program made grant payments of \$9,007,302 in 2010 and none in 2009.
3. Bond series 2010A was issued in the amount of \$35,920,000 in SFY 2010 to refund \$38,837,450 of previously issued bonds. This resulted in a large increase in bonds issued and bond principal retired.

Administrative Fee Fund:

The following section displays the current and prior year financial statements of the administrative fee fund and describes some of the major reasons for the changes.

Administrative Fee Fund Net Assets

	2010	2009	Percent Change
Current assets	\$ 6,562,151	\$ 5,608,625	17%
Non-current assets	0	0	0%
Total assets	6,562,151	5,608,625	17%
Current liabilities	0	0	0%
Non-current liabilities	0	0	0%
Total liabilities	0	0	0%
Net assets	<u>\$ 6,562,151</u>	<u>\$ 5,608,625</u>	<u>17%</u>

The 17 percent increase in administrative fee fund net assets is a result of administrative fee revenues and interest earnings that are not offset by any administrative expenses. Administrative costs are currently being paid from a portion of the EPA grants through the set-aside fund, so the administrative fee fund cash continues to build. This will ensure sufficient funding for administrative expenses once the grant funding ends.

Changes in Administrative Fee Fund Net Assets

	2010	2009	Percent Change
Operating revenues	\$ 953,526	\$ 976,774	(2%)
Operating expenses	0	0	0%
Operating income	953,526	976,774	(2%)
Non-operating revenues (expenses)	0	0	0%
Increase in net assets	953,526	976,774	(2%)
Net assets, beginning of year	5,608,625	4,631,851	21%
Net assets, end of year	<u>\$ 6,562,151</u>	<u>\$ 5,608,625</u>	<u>17%</u>

The \$23,248 decrease in the administrative fee fund operating income was caused by a decrease in investment income resulting from the declining investment rates of the current economy. Administrative fee revenue increased by \$20,520 while investment income decreased by \$43,768.

As mentioned earlier, the net assets continue to grow because administrative expenses are paid with set-aside capitalization grant funds. The accumulation of net assets in the administrative fee fund is needed in order to ensure that there will be sufficient funds to cover administration costs once the set-aside grant funding ends.

Administrative Fee Fund Cash Flows

	2010	2009	Percent Change
Cash flows from operating activities	\$ 964,699	\$ 982,136	(2%)
Cash flows from noncapital financing activities	0	0	0%
Increase in cash and cash equivalents	964,699	982,136	(2%)
Cash and cash equivalents, beginning of year	4,866,782	3,884,646	25%
Cash and cash equivalents, end of year	<u>\$ 5,831,481</u>	<u>\$ 4,866,782</u>	<u>20%</u>

The administrative fee fund cash flows dropped from \$982,136 in 2009 to \$964,699 in 2010. Administrative fee receipts increased by \$26,870 and investment interest receipts decreased by \$44,307.

Set-aside Fund:

The following section displays the current and prior year financial statements of the set-aside fund and describes some of the major reasons for the changes.

Set-Aside Fund Net Assets

	2010	2009	Percent Change
Current assets	\$ 1,845,411	\$ 690,016	167%
Non-current assets	0	0	0%
Total assets	1,845,411	690,016	167%
Current liabilities	1,845,411	690,016	167%
Non-current liabilities	0	0	0%
Total liabilities	1,845,411	690,016	167%
Net assets	<u>\$ 0</u>	<u>\$ 0</u>	<u>0%</u>

The increase in assets and liabilities of the set-aside fund reflects the increase in the amount of set-aside expenditures that had not yet been reimbursed by draws from the EPA capitalization grants. On June 30, 2010, five months of expenditures had not been reimbursed. On June 30, 2009, only one month of expenditures had not been reimbursed.

Changes in Set-aside Fund Net Assets

	2010	2009	Percent Change
Operating revenues	\$ 3,189,553	\$ 3,176,930	0%
Operating expenses	3,189,553	3,176,930	0%
Operating income	0	0	0%
Non-operating revenues (expenses)	0	0	0%
Increase in net assets	0	0	0%
Net assets, beginning of year	0	0	0%
Net assets, end of year	<u>\$ 0</u>	<u>\$ 0</u>	<u>0%</u>

The Changes in Set-aside Fund Net Assets remained unchanged from last year. Salaries and benefits decreased by \$9,013. Other administrative expenses increased by \$21,636.

Set-aside cash flows:

The set-aside fund does not have a cash balance, as any cash paid out is offset by cash coming in, resulting in the yearly cash provided by operating activities of \$0.

Agency Fund:

The following section displays the current and prior year assets and liabilities of the agency fund.

<u>Agency Fund Net Assets</u>			
	<u>2010</u>	<u>2009</u>	<u>Percent Change</u>
Assets	\$ 12,843,223	\$ 28,854,105	(55%)
Liabilities	12,843,223	28,854,105	(55%)
Net assets	<u>\$ 0</u>	<u>\$ 0</u>	<u>0%</u>

There was a 55 percent decrease in agency fund assets and liabilities. The program began funding new loans on a payment by payment basis in SFY 2010 instead of placing 100% of the loan funds at a trustee bank at the time of the loan closing. Therefore, the new loans do not have money sitting in the construction loan funds at the trustee bank and the older loans have continually shrinking construction loan fund balances as those projects get closer to completion.

Currently Known Facts:

In November 2010, the program issued revenue bond series 2010B in the amount of \$12,605,000 to finance additional loans.

Exhibit 1

Missouri State Revolving Fund Fiscal Year 2009 Financial Reports
and notes

Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Statement of Revenues, Expenses and Changes in Fund Net Assets
Year Ended June 30, 2009

Exhibit 1

	Loan Fund	Administrative Fee Fund	Set-Aside Fund	Total Enterprise Funds
Operating revenues:				
Interest income on SRF loans	\$ 9,907,268	\$ -	\$ -	\$ 9,907,268
Investment income	566,346	105,972	-	672,318
Administrative fees	-	870,802	-	870,802
EPA set-aside operating grants	-	-	3,176,930	3,176,930
Other	46,604	-	-	46,604
Total operating revenues	10,520,218	976,774	3,176,930	14,673,922
Operating expenses:				
Salaries and benefits	-	-	1,642,541	1,642,541
Travel	-	-	21,061	21,061
Other administrative expenses	1,031,945	-	821,472	1,853,417
Indirect costs	-	-	691,856	691,856
Total operating expenses	1,031,945	-	3,176,930	4,208,875
Operating income	9,488,273	976,774	-	10,465,047
Non-operating revenues (expenses):				
Environmental Protection Agency grants	1,992,807	-	-	1,992,807
Interest expense on bonds payable	(9,838,255)	-	-	(9,838,255)
Total non-operating revenues (expenses)	(7,845,448)	-	-	(7,845,448)
Increase in net assets	1,642,825	976,774	-	2,619,599
Net assets, beginning of year	126,977,057	4,631,851	-	131,608,908
Net assets, end of year	\$ 128,619,882	\$ 5,608,625	\$ -	\$ 134,228,507

See accompanying notes to the financial statements.

**Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Statement of Net Assets
June 30, 2009**

Exhibit 1

	Loan Fund	Administrative Fee Fund	Set-Aside Fund	Total Enterprise Funds
Assets:				
Current assets:				
Cash and cash equivalents	\$ 11,323,923	\$ 4,866,782	\$ -	\$ 16,190,705
Receivables:				
Loan interest	5,120,777	-	-	5,120,777
Investment interest	67,722	17,118	-	84,840
Administrative fees	-	724,725	-	724,725
Due from EPA	-	-	690,016	690,016
Current portion of loans receivable:				
Leveraged loans	10,050,000	-	-	10,050,000
Direct loans	180,000	-	-	180,000
Reserve loans	5,259,807	-	-	5,259,807
Total current assets	32,002,229	5,608,625	690,016	38,300,870
Non-current assets:				
Loans receivable:				
Leveraged loans	197,180,000	-	-	197,180,000
Direct loans	6,883,000	-	-	6,883,000
Reserve loans	105,803,252	-	-	105,803,252
Total loans receivable	309,866,252	-	-	309,866,252
Total assets	341,868,481	5,608,625	690,016	348,167,122
Liabilities:				
Current liabilities:				
Accounts payable	-	-	210,423	210,423
Accrued salaries and benefits payable	-	-	62,390	62,390
Bond interest payable	5,073,335	-	-	5,073,335
Current portion of bonds payable	10,050,000	-	-	10,050,000
Due to other funds	945,264	-	-	945,264
Due to State of Missouri	-	-	417,203	417,203
Total current liabilities	16,068,599	-	690,016	16,758,615
Non-current liabilities:				
Bonds payable, net of deferred amounts	197,180,000	-	-	197,180,000
Total liabilities	213,248,599	-	690,016	213,938,615
Net assets:				
Restricted for loans and debt service	128,619,882	5,608,625	-	134,228,507
Total net assets	\$ 128,619,882	\$ 5,608,625	\$ -	\$ 134,228,507

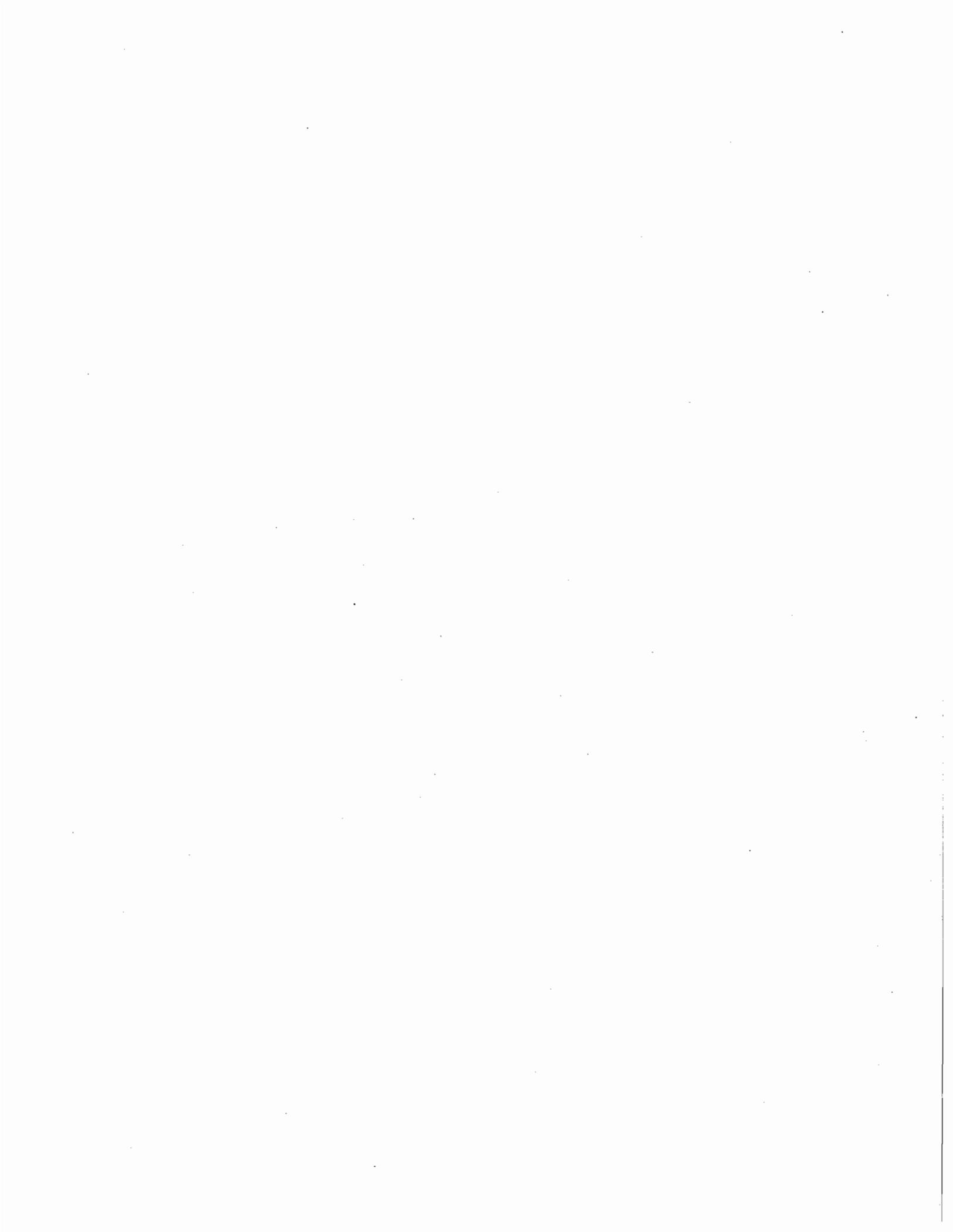
See accompanying notes to the financial statements.

Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Statement of Cash Flows
Year Ended June 30, 2009

Exhibit 1

	Loan Fund	Administrative Fee Fund	Set-Aside Fund	Total Enterprise Funds
Cash flows from operating activities:				
Loan disbursements	\$ (28,645,497)	\$ -	\$ -	\$ (28,645,497)
Repayments received on loans	13,582,280	-	-	13,582,280
Interest received on loans	9,704,448	-	-	9,704,448
Administrative fees	-	866,085	-	866,085
EPA set-aside grant	-	-	3,508,309	3,508,309
Payments to employees	-	-	(1,629,116)	(1,629,116)
Other administrative payments	(86,681)	-	(1,507,356)	(1,594,037)
Investment income	671,374	116,051	-	787,425
Other	46,604	-	(371,837)	(325,233)
Net cash provided by operating activities	<u>(4,727,472)</u>	<u>982,136</u>	<u>-</u>	<u>(3,745,336)</u>
Cash flows from noncapital financing activities:				
Bonds issued	10,805,000	-	-	10,805,000
Bond principal retired	(9,065,000)	-	-	(9,065,000)
Interest paid on bonds	(9,641,632)	-	-	(9,641,632)
Environmental Protection Agency grants	1,992,807	-	-	1,992,807
Net cash used by noncapital financing activities	<u>(5,908,825)</u>	<u>-</u>	<u>-</u>	<u>(5,908,825)</u>
Increase in cash and cash equivalents	(10,636,297)	982,136	-	(9,654,161)
Cash and cash equivalents, beginning of year	21,960,220	3,884,646	-	25,844,866
Cash and cash equivalents, end of year	<u>\$ 11,323,923</u>	<u>\$ 4,866,782</u>	<u>\$ -</u>	<u>\$ 16,190,705</u>
Reconciliation of net operating income to net cash provided by operating activities:				
Operating income	\$ 9,488,273	\$ 976,774	\$ -	\$ 10,465,047
Adjustments to reconcile net operating income to net cash provided by operations:				
Changes in assets and liabilities:				
(Increase) in loan interest receivable	(202,821)	-	-	(202,821)
(Increase) in loans receivable	(15,063,216)	-	-	(15,063,216)
Decrease in investment interest receivable	105,028	10,079	-	115,107
(Increase) decrease in other receivables	-	(4,717)	331,378	326,661
Increase in payables	945,264	-	(331,378)	613,886
Net cash provided by operating activities	<u>\$ (4,727,472)</u>	<u>\$ 982,136</u>	<u>\$ -</u>	<u>\$ (3,745,336)</u>

See accompanying notes to the financial statements.



**Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Statement of Fiduciary Net Assets
June 30, 2009**

Exhibit 1

Agency Fund

Assets:		
Cash and cash equivalents	\$	23,963,304
Investment interest receivable		19,716
Other receivables		969,249
Investments:		
Guaranteed investment contracts		2,671,621
Corporate bonds		1,230,215
Total assets		<u>28,854,105</u>
 Liabilities:		
Project costs payable to communities		24,160,165
Interest subsidies payable to communities		201,686
Arbitrage rebate payable		3,535,622
Due to other governments		540,332
Other payables		416,300
Total liabilities		<u>28,854,105</u>
 Net assets	 \$	 <u><u>-</u></u>

See accompanying notes to the financial statements.

**Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Notes to the Financial Statements**

Exhibit 1

NOTE 1: Summary of Significant Accounting Policies

Reporting Entity

The Missouri Department of Natural Resources Drinking Water State Revolving Fund was established pursuant to the Safe Drinking Water Act (SDWA) Amendments of 1996. Section 1452 of this Act authorizes the Administrator of the U.S. Environmental Protection Agency (EPA) to establish a Drinking Water State Revolving Fund Program to assist public water systems with financing the costs of infrastructure needed to achieve or maintain compliance with SDWA requirements, to protect public health, and to allow states to carry out prevention programs.

The Drinking Water SRF was capitalized by the EPA through a series of grants starting in 1997. States are required to provide an additional 20 percent of the federal capitalization grant as matching funds. As of June 30, 2009, Congress has authorized EPA to award \$141,767,358 in capitalization grants to the State of Missouri. The state is required to contribute \$28,353,472 in matching funds.

The Drinking Water SRF is administered by the Missouri Department of Natural Resources, the Missouri Environmental Improvement and Energy Resources Authority, or EIERA, and the department's Safe Drinking Water Commission. EIERA issues bonds or notes to finance qualified projects. The program is comprised of four funds within the state and an agency fund that holds the construction loan funds. The state funds are: the Water and Wastewater Loan Fund (fund 0649) that receives federal capitalization grant funds and makes payments to the loan reserve fund, the Water and Wastewater Loan Revolving Fund (fund 0602) that receives funds as they are released from the loan reserve and that uses those funds to make new loans, the Administrative Fee Fund (fund 0568) that receives the loan fees charged to borrowers, and the Department of Natural Resources Federal Fund (fund 0140) that receives federal capitalization grant funds that fund set-aside activities. The Agency Fund receives bond proceeds issued by the Environmental Improvement Energy Resources Authority.

The State of Missouri's statewide Comprehensive Annual Financial Report includes the Drinking Water SRF Program information as a special revenue fund, which uses the modified accrual basis of accounting. Due to differences in reporting methods, there may be differences between the amounts reported in these financial statements and the Comprehensive Annual Financial Report. One major difference between the amounts reported in these reports is that the agency fund is not included in the Comprehensive Annual Financial Report but is shown in these financial statements.

**Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Notes to the Financial Statements**

Exhibit 1

NOTE 1: Summary of Significant Accounting Policies - continued

Program Operations

Missouri leverages federal and state matching funds by issuing revenue bonds to make loans to qualified communities and using federal grant and state matching funds to create reserves for the loans. Interest earned on the reserves subsidizes loan interest rates and enhances the security of the loans, which are pledged to repay bond principal and interest. Borrowers, in essence, receive two loans from the SRF: a market-rate loan funded by the revenue bond proceeds that equals project construction costs, and a zero-rate loan funded by capitalization grants and state matching funds that funds the reserves for the bonds. Bond proceeds are deposited to the construction loan accounts, which are held by the trustee bank. As communities draw on these funds to pay construction costs, a percentage of that amount (33.33 percent for bonds issued prior to 2002, 50 percent for bonds issued from 2002-2003, and 70 percent for bonds issued after 2003) is transferred to a reserve account established for each borrower. For loans closed in SFY 2009, the reserve accounts were funded at closing rather than as construction funds are released. Earnings in the reserve account reduce the borrower's net interest payments on the bonds, resulting in the subsidized, blended interest rate on the project loan.

The Drinking Water SRF also makes direct loans in certain instances. Direct loans are funded from the Water and Wastewater Loan Revolving Fund. Loan proceeds are deposited to the construction loan accounts, which are held by the trustee bank. As construction costs are incurred, funds are released through the trustee bank to the borrower. The borrower repays the loan by making monthly principal and interest payments to the trustee bank. On the debt service due dates, the trustee bank makes the debt service payment to the program.

Basis of Accounting

The financial statements include enterprise funds and a fiduciary fund. The loan, administrative fee and set-aside funds are presented as enterprise funds whereas the agency fund is presented as a fiduciary fund, all of which are maintained on the accrual basis of accounting. The enterprise funds are accounted for using the flow of economic resources measurement focus. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded at the time the liabilities are incurred. All assets and liabilities associated with the operations of the enterprise funds are included on the Statement of Net Assets. The assets and liabilities of the agency fund are included on the Statement of Fiduciary Net Assets. The program has elected to follow the accounting pronouncements of the Governmental Accounting Standards Board, as well as statements issued by the Financial Accounting Standards Board on or before November 30, 1989, unless the Financial Accounting Standards Board statements conflict with or contradict Governmental Accounting Standards Board pronouncements. The program has elected not to follow Financial Accounting Standards Board statements issued subsequent to November 30, 1989.

**Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Notes to the Financial Statements**

Exhibit 1

NOTE 1: Summary of Significant Accounting Policies - continued

Drinking Water SRF reports the following major funds:

Loan Fund. The loan fund provides financial assistance to municipalities, counties, political subdivisions and instrumentalities of the state. Revenue for these loan programs is generated from federal capitalization grants, proceeds of revenue bonds issued to provide required state matching monies, proceeds of revenue bonds issued for the leveraged program, and recycled monies.

Administrative Fee Fund. This fund accounts for the cost of administering the loan program, to pay salaries and associated expenses of program personnel devoting time to the administration of the fund. Currently, salaries and associated expenses of program personnel are being paid from the set-aside fund.

Set-Aside Fund. The set-aside fund provides monies to establish and implement programs with emphasis on preventing contamination problems through source-water protection and encouraging better system operations. The Drinking Water SRF Program allows states to reserve up to 31 percent of the capitalization grant to use towards Administration and Technical Assistance, Small System Technical Assistance, Public Water System Supervision Program Management and Local Assistance and Other State Programs. In 2009, the department reserved 21 percent of the federal fiscal year 2008 grant for set-aside activities.

In addition, the program reports the following fund type:

Agency Fund. This fund accounts for monies held on behalf of municipalities, counties, political subdivisions, and instrumentalities of the state. This fund includes the funds generated by the sale of the bonds, which are deposited with a trustee bank in the applicant's name and are used for SRF eligible activities.

Cash, Cash Equivalents and Investments

A. Enterprise Funds

According to Missouri State Statutes, all monies in the enterprise funds are required to be deposited with the Missouri State Treasurer's Office, which is responsible for maintaining these deposits in accordance with state law. The program considers all such deposits to be cash. Investment interest earnings on these deposits are received by the program periodically throughout the month. According to state law, the Treasurer is responsible for maintaining the cash balances and investing excess cash of the program, as further discussed in Note 2. Consequently, management of the program does not have any control over the investment of the excess cash. The statement of cash flows considers all funds deposited with the Treasurer to be cash or cash equivalents, regardless of actual maturities of the underlying investments.

**Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Notes to the Financial Statements**

Exhibit 1

NOTE 1: Summary of Significant Accounting Policies - continued

B. Agency Fund

The agency fund accounts for the monies held at trustee banks on behalf of the loan participants. This includes their unspent loan funds, as well as the rebate funds held for arbitrage payments. The program considers all highly liquid investments with original maturities of three months or less to be cash equivalents. The program also invests in guaranteed investment contracts and government and agency bonds. The guaranteed investment contracts are stated at cost as they are not negotiable or transferable and are not affected by market fluctuations. The bonds are stated at fair value.

Operating Revenues and Expenses

Revenues and expenses as a result of providing loans to participants are considered operating revenues and expenses. Operating revenues include interest earned on loans, administrative fee revenue, operating grants, and investment income. Operating expenses include salaries, benefits, and other administrative expenses. The non-operating revenues and expenses of the program are EPA capitalization grant revenues and bond interest expenses.

Administrative Fees

The program charges an administrative fee to borrowers to fund administrative costs of operating the program. The program's administrative expenses are currently paid with grant set-aside funds instead of with funds from the administrative fee fund. During the year ended June 30, 2009, \$866,085 was collected for administrative fees from borrowers and \$116,051 of investment interest was received. The cash balance of the administrative fee fund was \$4,866,782 as of June 30, 2009.

Bonds Payable

Bonds payable are special limited obligations of EI ERA, payable from borrower loan repayments and a reserve account established for each borrower in accordance with a master trust agreement. Interest expense is reported on the accrual basis. Due to the flow-through effect of the bonds and related receivables; bond discounts, premiums and issuance costs are not reported by the program since they represent the costs of the borrowers.

**Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Notes to the Financial Statements**

Exhibit 1

NOTE 1: Summary of Significant Accounting Policies - continued

Borrowers make monthly payments to debt service repayment accounts, which also earn interest that further subsidizes the interest rates. On bond payment dates, transfers are made from the repayment accounts to the debt service funds to make the semi-annual interest payments and annual bond principal payments. Interest earnings on the construction loan accounts and reserve accounts are also transferred to the debt service funds on the bond payment dates. These interest earnings reduce the amount that is needed from the repayment accounts.

As outstanding bond principal is reduced, a proportional amount is released from the reserve account. The amount released flows to the master trust unallocated fund, and, if there are no defaults, it is transferred to the Water and Wastewater Loan Revolving Fund to be used to make new loans.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Pending Governmental Accounting Standards Board Statement

At June 30, 2009, the Governmental Accounting Standards Board had issued a statement that was not yet implemented by the program. This statement may have an impact on the program:

Governmental Accounting Standards Board Statement No. 51 *Accounting and Financial Reporting for Intangible Assets* was issued in June 2007. The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets by enhancing the comparability of the accounting and financial reporting of such assets among state and local governments. This Statement required that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This Statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. The requirements of this Statement are effective for financial statements with periods beginning after June 15, 2009.

**Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Notes to the Financial Statements**

Exhibit 1

NOTE 2: Cash, Cash Equivalents and Investments

Enterprise Funds

All cash in the enterprise funds is required to be deposited with the State Treasurer, who is responsible for maintaining and investing the pooled cash balances in accordance with state laws. The Treasurer is required to maintain a mix of investments in order to allow funds to be withdrawn at any time to meet normal operating needs. The program's share of the investment income from the local government investment pool is based on the average daily balance for the period and is credited to the program periodically throughout the month. The Treasurer has its own policies for custodial credit risk, interest rate risk, credit risk, concentration of credit risk and foreign currency risk. Details of the investments and risks can be obtained from the State Treasurer's Office.

All cash and investments in the local investment pool are stated at cost, which approximates fair value. The investments in the local government investment pool are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

Agency Fund

All cash and investments of the agency fund are invested in accordance with the trustee investment agreement and the bond indenture. Allowable investments include:

- Federal securities.
- Direct and general obligations of the State which are pledged by the full faith and credit of the State and are rated in either of the two highest rating categories.
- Deposits at banks, trust companies or savings and loan associations which are fully insured by FDIC.
- Federal funds, unsecured certificates of deposit, time deposits and banker acceptances (having maturities of not more than 365 days) of any bank and which are rated in the highest short-term rating category.
- Unsecured promissory notes of any bank, trust company, national banking association or bank holding company equal to such institution's outstanding unsecured long-term debt that is rated in the highest rating category.
- Tax exempt permitted investments.
- Any other investment agreement with a provider which is rated, or whose unsecured, long-term obligations are rated at least "Aa2" or equivalent, or with a provider whose obligations are guaranteed by a guarantor which is rated, or whose unsecured, long-term obligations are rated at least "Aa2" or equivalent.
- Commercial paper issued by domestic corporations rated in the second highest short-term rating category.
- Shares in money market mutual funds rated in the highest applicable rating category.

**Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Notes to the Financial Statements**

Exhibit 1

NOTE 2: Cash, Cash Equivalents and Investments - continued

Custodial credit risk. This is the risk that, in the event of the failure of the counterparty, the program will not be able to recover the value of its deposits or investments. Of the cash and cash equivalents held by the trustee banks, \$68,300 of deposits was exposed to a custodial credit risk because it was collateralized with securities held by the counterparty's trust department but not in the name of the program. The remaining agency fund cash and cash equivalents are invested in money market mutual funds. The money market mutual funds and the guaranteed investment contracts are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. The corporate bonds are uninsured.

As of June 30, 2009, the agency fund had the following investments:

Investment Type	Fair Value	Investment Maturities	
		Less Than 1 Year	1-5 Years
Guaranteed Investment Contracts	\$2,671,621	\$0	\$2,671,621
Corporate Bonds	1,230,215	1,230,215	0
Money Market Mutual Funds	23,895,004	23,895,004	0
	\$27,796,840	\$25,125,219	\$2,671,621

Interest rate risk. Interest rate risk is the risk that changes in interest rates may adversely affect the investment's fair value. The program does not have a policy to address interest rate risk.

Credit risk. The trustee banks are responsible for monitoring credit risk as it relates to the types of investments that can be made in accordance with the trustee investment agreement. The program has no investment policy that further limits its investment choices. As of June 30, 2009, the program's money market mutual funds are rated AAA by Standard and Poor's. The guaranteed investment contracts and corporate bonds are unrated.

All guaranteed investment contracts with AIG and Citigroup were terminated during the year as a result of their credit rating downgrades. The only remaining guaranteed investment contract is with FSA Capital Management Services, LLC. While the specific investment contract is unrated, the company is rated AAA by Standard and Poor's.

**Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Notes to the Financial Statements**

Exhibit 1

NOTE 2: Cash, Cash Equivalents and Investments - continued

Concentration of credit risk. The program places no limit on the amount that may be invested with any one issuer. The percent of total investments held by each provider as of June 30, 2009 is as follows:

Investment Issuer	Fair Value	Percent of Total
FSA Capital Management	\$2,671,621	68.5%
Bank of the Cascades	100,151	2.6%
BNB Bank NA	100,110	2.6%
Eaglebank	96,124	2.5%
Irwin Union Bank & Trust	150,240	3.8%
Magna Bank	96,067	2.4%
Midfirst Bank	150,145	3.8%
National Bank of South Carolina	96,076	2.5%
New York Community Bank	96,076	2.5%
Southcoast Community Bank	150,040	3.8%
Town North Bank NA	99,082	2.5%
Wright Express Financial Services	96,103	2.5%
	<u>\$3,901,835</u>	<u>100%</u>

**Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Notes to the Financial Statements**

Exhibit 1

NOTE 3: Loans Receivable

Loans receivable consist of three types: leveraged loans, reserve loans, and direct loans. Leveraged loans are funded by the sale of revenue bonds, the proceeds of which are deposited to a construction loan fund. Borrowers are loaned funds from the construction loan fund to pay for construction costs incurred. The terms of the loans mirror the terms of the bonds in order to provide the funds to pay bond interest and principal according to the terms of the bonds. In conjunction with the leveraged loan that funds construction, a reserve loan is made to provide an interest subsidy to the borrower and to provide security for bond principal and interest. In general, the loans and bonds require payment of interest semi-annually and principal annually. It is the opinion of management that all loans are fully collectable, so no provision for uncollectable amounts is included in these financial statements.

The following details the three types of loans as of June 30, 2009:

<u>Loan Type</u>	<u>Loan Amount Authorized</u>	<u>Outstanding Balance</u>
Leveraged Loans	\$250,735,000	\$207,230,000
Reserve Loans	N/A	111,063,059
Direct Loans	<u>21,561,500</u>	<u>7,063,000</u>
Totals	<u>\$272,296,500</u>	\$325,356,059
Less Current Maturities		<u>15,489,807</u>
Loans Receivable, Net of Current Portion		<u>\$309,866,252</u>

Loans receivable activity during the year ended June 30, 2009 is summarized as follows:

<u>Type of Loan</u>	<u>6/30/2008 Balance</u>	<u>Disbursements</u>	<u>Repayments</u>	<u>6/30/2009 Balance</u>
Direct Loans	\$4,163,000	\$2,900,000	\$0	\$7,063,000
Leveraged Loans	205,490,000	10,805,000	(9,065,000)	207,230,000
Reserve Loans	100,639,842	14,940,497	(4,517,280)	111,063,059
	<u>\$310,292,842</u>	<u>\$28,645,497</u>	<u>\$(13,582,280)</u>	<u>\$325,356,059</u>

**Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Notes to the Financial Statements**

Exhibit 1

NOTE 3: Loans Receivable - continued

Loan Maturities

The scheduled principal payments in subsequent years are as follows:

Year Ending June 30	Direct Loans	Leveraged Loans	Reserve Loans	Total
2010	\$180,000	\$10,050,000	\$5,259,807	\$15,489,807
2011	223,000	10,725,000	5,632,255	16,580,255
2012	225,000	11,145,000	5,838,954	17,208,954
2013	320,400	11,990,000	6,144,814	18,455,214
2014	326,000	13,420,000	6,693,426	20,439,426
2015-2019	1,715,300	72,090,000	35,567,994	109,373,294
2020-2024	1,863,200	58,015,000	32,646,684	92,524,884
2025-2029	2,025,700	19,795,000	13,279,125	35,099,825
2030-2034	184,400	0	0	184,400
Total	<u>\$7,063,000</u>	<u>\$207,230,000</u>	<u>\$111,063,059</u>	<u>\$325,356,059</u>

Loans to Major Local Agencies

As of June 30, 2009, the program had made leveraged loans to five agencies that, in the aggregate, exceeded \$10,000,000. The outstanding balances of the leveraged and reserve loans for these agencies represent approximately 54 percent of the total loans receivable, as follows:

<u>Borrower</u>	<u>Original Amount</u>	<u>Outstanding Balance</u>	<u>Reserve Balance</u>
Tri-County Water Authority	\$42,995,000	\$38,520,000	\$27,539,022
Osage Beach	33,210,000	26,965,000	14,421,091
Cape Girardeau	25,495,000	17,455,000	5,028,600
Jefferson County Water Authority	18,665,000	16,840,000	7,017,968
Clarence Cannon WWC	14,305,000	12,700,000	7,948,673
Total	<u>\$134,670,000</u>	<u>\$112,480,000</u>	<u>\$61,955,354</u>

**Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Notes to the Financial Statements**

Exhibit 1

NOTE 4: Bonds Payable

The Missouri Drinking Water SRF Program issues revenue bonds to finance qualified projects and uses federal capitalization grants and state matching funds to provide reserves for the bonds. The bonds are issued by Environmental Improvement and Energy Resources Authority and proceeds from the sales of bonds are deposited into the borrowers' accounts with the trustee banks. Bonds payable and loans receivable are recorded in the loan fund. Cash and project costs payable are recorded in the agency fund. As borrowers incur costs, funds are transferred from the construction loan fund to the borrower. For bonds prior to Bond Series 2003C, the program draws federal and state matching funds to establish the bond reserve funds. Interest earned on the construction loan fund and the reserve fund subsidizes the interest on the borrower's loan. As borrowers repay the loans, the interest and principal serve as the source of funds to pay bond principal and interest.

Beginning with Bond Series 2003C, state match bonds are issued by Environmental Improvement and Energy Resources Authority in addition to leveraged bonds. Proceeds from both the state match bonds and the leveraged bonds are deposited into the borrowers' accounts at the trustee banks. The reserves for the bonds are then funded by either federal capitalization grants from the Water and Wastewater Loan Fund (fund 0649) or recycled funds from the Water and Wastewater Loan Revolving Fund (fund 0602).

As of June 30, 2009, 21 separate bond issues had been sold which totaled \$268,060,000. The individual series, outstanding balances, and principal due included:

Series	Amount Issued	Outstanding Balance	Current Portion	Effective Rate to Community
Revenue Bond Series 1998B interest of 3.45% to 5.25% due semi-annually, principal due annually to January 2019.	\$28,795,000	\$19,590,000	\$1,260,000	3.08
Revenue Bond Series 1999A interest of 3.625% to 5.25% due semi-annually, principal due annually to January 2017.	2,315,000	1,360,000	135,000	3.07
Revenue Bond Series 1999B interest of 4.125% to 5.75% due semi-annually, principal due annually to July 2020.	4,320,000	755,000	100,000	3.57

**Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Notes to the Financial Statements**

Exhibit 1

NOTE 4: Bonds Payable - continued
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Series	Amount Issued	Outstanding Balance	Current Portion	Effective Rate to Community
Revenue Bond Series 2000A interest of 4.6% to 5.75% due semi-annually, principal due annually to July 2020.	\$20,490,000	\$3,030,000	\$995,000	3.51
Revenue Bond Series 2000B interest of 4.5% to 5.625% due semi-annually, principal due annually to July 2021.	6,810,000	2,060,000	315,000	3.37
Revenue Bond Series 2001A interest of 4.0% to 5.0% due semi-annually, principal due annually to January 2022.	6,295,000	4,500,000	440,000	2.93
Revenue Bond Series 2001C interest of 3.0% to 5.375% due semi-annually, principal due annually to July 2023.	23,400,000	19,880,000	700,000	3.45
Revenue Bond Series 2002A interest of 2.0% to 5.375% due semi-annually, principal due annually to January 2023.	10,370,000	8,790,000	420,000	2.43
Revenue Bond Series 2002B interest of 2.0% to 5.50% due semi-annually, principal due annually to July 2023.	26,705,000	21,140,000	1,080,000	2.43
Revenue Bond Series 2003B interest of 2.0% to 5.125% due semi-annually, principal due annually to January 2024.	11,445,000	9,610,000	420,000	2.18
Revenue Bond Series 2003C interest of 2.0% to 5.0% due semi-annually, principal due annually to July 2023.	11,290,000	8,805,000	575,000	1.70
2003C Bond Portion	9,795,000	7,775,000	470,000	
2003C State Match Portion	1,495,000	1,030,000	105,000	

**Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Notes to the Financial Statements**

Exhibit 1

NOTE 4: Bonds Payable - continued
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Series	Amount Issued	Outstanding Balance	Current Portion	Effective Rate to Community
Revenue Bond Series 2004A interest of 2.0% to 5.0% due semi-annually, principal due annually to July 2021. (Refunding Bonds)	\$17,325,000	\$17,135,000	\$40,000	
Revenue Bond Series 2004B interest of 2.0% to 5.25% due semi-annually, principal due annually to January 2024.	3,605,000	3,365,000	65,000	1.63
2004B Leveraged Portion	2,950,000	2,880,000	25,000	
2004B State Match Portion	655,000	485,000	40,000	
Revenue Bond Series 2004C interest of 3.0% to 5.25% due semi-annually, principal due annually to January 2026.	9,720,000	8,635,000	435,000	1.63
2004C Leveraged Portion	7,865,000	7,260,000	295,000	
2004C State Match Portion	1,855,000	1,375,000	140,000	
Revenue Bond Series 2005A interest of 3.0% to 5.0% due semi-annually, principal due annually to July 2025.	28,105,000	24,850,000	960,000	1.77
2005A Leveraged Portion	22,745,000	20,600,000	610,000	
2005A State Match Portion	5,360,000	4,250,000	350,000	
Revenue Bond Series 2005C interest of 3.25% to 5.25% due semi-annually, principal due annually to July 2026.	29,780,000	27,455,000	1,250,000	1.34
2005C Leveraged Portion	23,930,000	22,420,000	855,000	
2005C State Match Portion	5,850,000	5,035,000	395,000	
Revenue Bond Series 2006A interest of 3.6% to 5.25% due semi-annually, principal due annually to July 2026.	2,000,000	1,895,000	80,000	1.55
2006A Leveraged Portion	1,610,000	1,565,000	50,000	
2006A State Match Portion	390,000	330,000	30,000	

**Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Notes to the Financial Statements**

Exhibit 1

NOTE 4: Bonds Payable - continued
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Series	Amount Issued	Outstanding Balance	Current Portion	Effective Rate to Community
Revenue Bond Series 2006B interest of 4.0% to 5.0% due semi-annually, principal due annually to July 2027.	\$2,295,000	\$2,280,000	\$15,000	1.58
2006B Leveraged Portion	1,960,000	1,950,000	10,000	
2006B State Match Portion	335,000	330,000	5,000	
Revenue Bond Series 2007A interest of 4.0% to 4.75% due semi-annually, principal due annually to January 2028.	11,805,000	11,200,000	415,000	1.33
2007A Leveraged Portion	10,095,000	9,695,000	295,000	
2007A State Match Portion	1,710,000	1,505,000	120,000	
Revenue Bond Series 2007B interest of 4.0% to 5.0% due semi-annually, principal due annually to January 2026.	385,000	385,000	5,000	1.51
2007B Leveraged Portion	385,000	385,000	5,000	
Revenue Bond Series 2008A interest of 4.0% to 5.75% due semi-annually, principal due annually to January 2029.	10,805,000	10,805,000	385,000	1.63
2008A Leveraged Portion	9,255,000	9,255,000	260,000	
2008A State Match Portion	1,550,000	1,550,000	125,000	
Total Leveraged Bonds	248,860,000	191,635,000	8,780,000	
Deferred Amt. on Refunding		(295,000)	(40,000)	
Total State Match Bonds	19,200,000	15,890,000	1,310,000	
Total Revenue Bonds	<u>\$268,060,000</u>	<u>\$207,230,000</u>	<u>\$10,050,000</u>	

Bond activity during the year ended June 30, 2009 is summarized as follows:

	6/30/2008			6/30/2009
	Balance	Repayments	New Issues	Balance
Leveraged Program Bonds	\$190,285,000	\$(7,905,000)	\$9,255,000	\$191,635,000
State Match Bonds	15,540,000	(1,200,000)	1,550,000	15,890,000
Deferred on Refunding	(335,000)	40,000	0	(295,000)
Total	<u>\$205,490,000</u>	<u>\$(9,065,000)</u>	<u>\$10,805,000</u>	<u>\$207,230,000</u>

**Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Notes to the Financial Statements**

Exhibit 1

NOTE 4: Bonds Payable - continued
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The required annual payments for all revenue bonds in subsequent fiscal years are as follows:

Leveraged Bonds

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$8,740,000	\$9,254,869	\$17,994,869
2011	9,420,000	8,796,828	18,216,828
2012	9,875,000	8,369,036	18,244,036
2013	10,750,000	7,907,045	18,657,045
2014	12,220,000	7,395,006	19,615,006
2015-2019	66,785,000	27,422,105	94,207,105
2020-2024	54,540,000	11,393,684	65,933,684
2025-2029	19,010,000	1,696,800	20,706,800
Total	\$191,340,000	\$82,235,373	\$273,575,373

Match Bonds

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$1,310,000	\$667,763	\$1,977,763
2011	1,305,000	610,004	1,915,004
2012	1,270,000	564,449	1,834,449
2013	1,240,000	518,709	1,758,709
2014	1,200,000	471,450	1,671,450
2015-2019	5,305,000	1,641,798	6,946,798
2020-2024	3,475,000	591,346	4,066,346
2025-2029	785,000	57,788	842,788
Total	\$15,890,000	\$5,123,307	\$21,013,307

Advance Refundings

The program has issued \$17,325,000 of revenue refunding bonds (Series 2004A) to provide resources to purchase U.S. Government State and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for future debt service payments of \$16,840,000 of revenue bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net assets. As of June 30, 2009, the amount of refunded bonds that had yet to be called totaled \$16,840,000.

**Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Notes to the Financial Statements**

Exhibit 1

NOTE 5: Arbitrage Rebate

In accordance with Internal Revenue Code Section 148(f) relating to arbitrage restrictions on tax-exempt bonds, an arbitrage rebate payable in the amount of \$3,535,622 has been recorded. This liability is cumulative for the Series 1998B, 1999A, 2004B, 2004C, 2005A, 2005C, 2006A, 2006B, 2007A, and 2007B bonds. The portion of this pending rebate of excess investment earnings that is attributable to each series is due no later than 60 days after each installment computation date. The next installment computation date for each series is as follows:

Bond Series	Next Installment Computation Date
1998B	1/1/2011
1999A	1/1/2014
2004B	7/1/2009
2004C	1/1/2014
2005A	7/1/2009
2005C	7/1/2009
2006A	7/1/2009
2006B	7/1/2009
2007A	1/1/2012
2007B	7/1/2009

NOTE 6: Net Assets

All net assets of the program are restricted. The program's enabling legislation and related regulations require that all money in the fund be used only for purposes of the program.

The program is capitalized by grants from the EPA, authorized by Section 1452 of the Safe Drinking Water Act and matching funds from the State of Missouri. As of June 30, 2009, the EPA has awarded capitalization grants totaling \$141,767,358, of which \$122,841,507 has been drawn. The award amount of \$141,767,358 includes the \$1,444 in-kind amount on the FS997629-00 grant and the \$100,000 in-kind amount on the FS997629-06 grant. These amounts are not available to be drawn. The following summarizes the capitalization grants awarded, amounts drawn on each grant, and balances available:

**Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Notes to the Financial Statements**

Exhibit 1

NOTE 6: Net Assets (continued)

Grant ID	Grant Amount	Total Draws June 30, 2008	2009 Draws	Total Draws June 30, 2009	Available June 30, 2009
FS997629-97	\$21,856,417	\$21,856,417	\$0	\$21,856,417	\$0
FS997629-98	9,572,970	9,572,970	0	9,572,970	0
FS997629-99	10,034,771	10,034,771	0	10,034,771	0
FS997629-00	10,429,700	10,428,256	0	10,428,256	0
FS997629-01	10,472,900	10,472,900	0	10,472,900	0
FS997629-02	11,702,600	11,702,600	0	11,702,600	0
FS997629-03	11,633,700	11,588,409	45,291	11,633,700	0
FS997629-04	12,066,800	11,878,216	188,555	12,066,771	29
FS997629-05	12,041,300	10,672,451	1,001,965	11,674,416	366,884
FS997629-06	15,978,200	9,133,401	3,003,683	12,137,084	3,741,116
FS997629-07	15,978,000	0	1,261,622	1,261,622	14,716,378
	<u>\$141,767,358</u>	<u>\$117,340,391</u>	<u>\$5,501,116</u>	<u>\$122,841,507</u>	<u>\$18,824,407</u>

As of June 30, 2009, state matching contributions were as follows:

	June 30, 2008	2009 Contribution	June 30, 2009
State Appropriations	\$15,504,549	\$0	\$15,504,549
State Match Bonds (sold by EI ERA)**	17,650,000	1,550,000	19,200,000
Total State Match	<u>\$33,154,549</u>	<u>\$1,550,000</u>	<u>\$34,704,549</u>

**The state match bonds are being repaid with Drinking Water SRF interest earnings and are not contributions to fund equity.

NOTE 7: Set-Aside Costs

The Federal Safe Drinking Water Act allows states to reserve, or “set-aside” up to 31 percent of the capitalization grant to implement and maintain activities to help public water systems provide safe drinking water to the public. The Safe Drinking Water Act establishes four categories of set-Asides and sets a maximum amount for each. In state fiscal year 2009, the department reserved 21 percent (of the federal fiscal year 2008 grant) for set-aside activities.

**Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Notes to the Financial Statements**

Exhibit 1

NOTE 7: Set-Aside Costs (continued)
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Set-Aside Capitalization Grant Balances

The following capitalization grants have balances available to draw for set-aside activities which is detailed by set-aside category of available funding.

Set-Aside Category	FS997629-04	FS997629-05	FS997629-06	FS997629-07
Program Administration	\$0	\$8	\$123	\$373,321
State Program Management	1	32	65	601,977
Technical Assistance	0	208,106	319,564	319,560
Capacity Development	28	158,738	856,459	798,900
Total Funds Available	\$29	\$366,884	\$1,176,211	\$2,093,758

Set-Aside Federal Draws

The table below identifies the total amounts drawn from each of the capitalization grants for set-aside activities to date:

Grant	Program Administration	Technical Assistance	State Program Management	Source Water Protection	Capacity Development	Total Set-Aside
1997	\$874,304	\$436,780	\$1,435,760	\$1,834,798	\$0	\$4,581,642
1998	382,996	191,227	956,241	0	0	1,530,464
1999	401,416	200,704	1,003,035	0	0	1,605,155
2000	350,092	207,834	1,043,573	0	0	1,601,499
2001	414,990	209,110	1,043,225	0	0	1,667,325
2002	133,446	110,994	826,088	0	443,559	1,514,087
2003	454,980	227,490	1,137,450	0	568,725	2,388,645
2004	482,672	241,336	1,206,679	0	603,312	2,533,999
2005	481,644	32,720	1,204,098	0	1,045,393	2,763,855
2006	539,005	0	1,297,755	0	541,361	2,378,121
2007	265,799	0	995,823	0	0	1,261,622
Total	\$4,781,344	\$1,858,195	\$12,149,727	\$1,834,798	\$3,202,350	\$23,826,414

**Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Notes to the Financial Statements**

Exhibit 1

NOTE 8: Defined Benefit Pension Plan

Plan Description

The State of Missouri participates in the Missouri State Employees' Plan, which is a single-employer defined benefit pension plan administered by the Missouri State Employees' Retirement System, known as MOSERS, as provided by the Revised Statutes of Missouri Sections 104.010 and 104.312 to 104.1215. MOSERS provides retirement, death and disability benefits to its members. Missouri law establishes and amends benefit provisions. MOSERS issues a publicly available financial report that includes financial statements and required supplementary information. Those reports may be obtained by writing to Missouri State Employees' Retirement System at P.O. Box 209, 907 Wildwood, Jefferson City, Missouri 65102-0209.

Funding Policy

The State of Missouri is obligated by state law to make all required contributions to the Missouri State Employees' Plan. The actuarially determined contributions are expressed as a level percentage of covered payroll. The actuarially determined contributions rate for the Missouri State Employees' Plan is 12.53 percent for the year ended June 30, 2009. Actual contribution rates are the same as the actuarially determined rates. No employee contributions are required. The amount of retirement contributions paid by the State of Missouri and allocated to expense of the program was \$151,384 for the year ended June 30, 2009.

NOTE 9: Contingencies

The program is exposed to various risks of loss related to torts, theft of assets, errors or omissions, injuries to state employees while performing program business or acts of God. The program maintains insurance through the State of Missouri for all risks of loss, which is included in the indirect costs allocated to the program. There have not been any claims against the program since its inception in 1997.

NOTE 10: Subsequent Events

On February 17, 2009, the American Recovery and Reinvestment Act of 2009 was signed by the President. This Act provided additional capitalization grant funding for the Drinking Water SRF program. The program had applied for this capitalization grant prior to the end of the fiscal year. The Drinking Water SRF program was awarded the American Recovery and Reinvestment Act of 2009 capitalization grant of \$37,862,000 on July 24, 2009.

**Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Notes to the Financial Statements**

Exhibit 1

NOTE 10: Subsequent Events (continued)

On February 17, 2010, revenue bond series 2010A was issued in the amount of \$205,420,000 to partially refund bond series 1995C, 1996D, 1997D, 1997E, 1998A, 1998B, 1999B, 2000A, 2000B, 2001A, 2001C, 2002A, 2002B, 2003A, and 2003B. Interest of 2.0% to 5.0% is due semi-annually and principal due annually through 1/1/2024.

Exhibit 2

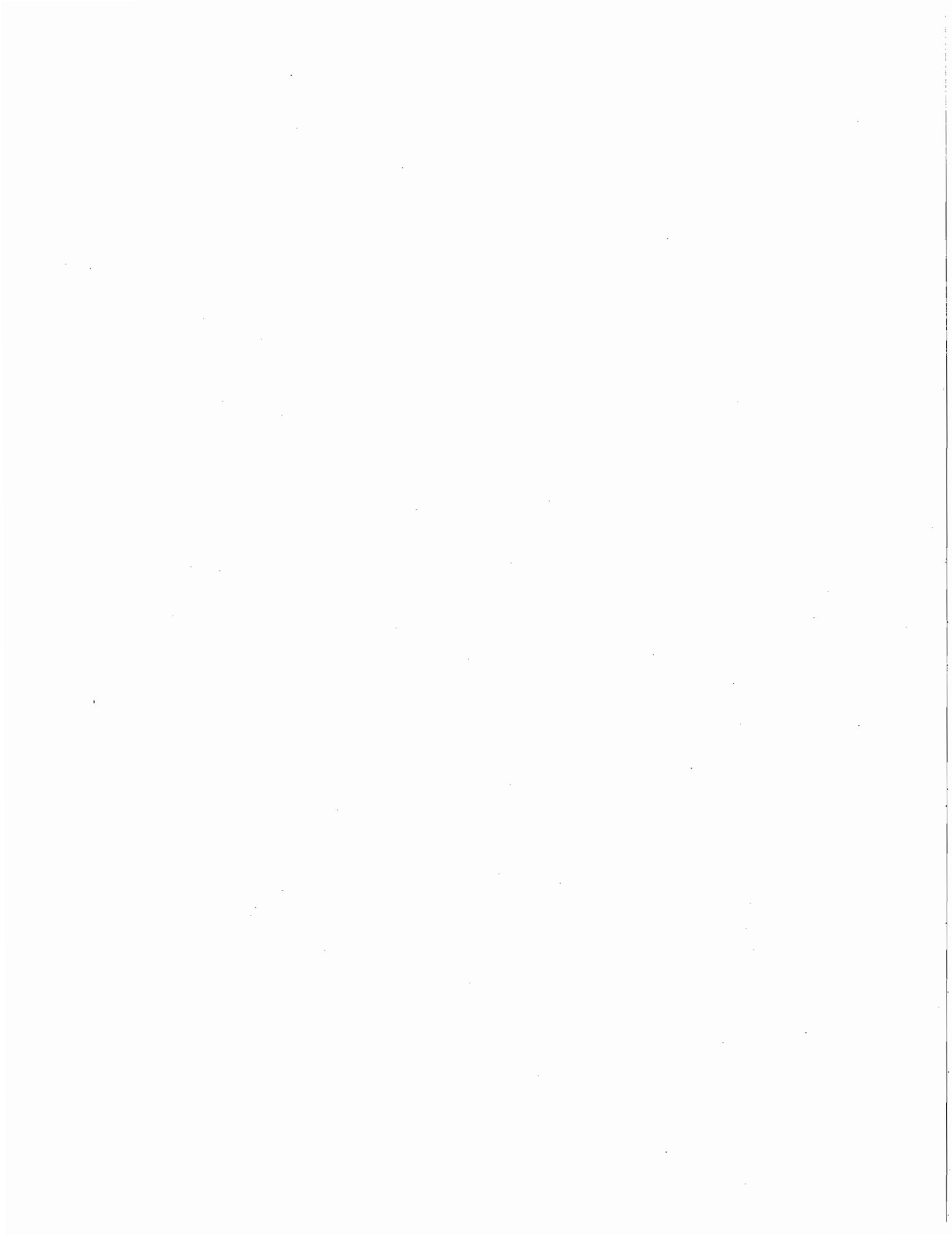
Missouri State Revolving Fund Fiscal Year 2010 Financial Reports
and notes

**Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Statement of Net Assets
June 30, 2010**

Exhibit 2

	<u>Loan Fund</u>	<u>Administrative Fee Fund</u>	<u>Set-Aside Fund</u>	<u>Total Enterprise Funds</u>
Assets:				
Current assets:				
Cash and cash equivalents	\$ 14,519,350	\$ 5,831,481	\$ -	\$ 20,350,831
Receivables:				
Loan interest	4,870,078	-	-	4,870,078
Investment interest	43,525	7,578	-	51,103
Administrative fees	-	723,092	-	723,092
Due from EPA	-	-	1,845,411	1,845,411
Other receivables	4,853	-	-	4,853
Current portion of loans receivable:				
Leveraged loans	10,725,000	-	-	10,725,000
Direct loans	354,300	-	-	354,300
Reserve loans	5,586,194	-	-	5,586,194
Total current assets	<u>36,103,300</u>	<u>6,562,151</u>	<u>1,845,411</u>	<u>44,510,862</u>
Non-current assets:				
Bond issue costs	280,199	-	-	280,199
Loans receivable:				
Leveraged loans	186,455,000	-	-	186,455,000
Direct loans	15,856,592	-	-	15,856,592
Reserve loans	101,794,511	-	-	101,794,511
Total non-current assets	<u>304,386,302</u>	<u>-</u>	<u>-</u>	<u>304,386,302</u>
Total assets	<u>340,489,602</u>	<u>6,562,151</u>	<u>1,845,411</u>	<u>348,897,164</u>
Liabilities:				
Current liabilities:				
Accounts payable	-	-	370,741	370,741
Accrued salaries and benefits payable	-	-	63,670	63,670
Bond interest payable	4,439,718	-	-	4,439,718
Current portion of bonds payable	11,110,353	-	-	11,110,353
Due to State of Missouri	-	-	1,411,000	1,411,000
Total current liabilities	<u>15,550,071</u>	<u>-</u>	<u>1,845,411</u>	<u>17,395,482</u>
Non-current liabilities:				
Bonds payable, net of deferred amounts	186,213,123	-	-	186,213,123
Total liabilities	<u>201,763,194</u>	<u>-</u>	<u>1,845,411</u>	<u>203,608,605</u>
Net assets:				
Restricted for loans and debt service	138,726,408	6,562,151	-	145,288,559
Total net assets	<u>\$ 138,726,408</u>	<u>\$ 6,562,151</u>	<u>\$ -</u>	<u>\$ 145,288,559</u>

See accompanying notes to the financial statements.

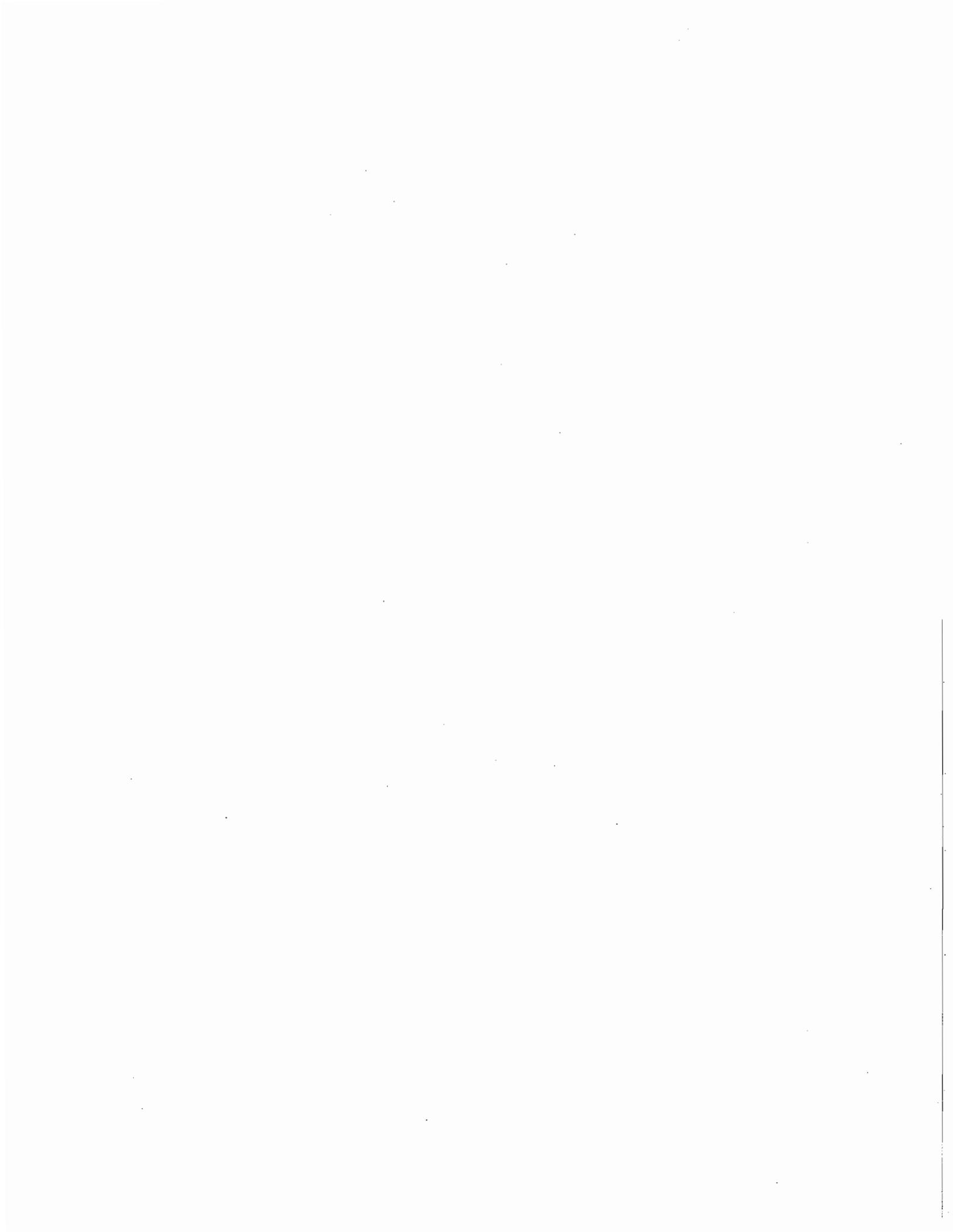


Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Statement of Revenues, Expenses and Changes in Fund Net Assets
Year Ended June 30, 2010

Exhibit 2

	Loan Fund	Administrative Fee Fund	Set-Aside Fund	Total Enterprise Funds
Operating revenues:				
Interest income on SRF loans	\$ 9,772,341	\$ -	\$ -	\$ 9,772,341
Investment income	234,457	62,204	-	296,661
Administrative fees	-	891,322	-	891,322
EPA set-aside operating grants	-	-	3,189,553	3,189,553
Other	144,171	-	-	144,171
Total operating revenues	10,150,969	953,526	3,189,553	14,294,048
Operating expenses:				
Salaries and benefits	-	-	1,633,528	1,633,528
Travel	-	-	9,167	9,167
Other administrative expenses	-	-	863,723	863,723
Indirect costs	-	-	683,135	683,135
Grant payments	9,007,302	-	-	9,007,302
Total operating expenses	9,007,302	-	3,189,553	12,196,855
Operating income	1,143,667	953,526	-	2,097,193
Non-operating revenues (expenses):				
Environmental Protection Agency grants	18,110,578	-	-	18,110,578
Bond issue expense	(14,238)	-	-	(14,238)
Interest expense on bonds payable	(9,133,481)	-	-	(9,133,481)
Total non-operating revenues (expenses)	8,962,859	-	-	8,962,859
Increase in net assets	10,106,526	953,526	-	11,060,052
Net assets, beginning of year	128,619,882	5,608,625	-	134,228,507
Net assets, end of year	\$ 138,726,408	\$ 6,562,151	\$ -	\$ 145,288,559

See accompanying notes to the financial statements.



Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Statement of Cash Flows
Year Ended June 30, 2010

Exhibit 2

	Loan Fund	Administrative Fee Fund	Set-Aside Fund	Total Enterprise Funds
Cash flows from operating activities:				
Grant disbursements	\$ (9,007,302)	\$ -	\$ -	\$ (9,007,302)
Loan disbursements	(10,857,918)	-	-	(10,857,918)
Repayments received on loans	15,442,380	-	-	15,442,380
Interest received on loans	10,023,040	-	-	10,023,040
Administrative fees	-	892,955	-	892,955
EPA set-aside grant	-	-	2,034,158	2,034,158
Payments to employees	-	-	(1,632,248)	(1,632,248)
Other administrative payments	(945,265)	-	(1,395,707)	(2,340,972)
Investment income	258,655	71,744	-	330,399
Other	143,891	-	993,797	1,137,688
Net cash provided by operating activities	<u>5,057,481</u>	<u>964,699</u>	<u>-</u>	<u>6,022,180</u>
Cash flows from noncapital financing activities:				
Bonds issued, including premium	41,186,002	-	-	41,186,002
Bond principal retired	(50,936,992)	-	-	(50,936,992)
Interest paid on bonds	(9,922,632)	-	-	(9,922,632)
Environmental Protection Agency grants	18,110,578	-	-	18,110,578
Bond issuance costs	(299,010)	-	-	(299,010)
Net cash used by noncapital financing activities	<u>(1,862,054)</u>	<u>-</u>	<u>-</u>	<u>(1,862,054)</u>
Increase in cash and cash equivalents	3,195,427	964,699	-	4,160,126
Cash and cash equivalents, beginning of year	<u>11,323,923</u>	<u>4,866,782</u>	<u>-</u>	<u>16,190,705</u>
Cash and cash equivalents, end of year	<u>\$ 14,519,350</u>	<u>\$ 5,831,481</u>	<u>\$ -</u>	<u>\$ 20,350,831</u>
Reconciliation of net operating income to net cash provided by operating activities:				
Operating income	\$ 1,143,667	\$ 953,526	\$ -	\$ 2,097,193
Adjustments to reconcile net operating income to net cash provided by operations:				
Changes in assets and liabilities:				
Decrease in loan interest receivable	250,699	-	-	250,699
Decrease in loans receivable	4,584,462	-	-	4,584,462
Decrease in investment interest receivable	24,198	9,540	-	33,738
(Increase) decrease in other receivables	(280)	1,633	(1,155,395)	(1,154,042)
Increase (decrease) in payables	(945,265)	-	1,155,395	210,130
Net cash provided by operating activities	<u>\$ 5,057,481</u>	<u>\$ 964,699</u>	<u>\$ -</u>	<u>\$ 6,022,180</u>

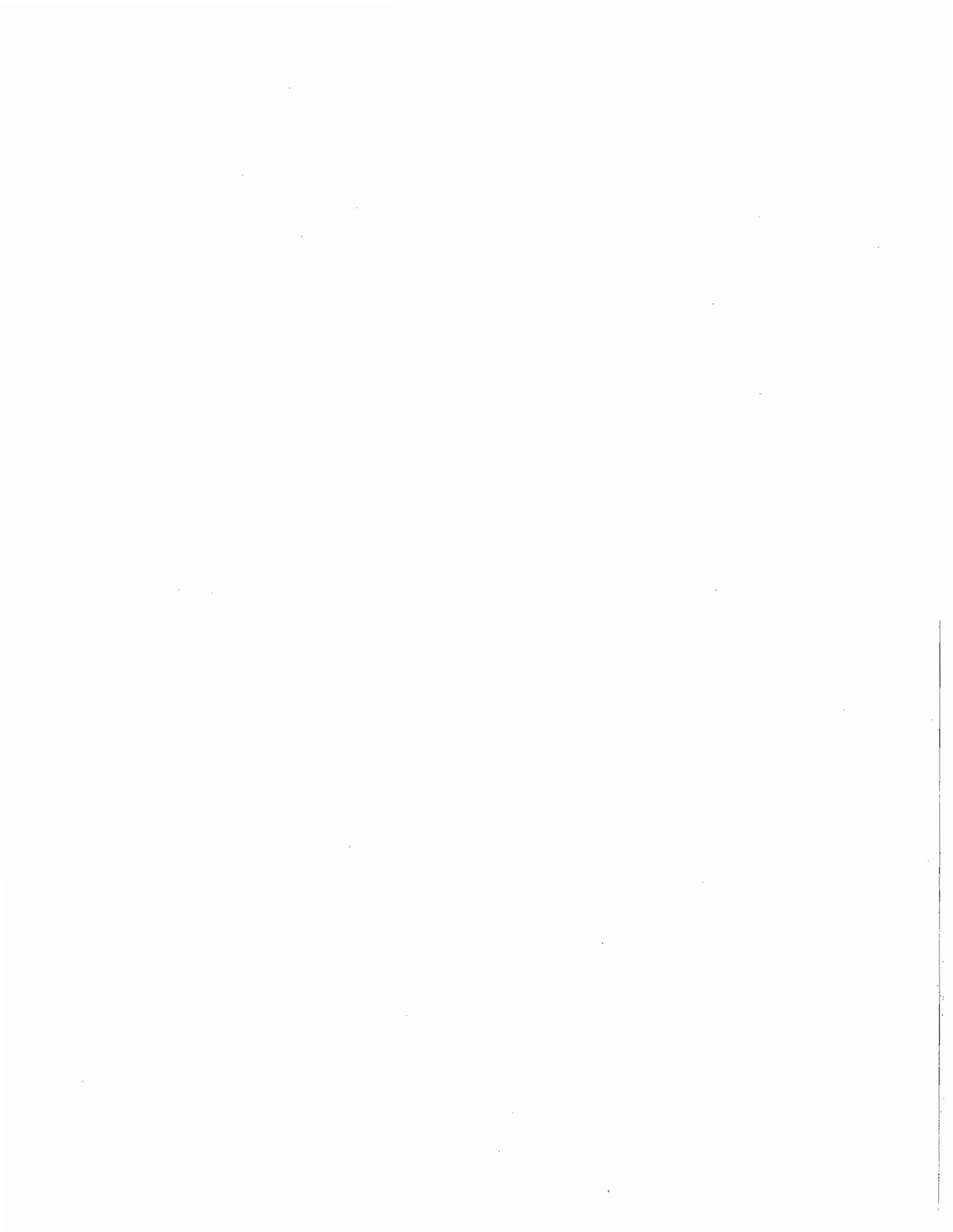
See accompanying notes to the financial statements.



**Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Statement of Fiduciary Net Assets
June 30, 2010**

	Exhibit 2
	<u>Agency Fund</u>
Assets:	
Cash and cash equivalents	\$ 10,736,821
Investment interest receivable	245
Other receivables	26,606
Investments:	
Guaranteed investment contracts	1,152,743
Government and agency bonds	926,808
Total assets	<u>12,843,223</u>
Liabilities:	
Project costs payable to communities	11,717,882
Interest subsidies payable to communities	40,413
Arbitrage rebate payable	332,648
Due to other governments	335,980
Other payables	416,300
Total liabilities	<u>12,843,223</u>
Net assets	<u>\$ -</u>

See accompanying notes to the financial statements.



**Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Notes to the Financial Statements**

Exhibit 2

NOTE 1: Summary of Significant Accounting Policies

Reporting Entity

The Missouri Department of Natural Resources Drinking Water State Revolving Fund was established pursuant to the Safe Drinking Water Act (SDWA) Amendments of 1996. Section 1452 of this Act authorizes the Administrator of the U.S. Environmental Protection Agency (EPA) to establish a Drinking Water State Revolving Fund Program to assist public water systems with financing the costs of infrastructure needed to achieve or maintain compliance with the SDWA requirements, to protect public health, and to allow states to carry out prevention programs.

The Drinking Water SRF was capitalized by the EPA through a series of grants starting in 1997. For most of the grants, states are required to provide an additional 20 percent of the federal capitalization grant as matching funds. As of June 30, 2010, Congress had authorized EPA to award \$195,445,358 in capitalization grants to the State of Missouri. The state is required to contribute \$31,516,672 in matching funds.

The Drinking Water SRF is administered by the Missouri Department of Natural Resources, the Missouri Environmental Improvement and Energy Resources Authority, or EIERA, and the department's Safe Drinking Water Commission. EIERA issues bonds or notes to finance qualified projects. The program is comprised of four funds within the state and an agency fund that holds the construction loan funds. The state funds are: the Water and Wastewater Loan Fund (fund 0649) that receives federal capitalization grant funds and uses those funds to make grants and loans, the Water and Wastewater Loan Revolving Fund (fund 0602) that receives loan repayments and uses those funds to make new loans, the Administrative Fee Fund (fund 0568) that receives the loan fees charged to borrowers, and the Department of Natural Resources Federal Fund (fund 0140) that receives federal capitalization grant funds that fund set-aside activities. The Agency Fund accounts for the monies held at trustee banks on behalf of the loan participants. This includes their unspent loan funds, as well as the rebate funds held for arbitrage payments.

The State of Missouri's statewide Comprehensive Annual Financial Report includes the Drinking Water SRF Program information as a special revenue fund, which uses the modified accrual basis of accounting. Due to differences in reporting methods, there may be differences between the amounts reported in these financial statements and the Comprehensive Annual Financial Report. One major difference between the amounts reported in these reports is that the agency fund is not included in the Comprehensive Annual Financial Report but is shown in these financial statements.

**Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Notes to the Financial Statements**

Exhibit 2

NOTE 1: Summary of Significant Accounting Policies - continued

Program Operations

The program provides financing to participants using three main types of funding – leveraged and reserve loans, direct loans, and grants.

A. Leveraged and Reserve Loans

Prior to state fiscal year 2010, the program's main type of financing was through the use of leveraged and reserve loans. Missouri leverages federal and state matching funds by issuing revenue bonds to make loans to qualified communities and by using federal grant and state matching funds to create reserves for the loans. Interest earned on the reserves subsidizes loan interest rates and enhances the security of the loans, which are pledged to repay bond principal and interest. Borrowers, in essence, receive two loans from the SRF: a market-rate loan funded by the revenue bond proceeds that equals project construction costs, and a zero-rate loan funded by capitalization grants and state matching funds that funds the reserves for the bonds. Bond proceeds are deposited to the construction loan accounts, which are held by the trustee bank. As communities draw on these funds to pay construction costs, a percentage of that amount (33.33 percent for bonds issued prior to 2002, 50 percent for bonds issued from 2002-2003, and 70 percent for bonds issued after 2003) is transferred to a reserve account established for each borrower. For loans closed in state fiscal year 2009, the reserve accounts were funded at closing rather than as construction funds are released. Earnings in the reserve account reduce the borrower's net interest payments on the bonds, resulting in the subsidized, blended interest rate on the project loan.

B. Direct Loans

Direct loans that were closed on prior to state fiscal year 2010 were funded from the Water and Wastewater Loan Revolving Fund. Loan proceeds are deposited to the construction loan accounts, which are held by the trustee bank. As construction costs are incurred, funds are released from the trustee bank to the borrower. The borrower repays the loan by making monthly principal and interest payments to the trustee bank. On the debt service due dates, the trustee bank makes the debt service payment to the program.

During state fiscal year 2010, the program changed how it funds direct loans. Instead of funding the loan up front and holding the funds at a trustee bank, the loan is funded incrementally as construction costs are incurred and funds are requested by the loan recipient. These loans are funded with federal grant and/or recycled funds.

C. Grants

Missouri was awarded the ARRA capitalization grant during state fiscal year 2010. The terms and conditions of the ARRA capitalization grant required that not less than 50 percent of assistance provided be in the form of additional loan subsidies, such as

Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Notes to the Financial Statements

Exhibit 2

NOTE 1: Summary of Significant Accounting Policies - continued

principal forgiveness, negative interest loans or grants. Missouri chose to provide the required additional subsidization through grants. ARRA projects were funded through a combination of 50 percent grant and 50 percent loan with a maximum grant of \$2,000,000 per applicant. Disadvantaged communities were eligible for a 75 percent grant with a 25 percent direct loan. Grant payments are made directly to the recipient as construction costs are incurred.

Basis of Accounting

The financial statements include enterprise funds and a fiduciary fund. The loan, administrative fee and set-aside funds are presented as enterprise funds whereas the agency fund is presented as a fiduciary fund, all of which are maintained on the accrual basis of accounting. The enterprise funds are accounted for using the flow of economic resources measurement focus. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded at the time the liabilities are incurred. All assets and liabilities associated with the operations of the enterprise funds are included on the Statement of Net Assets. The assets and liabilities of the agency fund are included on the Statement of Fiduciary Net Assets. The program has elected to follow the accounting pronouncements of the Governmental Accounting Standards Board, as well as statements issued by the Financial Accounting Standards Board on or before November 30, 1989, unless the Financial Accounting Standards Board statements conflict with or contradict Governmental Accounting Standards Board pronouncements. The program has elected not to follow Financial Accounting Standards Board statements issued subsequent to November 30, 1989.

Drinking Water SRF reports the following major funds:

Loan Fund. The loan fund provides financial assistance to municipalities, counties, political subdivisions and instrumentalities of the state. Revenue for these loan programs is generated from federal capitalization grants, proceeds of revenue bonds issued to provide required state matching monies, proceeds of revenue bonds issued for the leveraged program, and recycled monies.

Administrative Fee Fund. This fund accounts for the cost of administering the loan program, to pay salaries and associated expenses of program personnel devoting time to the administration of the fund. Currently, salaries and associated expenses of program personnel are being paid from the set-aside fund.

Set-Aside Fund. The set-aside fund provides monies to establish and implement programs with emphasis on preventing contamination problems through source-water protection and encouraging better system operations. The Drinking Water SRF Program allows states to reserve up to 31 percent of the capitalization grant to use towards Administration and Technical Assistance, Small System Technical Assistance, Public Water System Supervision Program Management and Local Assistance and Other State

**Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Notes to the Financial Statements**

Exhibit 2

NOTE 1: Summary of Significant Accounting Policies - continued

Programs. In 2010, the department reserved 26 percent of the federal fiscal year 2009 grant for set-aside activities.

In addition, the program reports the following fund type:

Agency Fund. This fund accounts for monies held on behalf of municipalities, counties, political subdivisions, and instrumentalities of the state. This fund includes the funds generated by the sale of the bonds, which are deposited with a trustee bank in the applicant's name and are used for SRF eligible activities.

Cash, Cash Equivalents and Investments

A. Enterprise Funds

All monies in the four state funds (funds 0140, 0568, 0602, and 0649) are required to be deposited with the Missouri State Treasurer's Office, which is responsible for maintaining these deposits in accordance with state law. The program considers all such deposits to be cash. Investment interest earnings on these deposits are received by the program periodically throughout the month. According to state law, the Treasurer is responsible for maintaining the cash balances and investing excess cash of the program, as further discussed in Note 2. Consequently, management of the program does not have any control over the investment of the excess cash. The statement of cash flows considers all funds deposited with the Treasurer to be cash or cash equivalents, regardless of actual maturities of the underlying investments.

Monies in the master trust bond expense fund are invested in money market mutual funds by the trustee bank per the Master Trust Agreement and are considered to be cash or cash equivalents.

B. Agency Fund

The agency fund accounts for the monies held at trustee banks on behalf of the loan participants. This includes their unspent loan funds, as well as the rebate funds held for arbitrage payments. The program considers all highly liquid investments with original maturities of three months or less to be cash equivalents. The program also invests in guaranteed investment contracts and government and agency bonds. The guaranteed investment contracts are stated at cost as they are not negotiable or transferable and are not affected by market fluctuations. The bonds are stated at fair value.

**Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Notes to the Financial Statements**

Exhibit 2

NOTE 1: Summary of Significant Accounting Policies - continued

Operating Revenues and Expenses

Revenues and expenses as a result of providing loans and grants to participants are considered operating revenues and expenses. Operating revenues include interest earned on loans, administrative fee revenue, operating grants, and investment income. Operating expenses include grant payments, salaries, benefits, and other administrative expenses.

The non-operating revenues and expenses of the program are EPA capitalization grant revenues and bond related expenses.

Administrative Fees

The program charges an administrative fee to borrowers to fund administrative costs of operating the program. The program's administrative expenses are currently paid with grant set-aside funds instead of with funds from the administrative fee fund. During the year ended June 30, 2010, \$892,955 was collected for administrative fees from borrowers and \$71,744 of investment interest was received. The cash balance of the administrative fee fund was \$5,831,481 as of June 30, 2010.

Bonds Payable

Bonds payable are special limited obligations of EI ERA payable from borrower loan repayments and a reserve account established for each borrower in accordance with a master trust agreement. Interest expense is reported on the accrual basis. Due to the flow-through effect of the bonds and related receivables, bond discounts, premiums and issuance costs are not reported by the program since they represent the costs of the borrowers, with the exception of the 2010A refunding bonds. All costs related to issuing the 2010A refunding bonds and all related savings from the bond refunding were not passed on to the borrowers. Therefore, the premium and the cost of issuance of the 2010A refunding bonds are reported on the program's financial statements.

Borrowers make monthly payments to debt service repayment accounts, which also earn interest that further subsidizes the interest rates. On bond payment dates, transfers are made from the repayment accounts to the debt service funds to make the semi-annual interest payments and annual bond principal payments. Interest earnings on the construction loan accounts and reserve accounts are also transferred to the debt service funds on the bond payment dates. These interest earnings reduce the amount that is needed from the repayment accounts.

As outstanding bond principal is reduced, a proportional amount is released from the reserve account. The released amounts flow to the master trust unallocated fund, and, if there are no defaults, are transferred to the Water and Wastewater Loan Revolving Fund to be used to make new loans.

**Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Notes to the Financial Statements**

Exhibit 2

NOTE 1: Summary of Significant Accounting Policies - continued

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2: Cash, Cash Equivalents and Investments

Enterprise Funds

All cash in the four state funds (funds 0140, 0568, 0602, and 0649) is required to be deposited with the State Treasurer, who is responsible for maintaining and investing the pooled cash balances in accordance with state laws. The Treasurer is required to maintain a mix of investments in order to allow funds to be withdrawn at any time to meet normal operating needs. The program's share of the investment income from the local government investment pool is based on the average daily balance for the period and is credited to the program periodically throughout the month. The Treasurer has its own policies for custodial credit risk, interest rate risk, credit risk, concentration of credit risk and foreign currency risk. Details of the investments and risks can be obtained from the State Treasurer's Office.

All cash and investments in the local investment pool are stated at cost, which approximates fair value. The investments in the local government investment pool are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

All monies in the Master Trust Bonds Expense Fund are invested in accordance with the Master Trust Agreement, which requires the monies to be invested in the Federated Prime Obligations Fund unless otherwise directed by EI ERA.

Agency Fund

All cash and investments of the agency fund are invested in accordance with the trustee investment agreement and the bond indenture. Allowable investments include:

- Federal securities.
- Direct and general obligations of the State which are pledged by the full faith and credit of the State and are rated in either of the two highest rating categories.
-

**Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Notes to the Financial Statements**

Exhibit 2

NOTE 2: Cash, Cash Equivalents and Investments - continued

- Deposits at banks, trust companies or savings and loan associations which are fully insured by FDIC.
- Federal funds, unsecured certificates of deposit, time deposits and banker acceptances (having maturities of not more than 365 days) of any bank and which are rated in the highest short-term rating category.
- Unsecured promissory notes of any bank, trust company, national banking association or bank holding company equal to such institution's outstanding unsecured long-term debt that is rated in the highest rating category.
- Tax exempt permitted investments.
- Any other investment agreement with a provider which is rated, or whose unsecured, long-term obligations are rated at least "Aa2" or equivalent, or with a provider whose obligations are guaranteed by a guarantor which is rated, or whose unsecured, long-term obligations are rated at least "Aa2" or equivalent.
- Commercial paper issued by domestic corporations rated in the second highest short-term rating category.
- Shares in money market mutual funds rated in the highest applicable rating category.

Custodial credit risk. This is the risk that, in the event of the failure of the counterparty, the program will not be able to recover the value of its deposits or investments. Of the cash and cash equivalents held by the trustee banks, \$38,127 of deposits was exposed to a custodial credit risk because it was collateralized with securities held by the counterparty's trust department but not in the name of the program. The remaining agency fund cash and cash equivalents are invested in money market mutual funds. The money market mutual funds and the guaranteed investment contracts are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. The government and agency bonds are uninsured.

As of June 30, 2010, the agency fund had the following investments:

Investment Type	Fair Value	Investment Maturities	
		Less Than 1 Year	1-5 Years
Guaranteed Investment Contracts	\$1,152,743	\$1,152,743	\$0
Government and Agency Bonds	926,808	0	926,808
Money Market Mutual Funds	10,698,694	10,698,694	0
	\$12,778,245	\$11,851,437	\$926,808

Interest rate risk. Interest rate risk is the risk that changes in interest rates may adversely affect the investment's fair value. The program does not have a policy to address interest rate risk.

Credit risk. The trustee banks are responsible for monitoring credit risk as it relates to the types of investments that can be made in accordance with the trustee investment agreement. The program has no investment policy that further limits its investment

**Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Notes to the Financial Statements**

Exhibit 2

NOTE 2: Cash, Cash Equivalents and Investments - continued

choices. As of June 30, 2010, the program's government and agency bonds and money market mutual funds are rated AAA by Standard and Poor's. The guaranteed investment contracts are unrated.

Concentration of credit risk. The program places no limit on the amount that may be invested with any one issuer. The percent of total investments held by each provider as of June 30, 2010 is as follows:

Investment Issuer	Fair Value	Percent of Total
Federal Home Loan Bank	\$435,274	20.9%
Federal National Mortgage Assn	491,534	23.7%
FSA Capital Management	1,152,743	55.4%
	\$2,079,551	100%

**Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Notes to the Financial Statements**

Exhibit 2

NOTE 3: Loans Receivable

Loans receivable consist of three types: leveraged loans, reserve loans, and direct loans. Leveraged loans are funded by the sale of revenue bonds, the proceeds of which are deposited to a construction loan fund. Borrowers are loaned funds from the construction loan fund to pay for construction costs incurred. The terms of the loans mirror the terms of the bonds in order to provide the funds to pay bond interest and principal according to the terms of the bonds. In conjunction with the leveraged loan that funds construction, a reserve loan is made to provide an interest subsidy to the borrower and to provide security for bond principal and interest. With the direct loans, there is no related bond sale. The loans are funded directly from the federal capitalization grant or recycled monies.

The following details the three types of loans as of June 30, 2010:

<u>Loan Type</u>	<u>Loan Amount Authorized</u>	<u>Outstanding Balance</u>
Leveraged Loans	\$250,735,000	\$197,180,000
Reserve Loans	133,819,448	107,380,705
Direct Loans	<u>45,463,200</u>	<u>16,210,892</u>
Totals	<u>\$430,017,648</u>	\$320,771,597
Less Current Maturities		<u>16,665,494</u>
Loans Receivable, Net of Current Portion		<u>\$304,106,103</u>

Loans receivable activity during the year ended June 30, 2010 is summarized as follows:

Type of Loan	6/30/2009 Balance	Disbursements	Repayments	6/30/2010 Balance
Direct Loans	\$7,063,000	\$9,327,892	\$(180,000)	\$16,210,892
Leveraged Loans	207,230,000	0	(10,050,000)	197,180,000
Reserve Loans	111,063,059	1,530,026	(5,212,380)	107,380,705
	<u>\$325,356,059</u>	<u>\$10,857,918</u>	<u>\$(15,442,380)</u>	<u>\$320,771,597</u>

**Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Notes to the Financial Statements**

Exhibit 2

NOTE 3: Loans Receivable - continued

Loan Maturities

The scheduled principal payments in subsequent years are as follows:

Year Ending June 30	Direct Loans	Leveraged Loans	Reserve Loans	Total
2011	\$354,300	\$10,725,000	\$5,586,194	\$16,665,494
2012	1,081,100	11,145,000	5,876,642	18,102,742
2013	1,110,800	11,990,000	6,144,814	19,245,614
2014	1,150,900	13,420,000	6,693,426	21,264,326
2015	1,189,738	13,895,000	6,971,498	22,056,236
2016-2020	5,048,494	71,195,000	36,455,740	112,699,234
2021-2025	3,815,142	51,680,000	30,906,357	86,401,499
2026-2030	2,404,018	13,130,000	8,746,034	24,280,052
2031-2033	56,400	0	0	56,400
Total	\$16,210,892	\$197,180,000	\$107,380,705	\$320,771,597

Loans to Major Local Agencies

As of June 30, 2010, the program had made leveraged loans to five agencies that, in the aggregate, exceeded \$10,000,000. The outstanding balances of the leveraged and reserve loans for these agencies represent approximately 53 percent of the total loans receivable, as follows:

<u>Borrower</u>	Original Amount	Outstanding Balance	Reserve Balance
Tri-County Water Authority	\$42,995,000	\$36,850,000	\$26,384,577
Osage Beach	33,210,000	25,685,000	13,730,974
Cape Girardeau	27,495,000	16,875,219	5,135,447
Clarence Cannon WWC	23,455,000	13,793,313	7,561,322
Jefferson County Water Authority	18,665,000	16,295,000	6,776,225
Total	\$145,820,000	\$109,498,532	\$59,588,545

**Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Notes to the Financial Statements**

Exhibit 2

NOTE 4: Bonds Payable

The Missouri Drinking Water SRF Program issues revenue bonds to finance qualified projects and uses federal capitalization grants and state matching funds to provide reserves for the bonds. The bonds are issued by the Environmental Improvement and Energy Resources Authority and proceeds from the sales of bonds are deposited into the borrowers' accounts with the trustee bank. Bonds payable and loans receivable are recorded in the loan fund. Cash and project costs payable are recorded in the agency fund. As borrowers incur costs, funds are transferred from the construction loan fund to the borrower. For bonds prior to Bond Series 2003C, the program draws federal and state matching funds to establish the bond reserve funds. Interest earned on the construction loan fund and the reserve fund subsidizes the interest on the borrower's loan. As borrowers repay the loans, the interest and principal serve as the source of funds to pay bond principal and interest.

Beginning with Bond Series 2003C, state match bonds are issued by the Environmental Improvement and Energy Resources Authority in addition to leveraged bonds. Proceeds from both the state match bonds and the leveraged bonds are deposited into the borrowers' accounts at the trustee bank. The reserves for the leveraged bonds are then funded by federal capitalization grants or recycled funds.

As of June 30, 2010, 22 separate bond issues had been sold which totaled \$303,980,000. The individual series, outstanding balances, and principal due included:

Series	Amount Issued	Outstanding Balance	Current Portion	Effective Rate to Community
Revenue Bond Series 1998B interest of 3.45% to 5.25% due semi-annually, principal due annually to January 2019.	\$28,795,000	\$1,272,550	\$225,000	3.08
Revenue Bond Series 1999A interest of 3.625% to 5.25% due semi-annually, principal due annually to January 2017.	2,315,000	1,225,000	135,000	3.07
Revenue Bond Series 1999B interest of 4.125% to 5.75% due semi-annually, principal due annually to July 2020.	4,320,000	490,000	150,000	3.57

**Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Notes to the Financial Statements**

Exhibit 2

NOTE 4: Bonds Payable - continued
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Series	Amount Issued	Outstanding Balance	Current Portion	Effective Rate to Community
Revenue Bond Series 2000A interest of 4.6% to 5.75% due semi-annually, principal due annually to July 2020.	\$20,490,000	\$2,035,000	\$1,030,000	3.51
Revenue Bond Series 2000B interest of 4.5% to 5.625% due semi-annually, principal due annually to July 2021.	6,810,000	1,310,000	320,000	3.37
Revenue Bond Series 2001A interest of 4.0% to 5.0% due semi-annually, principal due annually to January 2022.	6,295,000	740,000	450,000	2.93
Revenue Bond Series 2001C interest of 3.0% to 5.375% due semi-annually, principal due annually to July 2023.	23,400,000	12,625,000	755,000	3.45
Revenue Bond Series 2002A interest of 2.0% to 5.375% due semi-annually, principal due annually to January 2023.	10,370,000	2,325,000	485,000	2.43
Revenue Bond Series 2002B interest of 2.0% to 5.50% due semi-annually, principal due annually to July 2023.	26,705,000	18,820,000	1,160,000	2.43
Revenue Bond Series 2003B interest of 2.0% to 5.125% due semi-annually, principal due annually to January 2024.	11,445,000	5,170,000	450,000	2.18
Revenue Bond Series 2003C interest of 2.0% to 5.0% due semi-annually, principal due annually to July 2023.	11,290,000	8,230,000	585,000	1.70
2003C Leveraged Portion	9,795,000	7,305,000	480,000	
2003C State Match Portion	1,495,000	925,000	105,000	

**Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Notes to the Financial Statements**

Exhibit 2

NOTE 4: Bonds Payable - continued
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Series	Amount Issued	Outstanding Balance	Current Portion	Effective Rate to Community
Revenue Bond Series 2004A interest of 2.0% to 5.0% due semi-annually, principal due annually to July 2021. (Refunding Bonds)	\$17,325,000	\$17,095,000	\$45,000	n/a
Revenue Bond Series 2004B interest of 2.0% to 5.25% due semi-annually, principal due annually to January 2024.	3,605,000	3,300,000	65,000	1.63
2004B Leveraged Portion	2,950,000	2,855,000	25,000	
2004B State Match Portion	655,000	445,000	40,000	
Revenue Bond Series 2004C interest of 3.0% to 5.25% due semi-annually, principal due annually to January 2026.	9,720,000	8,200,000	520,000	1.63
2004C Leveraged Portion	7,865,000	6,965,000	380,000	
2004C State Match Portion	1,855,000	1,235,000	140,000	
Revenue Bond Series 2005A interest of 3.0% to 5.0% due semi-annually, principal due annually to July 2025.	28,105,000	23,890,000	990,000	1.77
2005A Leveraged Portion	22,745,000	19,990,000	645,000	
2005A State Match Portion	5,360,000	3,900,000	345,000	
Revenue Bond Series 2005C interest of 3.25% to 5.25% due semi-annually, principal due annually to July 2026.	29,780,000	26,205,000	1,240,000	1.34
2005C Leveraged Portion	23,930,000	21,565,000	850,000	
2005C State Match Portion	5,850,000	4,640,000	390,000	
Revenue Bond Series 2006A interest of 3.6% to 5.25% due semi-annually, principal due annually to July 2026.	2,000,000	1,815,000	85,000	1.55
2006A Leveraged Portion	1,610,000	1,515,000	55,000	
2006A State Match Portion	390,000	300,000	30,000	

**Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Notes to the Financial Statements**

Exhibit 2

NOTE 4: Bonds Payable - continued
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Series	Amount Issued	Outstanding Balance	Current Portion	Effective Rate to Community
Revenue Bond Series 2006B interest of 4.0% to 5.0% due semi-annually, principal due annually to July 2027.	\$2,295,000	\$2,265,000	\$105,000	1.58
2006B Leveraged Portion	1,960,000	1,940,000	75,000	
2006B State Match Portion	335,000	325,000	30,000	
Revenue Bond Series 2007A interest of 4.0% to 4.75% due semi-annually, principal due annually to January 2028.	11,805,000	10,785,000	490,000	1.33
2007A Leveraged Portion	10,095,000	9,400,000	370,000	
2007A State Match Portion	1,710,000	1,385,000	120,000	
Revenue Bond Series 2007B interest of 4.0% to 5.0% due semi-annually, principal due annually to January 2026.	385,000	380,000	5,000	1.51
2007B Leveraged Portion	385,000	380,000	5,000	
Revenue Bond Series 2008A interest of 4.0% to 5.75% due semi-annually, principal due annually to January 2029.	10,805,000	10,420,000	410,000	1.63
2008A Leveraged Portion	9,255,000	8,995,000	305,000	
2008A State Match Portion	1,550,000	1,425,000	105,000	
Revenue Bond Series 2010A interest of 2.0% to 5.0% due semi-annually, principal due annually to January 2024. (Refunding Bonds)	35,920,000	35,920,000	1,040,000	n/a
Total Leveraged Bonds	284,780,000	179,937,550	9,435,000	
Total State Match Bonds	19,200,000	14,580,000	1,305,000	
Premium on Leveraged Bonds		5,011,361	680,017	
Deferred Amt. on Refundings		(2,205,435)	(309,664)	
Total Revenue Bonds	\$303,980,000	\$197,323,476	\$11,110,353	

**Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Notes to the Financial Statements**

Exhibit 2

NOTE 4: Bonds Payable - continued
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Bond activity during the year ended June 30, 2010 is summarized as follows:

	6/30/2009 Balance	Repayments	New Issues	6/30/2010 Balance
Leveraged Program Bonds	\$191,635,000	\$(47,617,450)	\$35,920,000	\$179,937,550
State Match Bonds	15,890,000	(1,310,000)	0	14,580,000
Premium on Leveraged Bonds	0	(254,641)	5,266,002	5,011,361
Deferred on Refunding	(295,000)	139,107	(2,049,542)	(2,205,435)
Total	\$207,230,000	\$(49,042,984)	\$39,136,460	\$197,323,476

The required annual payments for all revenue bonds in subsequent fiscal years are as follows:

Leveraged Bonds

Year Ending June 30	Principal	Interest	Total
2011	\$9,435,000	\$8,357,861	\$17,792,861
2012	9,720,000	8,187,938	17,907,938
2013	10,545,000	7,750,026	18,295,026
2014	11,951,450	7,268,801	19,220,251
2015	12,449,000	6,687,178	19,136,178
2016-2020	64,957,100	23,824,466	88,781,566
2021-2025	48,160,000	8,870,878	57,030,878
2026-2030	12,720,000	875,034	13,595,034
Total	\$179,937,550	\$71,822,182	\$251,759,732

Match Bonds

Year Ending June 30	Principal	Interest	Total
2011	\$1,305,000	\$610,004	\$1,915,004
2012	1,270,000	564,449	1,834,449
2013	1,240,000	518,709	1,758,709
2014	1,200,000	471,450	1,671,450
2015	1,160,000	423,506	1,583,506
2016-2020	5,015,000	1,409,108	6,424,108
2021-2025	2,980,000	432,646	3,412,646
2026-2030	410,000	25,671	435,671
Total	\$14,580,000	\$4,455,543	\$19,035,543

**Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Notes to the Financial Statements**

Exhibit 2

NOTE 4: Bonds Payable - continued

Advance Refundings

Two separate refunding bond series (Series 2004A and 2010A) totaling \$53,245,000 have been issued to provide resources to purchase U.S. Government State and Local Government Series securities that were placed in an irrevocable trusts for the purpose of generating resources for future debt service payments of \$55,677,450 of revenue bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net assets. As of June 30, 2010, the amount of refunded bonds that had yet to be called totaled \$38,620,000.

The 2010 refunding transaction resulted in an economic gain of \$3,599,734 and a decrease of \$4,080,342 in future debt service payments.

NOTE 5: Arbitrage Rebate

In accordance with Internal Revenue Code Section 148(f) relating to arbitrage restrictions on tax-exempt bonds, an arbitrage rebate payable in the amount of \$332,648 has been recorded. This liability is cumulative for the Series 1999A, 2004B, and 2007A bonds. The portion of this pending rebate of excess investment earnings that is attributable to each series is due no later than 60 days after each installment computation date. The next installment computation date for each series is as follows:

Bond Series	Next Installment Computation Date
1999A	1/1/2014
2004B	1/1/2014
2007A	1/1/2012

NOTE 6: Net Assets

All net assets of the program are restricted. The program's enabling legislation and related regulations require that all money in the fund be used only for purposes of the program.

The program is capitalized by grants from the EPA, authorized by Section 1452 of the Safe Drinking Water Act and matching funds from the State of Missouri. As of June 30, 2010, the EPA has awarded capitalization grants totaling \$195,445,358, of which \$142,986,242 has been drawn. The award amount of \$195,445,358 includes the \$1,444

**Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Notes to the Financial Statements**

Exhibit 2

NOTE 6: Net Assets (continued)

in-kind amount on the FS997629-00 grant and the \$100,000 in-kind amounts on the FS997629-06 and FS997629-08 grants. These amounts are not available to be drawn.

The following summarizes the capitalization grants awarded, amounts drawn on each grant, and balances available:

Grant ID	Grant Amount	Total Draws		Total Draws June 30, 2010	Available June 30, 2010
		June 30, 2009	2010 Draws		
FS997629-97	\$21,856,417	\$21,856,417	\$0	\$21,856,417	\$0
FS997629-98	9,572,970	9,572,970	0	9,572,970	0
FS997629-99	10,034,771	10,034,771	0	10,034,771	0
FS997629-00	10,429,700	10,428,256	0	10,428,256	0
FS997629-01	10,472,900	10,472,900	0	10,472,900	0
FS997629-02	11,702,600	11,702,600	0	11,702,600	0
FS997629-03	11,633,700	11,633,700	0	11,633,700	0
FS997629-04	12,066,800	12,066,771	29	12,066,800	0
FS997629-05	12,041,300	11,674,416	181,145	11,855,561	185,739
FS997629-06	15,978,200	12,137,084	1,321,394	13,458,478	2,419,722
FS997629-07	15,978,000	1,261,622	1,319,112	2,580,734	13,397,266
FS997629-08	15,816,000	0	742,503	742,503	14,973,497
2F977082-01	37,862,000	0	16,580,552	16,580,552	21,281,448
	\$195,445,358	\$122,841,507	\$20,144,735	\$142,986,242	\$52,257,672

As of June 30, 2010, state matching contributions were as follows:

	June 30, 2009	2010 Contribution	June 30, 2010
State Appropriations	\$15,504,549	\$0	\$15,504,549
State Match Bonds (sold by EIARA)**	19,200,000	0	19,200,000
Total State Match	\$34,704,549	\$0	\$34,704,549

**The state match bonds are being repaid with Drinking Water SRF interest earnings and are not contributions to fund equity.

NOTE 7: Set-Aside Costs

The Federal Safe Drinking Water Act allows states to reserve, or “set-aside” up to 31 percent of the capitalization grant to implement and maintain activities to help public water systems provide safe drinking water to the public. The Safe Drinking Water Act establishes four categories of set-Asides and sets a maximum amount for each. In state

**Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Notes to the Financial Statements**

Exhibit 2

NOTE 7: Set-Aside Costs (continued)
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fiscal year 2010, the department reserved 26 percent (of the federal fiscal year 2009 grant) for set-aside activities.

Set-Aside Capitalization Grant Balances

The following capitalization grants have balances available to draw for set-aside activities which is detailed by set-aside category of available funding.

Set-Aside Category	FS997629-05	FS997629-06	FS997629-07	FS997629-08	2F977082-01
Program Administration	\$0	\$0	\$21,941	\$541,007	\$700,000
State Program Management	0	157	47,280	930,730	0
Technical Assistance	136,065	319,564	319,560	316,320	757,240
Capacity Development	49,674	652,087	798,900	1,581,600	0
Total Funds Available	\$185,739	\$971,808	\$1,187,681	\$3,369,657	\$1,457,240

Set-Aside Federal Draws

The table below identifies the total amounts drawn from each of the capitalization grants for set-aside activities to date:

Grant	Program Administration	Technical Assistance	State Program Management	Source Water Protection	Capacity Development	Total Set-Aside
1997	\$874,304	\$436,780	\$1,435,760	\$1,834,798	\$0	\$4,581,642
1998	382,996	191,227	956,241	0	0	1,530,464
1999	401,416	200,704	1,003,035	0	0	1,605,155
2000	350,092	207,834	1,043,573	0	0	1,601,499
2001	414,990	209,110	1,043,225	0	0	1,667,325
2002	133,446	110,994	826,088	0	443,559	1,514,087
2003	454,980	227,490	1,137,450	0	568,725	2,388,645
2004	482,672	241,336	1,206,680	0	603,340	2,534,028
2005	481,652	104,761	1,204,130	0	1,154,456	2,944,999
2006	539,128	0	1,297,663	0	745,733	2,582,524
2007	617,180	0	1,550,520	0	0	2,167,700
2008	91,633	0	650,870	0	0	742,503
Total	\$5,224,489	\$1,930,236	\$13,355,235	\$1,834,798	\$3,515,813	\$25,860,571

**Missouri Department of Natural Resources
Drinking Water State Revolving Fund
Notes to the Financial Statements**

Exhibit 2

NOTE 8: Defined Benefit Pension Plan

Plan Description

The State of Missouri participates in the Missouri State Employees' Plan, which is a single-employer defined benefit pension plan administered by the Missouri State Employees' Retirement System, known as MOSERS, as provided by the Revised Statutes of Missouri Sections 104.010 and 104.312 to 104.1215. MOSERS provides retirement, death and disability benefits to its members. Missouri law establishes and amends benefit provisions. MOSERS issues a publicly available financial report that includes financial statements and required supplementary information. Those reports may be obtained by writing to Missouri State Employees' Retirement System at P.O. Box 209, 907 Wildwood, Jefferson City, Missouri 65102-0209.

Funding Policy

The State of Missouri is obligated by state law to make all required contributions to the Missouri State Employees' Plan. The actuarially determined contributions are expressed as a level percentage of covered payroll. The actuarially determined contributions rate for the Missouri State Employees' Plan is 12.75 percent for the year ended June 30, 2010. Actual contribution rates are the same as the actuarially determined rates. No employee contributions are required. The amount of retirement contributions paid by the State of Missouri and allocated to expense of the program was \$154,375 for the year ended June 30, 2010.

NOTE 9: Contingencies

The program is exposed to various risks of loss related to torts, theft of assets, errors or omissions, injuries to state employees while performing program business or acts of God. The program maintains insurance through the State of Missouri for all risks of loss, which is included in the indirect costs allocated to the program. There have not been any claims against the program since its inception in 1997.

NOTE 10: Subsequent Events

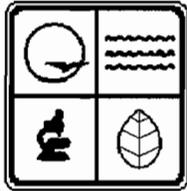
The Drinking Water SRF program was awarded the 2009 capitalization grant in the amount of \$15,816,000 on July 21, 2010.

In November 2010, the program issued revenue bond series 2010B in the amount of \$12,605,000 to finance additional loans.

Exhibit 3

USEPA Approval of the Missouri Operator Certification Annual
Report State Fiscal Year 2010

Missouri Department of Natural Resources
Division of Environmental Quality
Water Protection Program
Public Drinking Water Branch
Operator Certification Section
P.O. Box 176
Jefferson City, MO 65102-0176



Missouri
Department of
Natural Resources

Drinking Water Operator Certification Program Annual Report FY-2010

Reporting period July 1, 2009 through June 30, 2010

Overview 2010 of Operator Certification Program

In order to help ensure the protection of public health and the environment, the Division of Environmental Quality, Operator Certification Section provides for the training, examination and certification of both drinking water treatment, and distribution operators. Certificates are issued, deactivated, suspended and revoked as per state regulations.

1. Authorization:

A new Attorney General's certification is not necessary; there have been no statutory and/or regulatory changes to the certification program during this reporting period.

2. Classification of Systems, Facilities, and Operators:

All Missouri community and nontransient noncommunity public water systems and those transient noncommunity public water systems that use surface water or groundwater under the direct influence of surface water are classified based on: (a) complexity, size, source water for treatment facilities; and (b) complexity, size for distribution systems.

All operating personnel making independent process control/system integrity decisions about water quality or quantity that affect public health must be certified. Each drinking water treatment facility and distribution system is required to have a chief operator certified at the level of the system's classification. The following tables provide the number of active systems by classification:

Community Systems

	Wholesale No Distribution	Distribution			Totals
		DS1	DS2	DS3	
Distribution Only		491	656	37	1,184
Treatment A	1	0	15	32	48
Treatment B	1	0	42	10	53
Treatment C	3	2	95	6	106
Treatment D	2	8	66	7	83
Totals	7	501	874	92	1,474

Nontransient Noncommunity

	Wholesale No Distribution	Distribution			Totals
		DS1	DS2	DS3	
Distribution Only		188	47	0	235
Treatment A	0	1	3	0	4
Treatment B	0	0	0	0	0
Treatment C	1	0	4	0	5
Treatment D	0	1	0	0	1
Totals	1	190	54	0	245

Transient, Non Community Systems, that use surface water or groundwater under the direct influence of surface water

	Wholesale No Distribution	Distribution			Totals
		DS1	DS2	DS3	
Distribution Only		1	0	0	1
Treatment B	0	0	0	1	1
Totals	0	1	0	1	2

3. Operator Qualifications:

Applicants must meet the following requirements to become certified:

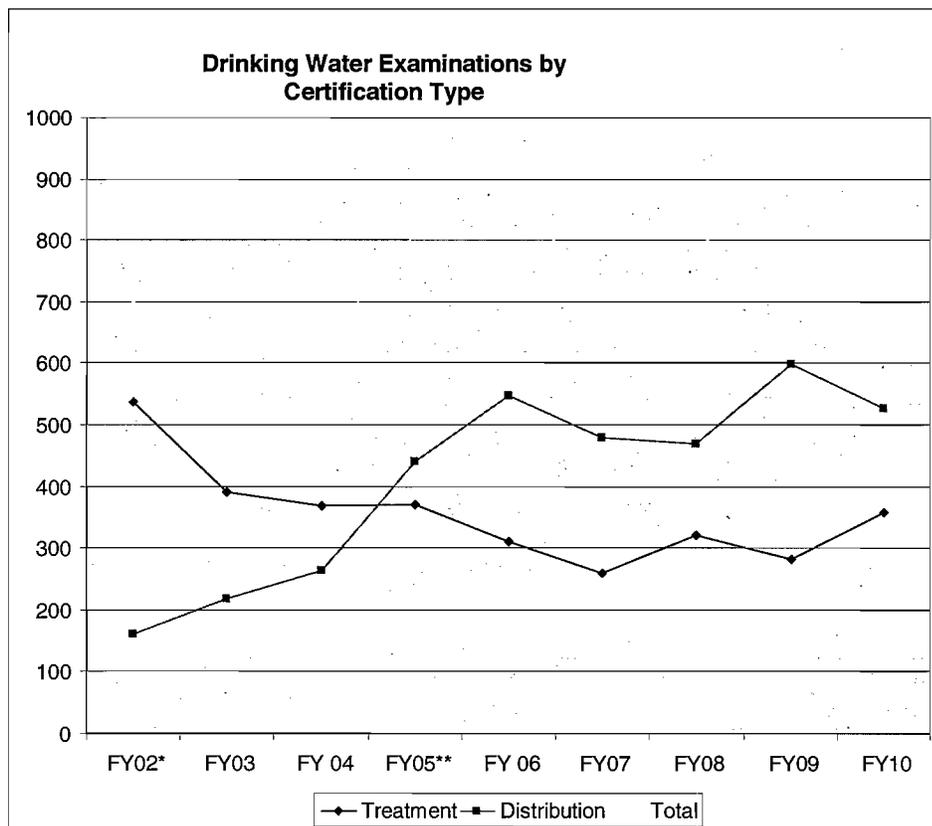
Take and pass an exam (70 percent) that demonstrates that the operator has the necessary skills, knowledge, ability and judgement as appropriate for the classification.

Have a high school diploma or a general equivalency diploma (GED). Experience and/or relevant training may be substituted for a high school diploma or GED. Education, training, or experience that is used to meet this requirement for any class of certification may not be used to meet the experience requirement.

Each type and level of certification requires a defined minimum amount of on-the-job experience. The amount of experience required increases with each classification level. Post high school education may be substituted for experience. Credit may be given for experience in a related field. There is a maximum amount of substitution allowed for each certificate level. Experience that is used to meet the experience requirement for any class of certification cannot be used to meet the education requirement.

Certification by Examination:

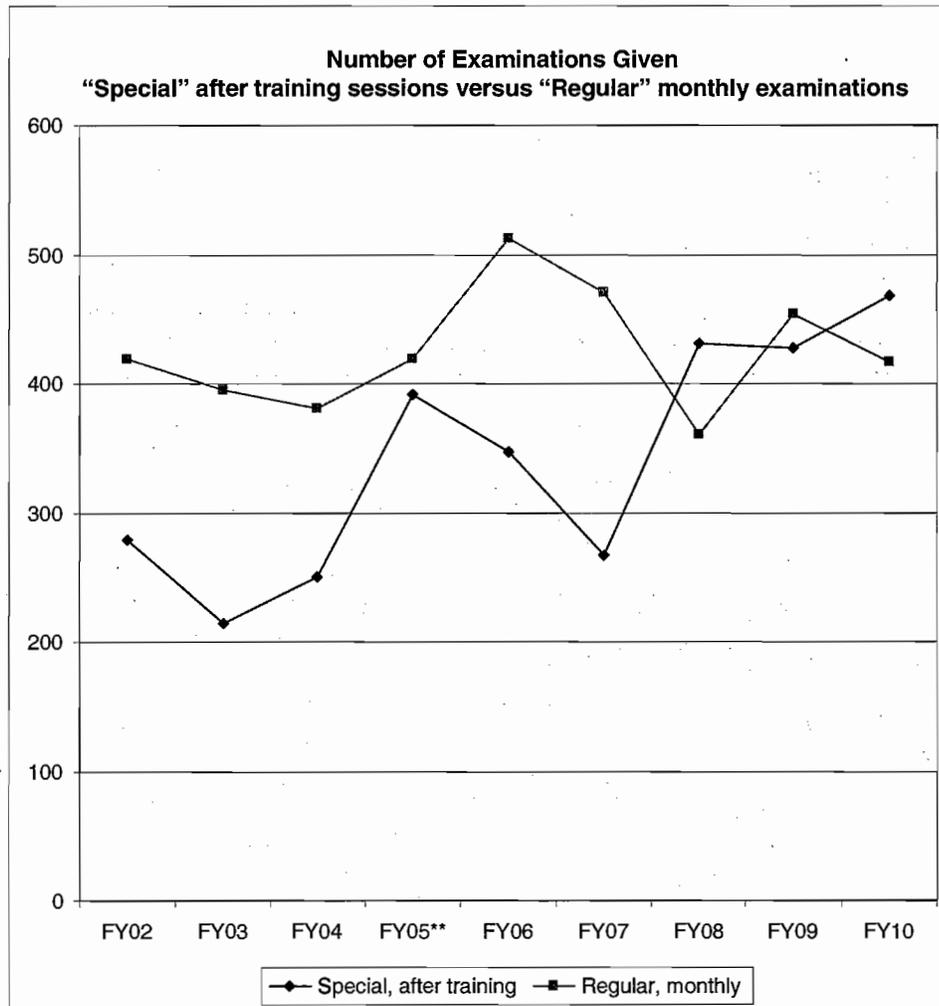
Persons wishing to become certified by examination must submit an application for certification along with a \$45 fee. There are 32 regularly scheduled examinations at six locations throughout the state each year. Upon request, special examination sessions are also scheduled at the completion of operator training courses. There were thirty-seven special examination sessions held in FY10



Examination Type	FY02*	FY03	FY 04	FY05**	FY 06	FY07	FY08	FY09	FY10
Treatment	537	390	369	370	310	259	321	282	358
Distribution	161	219	263	441	548	480	470	599	527
Total	698	609	632	811	858	739	791	881	885

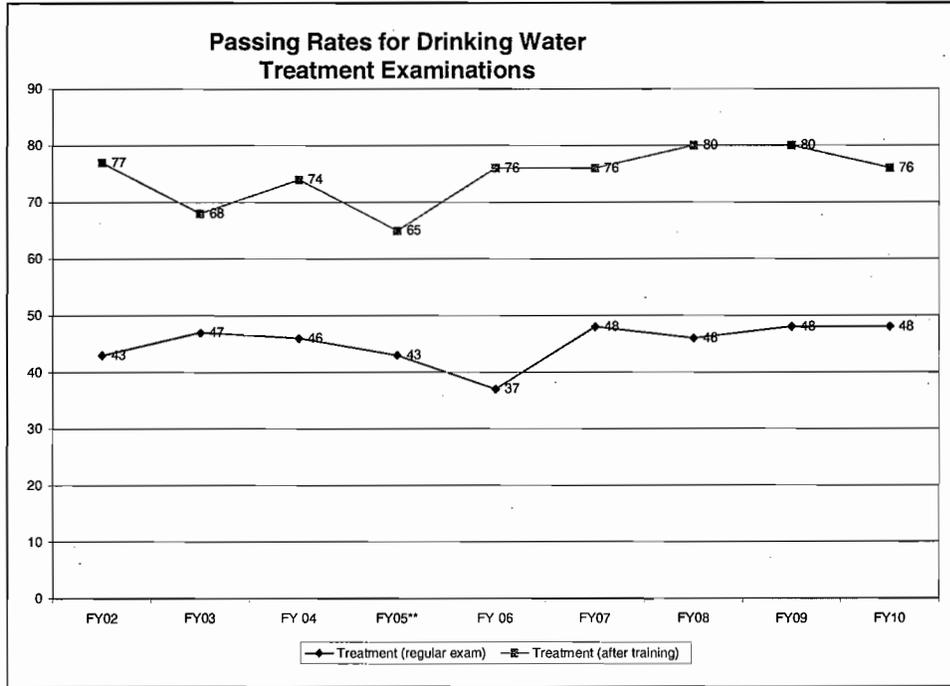
*Public Drinking Water System classifications changed in FY02 resulting in need for more distribution and fewer treatment operators.

Multi-day training sessions in drinking water treatment and distribution system operations continue to be a valuable asset for operators. "Special" examination sessions are held at the completion of the training. In FY10 over half of the examinees attended the voluntary certification preparation training.



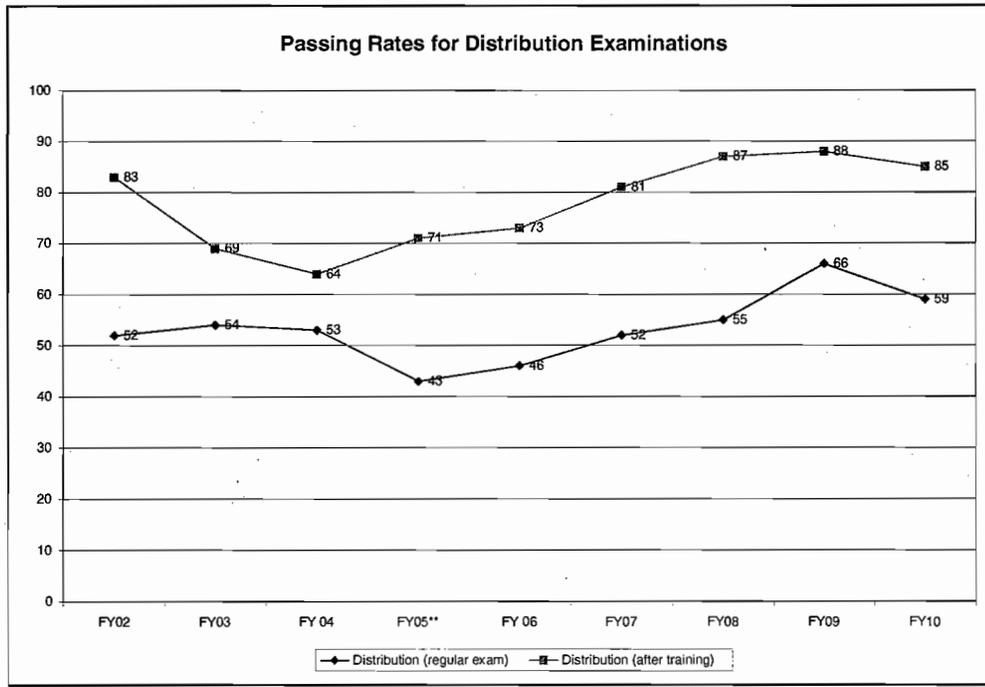
Exam Setting	FY02	FY03	FY04	FY05**	FY06	FY07	FY08	FY09	FY10
Special, after training	279	214	250	392	347	267	431	427	468
Regular, monthly	419	395	381	419	512	471	360	454	417

**The ERG Voucher Program began FY05



Percent Passing by Year	FY02	FY03	FY04	FY05**	FY06	FY07	FY08	FY09	FY10
Treatment (regular exam)	43	47	46	43	37	48	46	48	48
Treatment (after training)	77	68	74	65	76	76	80	80	76

**The ERG Voucher Program began FY05



Percent Passing by Year	FY02	FY03	FY04	FY05*	FY06	FY07	FY08	FY09	FY10
Distribution (regular exam)	52	54	53	43	46	52	55	66	59
Distribution (after training)	83	69	64	71	73	81	87	88	85

On-The-Job Experience:

Upon passing, the examinee's application is reviewed for sufficient work experience. Applicants who pass the test are either issued a certificate or notified of a deficiency in their work experience or education. Drinking water examinees have eighteen months from the date of the test to obtain additional, qualifying work experience and become certified without having to retest. Upon confirmation that additional required work experience has been performed a certificate is issued.

Drinking water certificates issued in FY 2010:

Certificates Level	Issued Type	New and Renewed Issued Based on the Exam Process	New and Renewed Based on Reciprocity	Totals
A	Treatment	195	1	196
B	Treatment	41	0	41
C	Treatment	279	2	281
D	Treatment	317	0	317
DS-I	Distribution	223	1	224
DS-II	Distribution	273	0	273
DS-III	Distribution	680	2	682
Totals		2,008	6	2,014

The total number of active drinking water certificates by type and level:

Level	Type	FY05	FY06	FY07	FY08	FY09	FY10
A	Treatment	662	664	660	656	629	632
B	Treatment	107	109	114	119	115	123
C	Treatment	893	896	854	845	837	828
D	Treatment	782	804	752	761	755	759
DS-I	Distribution	551	431	486	516	622	734
DS-II	Distribution	674	668	733	784	843	928
DS-III	Distribution	2,112	2,110	2,053	2,033	2,010	1,967
Totals		5,781	5,682	5,652	5,714	5,811	5,971

Of the operators listed above the following have registered to be listed as contract operators on the internet:

Treatment Certificate Level	End of FY09	End of FY10
A	29	35
B	4	4
C	31	33
D	16	21
Total Treatment	80	93

Distribution Certificate Level	End of FY09	End of FY10
DS III	73	84
DS II	24	32
DS I	12	16
Total Distribution	109	132

4. Enforcement:

Update: The following systems have had enforcement actions taken in FY07 that included the requirement to obtain certified operators:

PWS ID	System Name	Enforcement Action Date & Type	Certified Operator Status
MO6030106	Charmwood Subdivision	9/16/2006 - BCA	Operator compliant Distribution 3 and a Distribution 1

Update: The following systems have had enforcement actions taken in FY08 that included the requirement to obtain certified operators:

PWS ID	System Name	Enforcement Action Date & Type	Certified Operator Status
MO4031453	Westlake Meadows Subdivision	1/16/08 – BCA	Operator compliant Distribution 1

Update: The following systems have had enforcement actions taken in FY09 that included the requirement to obtain certified operators:

PWS ID	System Name	Enforcement Action Date & Type	Certified Operator Status
MO5031597	East Fork Sub Division	5/11/2009 SWRO referred to PDWB, 8/25/2009 PDWB Referred to AGO	Non-compliant

New: The following systems have had enforcement actions taken in FY10 that included the requirement to obtain certified operators:

PWS ID	System Name	Enforcement Action Date & Type	Certified Operator Status
MO4010959	Hayti Heights	3/18/2010 Referred to AGO	Operator compliant Treatment C Distribution 2
MO4048066	Merryweather Meadows	4/29/2010 Referred to AGO	Non-compliant
MO3262156	Hidden Valley MHP	6/23/2010	Non-compliant

During FY10 thirty-eight Letters of Warning were sent to public drinking water systems that were identified through the new SDWIS/OpCert program as noncompliant for not having a properly certified designated chief operator. Of those systems, nineteen (fifty percent) have come into compliance. Two systems became inactive and one system’s classification was reviewed and changed to transient non-community. The remaining systems were sent Notices of Violation. Negotiated Settlement Agreements is the next step for those still non-compliant systems.

5. Certification Renewal:

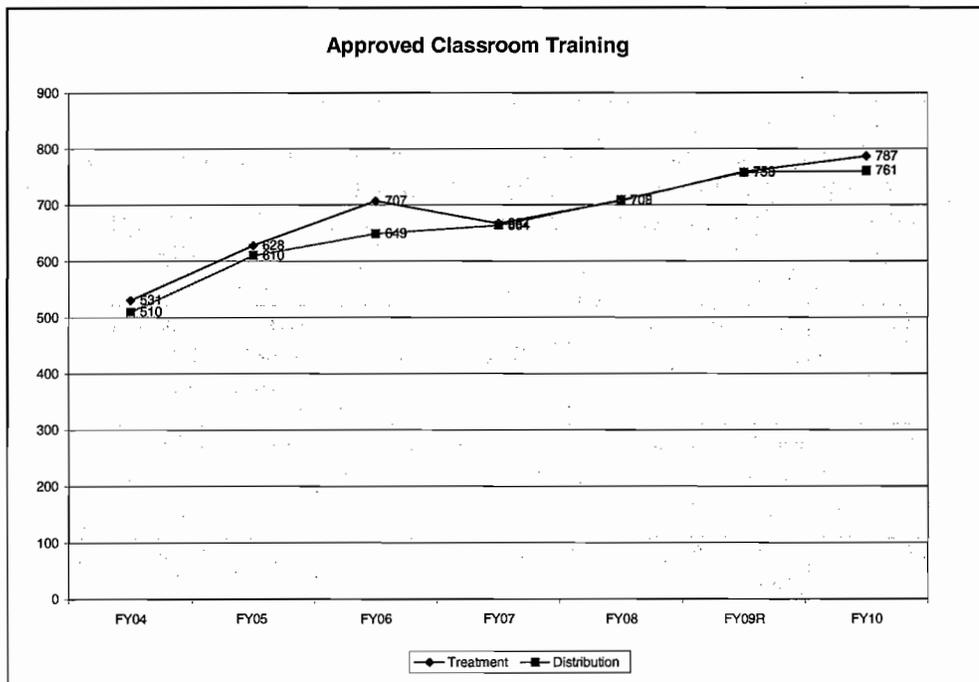
Each type and level of classification has specific operator certification and renewal requirements. Certificates are valid for three years from the date of issuance. During that time operators, including grandparented operators, must receive approved continuing education in order to renew their certificate. The training requirements for renewal are based on the type level of certification held by the operator.

Renewal Training Hours Required:
Certificate Level Renewal Hours

Certificate Level	Renewal Hours
A	30
B	30
C	30
D	20
DS III	30
DS II	20
DS I	10

Operator Training:

Department-approved training is provided by Department staff, professional organizations and private companies at various locations throughout the state. The Operator Certification Section is responsible for reviewing all courses and awarding credit towards the continuing education requirement. Training providers submit a training approval request form with a course outline and training materials for review. Training credit is awarded based on the subject matter and contact time. The approved training is listed on the Operator Certification page of the department's Web site and in the newsletter, Water & Wastewater Digest. The number of approved courses has steadily increased.



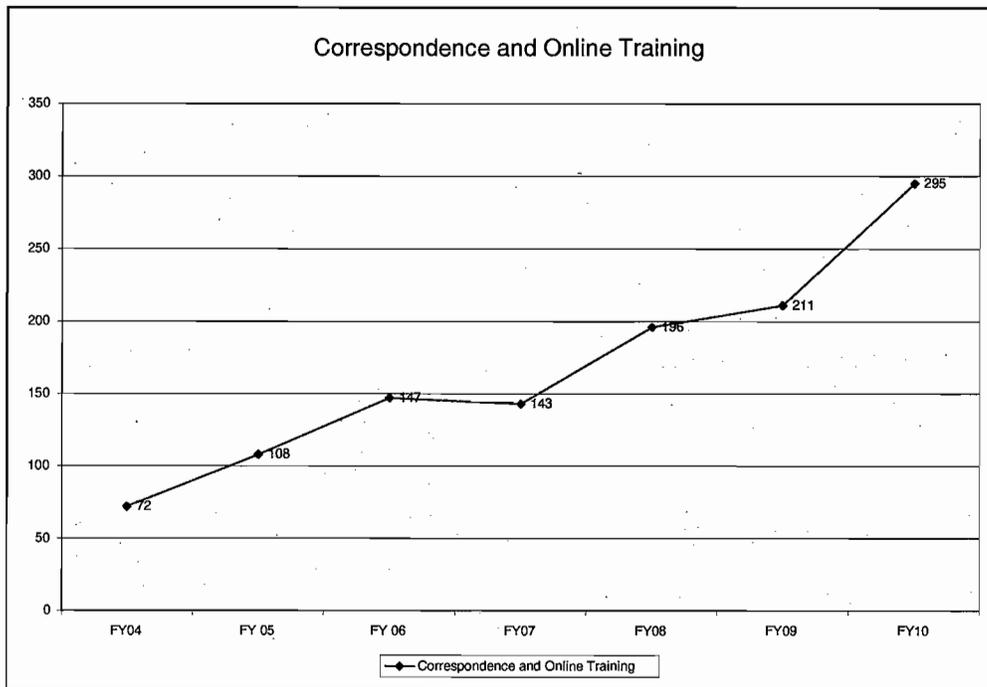
Drinking Water Training Courses Reviewed and Approved

Type	FY04	FY05	FY06	FY07	FY08	FY09 ^R	FY10
Treatment	531	628	707	667	708	759	787
Distribution	510	610	649	664	709	758	761

^R FY09 revised

Correspondence and Electronic Media Training:

In addition to classroom training, operators can receive renewal credit through approved correspondence and computer based courses.



Correspondence ^c	FY04	FY05	FY06	FY07	FY08	FY09	FY10
Online and CD-ROM Training sessions completed	72	108	147	143	196	211	295

^c Correspondence course data revised and updated FY05 through FY10

Operator training reports and renewal options are available online. The report summarizes all training on record for that person’s certificate during the current renewal cycle and indicates how many additional hours are needed. A hard copy can be printed out by the operator or requested from Operator Certification. All renewal training must be completed by the expiration date on the certificate.

Sixty days prior to the expiration date of each certificate, a renewal application is mailed to the operator. This application is pre-printed with a summary of all training on file for the current renewal cycle. Operators complete the application and submit it, along with a \$45 renewal fee, to the department.

There is a 60-day grace period for returning the application and renewal fee. Applications submitted during the grace period require a ten-dollar late fee per month, for a maximum of twenty dollars.

A late reminder is sent to operators during the grace period to encourage them renew in time and stay in compliance. Operators who fail to renew their certificate within the two months following the expiration date will be considered lapsed. Any operator with a lapsed certificate will have to submit a new application and reexamine.

During FY10 the operator certification renewal notification/application was reformatted:

Legal-sized renewal forms were replaced with newly designed postcards. This improvement in the OpCert business process has reduced printing and postage costs. Paper usage has been reduced substantially by printing 4 postcards to a page, where as before each certificate renewal was a front and back legal-sized form. Staff time has also been reduced since envelopes are no longer need to be stuffed.

Operators can now choose to renew certificates by mail or online. The redesign of the renewal applications was an important step in promoting the new option for operators to renew their certificates online, since the old forms did not provide the instructions for online renewals. With the new postcards in use, an increased number of operators are visiting our enhanced website and renewing online, updated addresses and other personal information, tracking their training hours, etc.

Summary of the Operator Expense Reimbursement Grant (Voucher Training):

During FY10, a total of 1,910 vouchers were processed. Of the total number of vouchers processed, 1,551 were used for training and 359 were submitted for operator certification fees (exams or renewal fees).

In FY10, 673 different drinking water systems used vouchers, and since the beginning of the voucher program, 1,252 different systems have used them. Also since the beginning, 2,325 certified operators submitted vouchers. 3,045 vouchers were used by individuals working toward certification. In FY10 alone, 946 different certified operators used them.

The voucher forms submitted include a survey section. One of the survey questions asks individuals, on a scale of 1 to 4, if they would have been able to attend the training without the use of the voucher. The scale is defined as "1" being they definitely would have attended even without a voucher and "4" meaning they would not have been able to attend without a voucher. The average response over FY10 to this survey question was 2.8. This response shows that a majority of individuals would probably not have been able to attend the training of their choice without the use of the voucher.

For more information an Operator Expense Reimbursement Grant annual report for FY10 is available and has been submitted to the Environmental Protection Agency.

6. Resources Needed to Implement the Program:

A programming enhancement is being proposed that would automatically notify the department's regional offices when a public drinking water system gains or loses a designated operator in responsible charge. We are hoping it will be approved and implemented in FY11.

7. Recertification

Operators who fail to renew their certificate within the two months following the expiration date will be considered lapsed. Any operator with a lapsed certificate will have to submit a new application and reexamine. The applicant will have to meet all current experience and education requirements.

Any person wishing to become certified after revocation of a certificate may do so only by examination. Applications for examination to become certified may not be filed until one year has elapsed following the date of revocation. Acceptance of any application for examination shall be at the discretion of the department.

8. Stakeholder Involvement:

Within the department of Natural Resources there is a group of stakeholders that play a major role in the success of Missouri public drinking water systems. They are the department's Water Specialists. These individuals interact with drinking water systems and their operators on a daily basis. They provide training, trouble shooting and technical assistance. In order to enhance their capabilities and offer an opportunity for close interaction with the Operator Certification Section a three-day training session titled "Designing and Presenting Effective Training" was held at DNR offices in February 2010. In addition to providing a professional training course on instructional technology, this multi-day session allowed for much discussion regarding internal processes and procedures. Among other things we discussed the purchasing of textbooks, examinations, proctoring and the scheduling of special examination sessions.

The annual training needs meeting was held with the Missouri Rural Water Association to discuss the adequacy of training provided and to identify training needs.

Staff made presentations to the following stakeholders and sought input at their various regional and statewide conferences:

Missouri Water and Wastewater Conference, Northeast Section meeting 2010, Macon:

An in depth presentation was made regarding the Department's process for determining operator experience. There was stakeholder participation in the form of questions and feedback from operators and supervisors in attendance. In addition updates regarding the Operator Expense Reimbursement Grant were provided with a question and answer session.

Presentations at Missouri Rural Water Association conferences:

Fall Conference 2009, Lake of Ozarks;
Boot Heel Expo 2009, Sikeston
Spring Conference 2010, Lake of Ozarks

Missouri Water Environment Association/American Water Works Association, Joint Annual Meeting Spring 2010 Osage Beach.

Input was received from stakeholders through 1,272 training course evaluations submitted from small system operators during FY2010. These evaluations are part of the Operator Expense Reimbursement Grant voucher program.

9. Program Review:

Budget

The Regional Office/Public Drinking Water Branch work plans and the budget were reviewed and updated.

Operator Experience Calculation Process

The operator experience calculation process was reviewed and discussed in detail both internally with department management and externally with staff of the Missouri Rural Water Association.

Internal Audit Update

A FY 09 internal audit of the Operator Certification Section indicated the following Finding and Recommendation:

CSR 60-14.020(4)(G) states, "In order for a grandparented certificate to be renewed...the water system owner must certify in writing to the department that the operator continues to be an operator in responsible charge for the public water system." The OpCert Section indicated a written certification for Grandparented Operators from the water system owner is not requested prior to renewal of a Grandparented Operator.

Finding:

The Operator Certification Section does not require Grandparented Operators to submit written certification from the water system owner prior to renewing a Grandparented Operator Certificate in accordance with 10 CSR 60-14.020(4)(G).

Recommendation:

The Operator Certification Section should require the water system to prove the required written certification prior to renewal of a Grandparented Operator Certificate or the regulation should be updated to reflect current procedures.

FY10 Action taken: The Operator Certification Section now formally requires the water system owner to certify in writing that the operator named on the certificate continues to be an operator in responsible charge for the public water system in accordance with 10 CSR 60-14.020(4)(G).

Training

Input was received through 1,272 training course evaluations from small system operators during FY2010. These evaluations are part of the Operator Expense Reimbursement Grant program.

Examinations

Distribution examinations were reviewed and New Ground Water Rule questions were developed.

10. Implementation Schedule Update:

Compliance Issues Regarding Designated Operators

In FY09 a contractor was hired to link SDWIS to the OpCert database in order to accurately identify those systems that appear to be out of compliance regarding certified operators. The results of that programming are below.

During FY10 through the concerted efforts of department staff and Department contracted circuit rider (who began in April 2010) there was a thirty-eight percent improvement in operator certification compliance.

	Data based on PWS surveys June 30, 2008	May 5, 2009 Using new OPCERT – SDWIS data link	June 30, 2009	June 30, 2010
No operator listed	199	201	200	119
Operator listed in SDWIS is not certified	Unknown at that time	131	123	75
Operator listed in SDWIS inadequately certified	Unknown at that time	65	55	39
Totals	199	397	378	233

In order to address the public drinking water systems do not have a properly certified chief operator designated in SDWIS, the following activities will be carried out during the coming year:

1. The Public Drinking Water Branch will issue Letters of Warning to those systems that do not have a properly certified operator designated according to SDWIS.
2. For those systems that do not take active steps, in response to the Letter of Warning and circuit rider contact, to provide the name of a properly certified operator, Notices of Violation will be issued.
3. For those systems that do not provide the name of a properly certified operator as required by the Notice of Violation, further enforcement will be undertaken such as a Negotiated Settlement Agreement, Bilateral compliance agreement or Administrative Order, prioritized by scoring on the Enforcement Targeting Tool , developed by EPA under the new enforcement response policy.
4. The circuit rider hired by the Branch in April 2010 to personally contact those systems that do not have a properly certified operator designated will continue to perform the following duties:
 1. Contact each system by phone and determine:
 - a. If the system has obtained a properly certified operator;
 - b. If the circuit rider can achieve movement towards compliance by providing information by phone; or is
 - c. If a one-on-one visit is necessary.
 2. Depending on the best fit, i.e. by phone or in person, the circuit rider discusses the legal requirement to designate a properly certified chief operator. In addition, information is provided regarding the certification process, use of vouchers, availability of training, and contract operators.

3. The circuit rider assures that SDWIS data is up-to-date for the chief operator and other "legal entities".
4. He provides geographically targeted pre-certification training for systems without operators. The department identified three areas of concentrated non-compliance for the contracted to start with. The first area of concentration was primarily south and east of St. Louis. The first operator course began on June 16, 2010 in St Clair Missouri. The next area of concentration will be in southwest Missouri with a course to be held in Branson in the fall of 2010.



MISSOURI
DEPARTMENT OF
NATURAL RESOURCES

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