

Illustrative Example

**Drinking Water
Revolving Loan Fund
State Fiscal Years 1999-2000
Biennial Report**

**State of New Water
Department of Health and Environment**

August 2000

DRINKING
W A T E R

REVOLVING
LOAN FUND

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I. INTRODUCTION

The State of New Water is pleased to submit the Biennial Report on the Drinking Water Revolving Loan Fund (DWRLF) for State Fiscal Years (SFYs) 1999 and 2000. The Report addresses operation of the DWRLF during the time period from July 1, 1998 through June 30, 2000. During that time period New Water received capitalization grant awards for the federal FY 1997 and FY 1998 allotments.

We provide this comprehensive report to the public and to the EPA Regional Office to detail the activities undertaken to reach the goals and objectives set forth in the Intended Use Plans (IUPs) developed for SFY 1999 and SFY 2000. The report documents the status of the program by describing the 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 DWRLF, and compliance with federal Drinking Water State Revolving Fund requirements.

We present the Biennial Report in five major sections. Section II of the report provides a summary of progress made toward reaching long- and short-term goals of the program. Section III reports details on loan and set-aside activities. Section IV provides an overview of financial conditions of the program. Finally, Section V reports on our compliance with provisions of the federal capitalization grant agreement and the operating agreement.

**NEW WATER DWRLF - OVERVIEW
SFY 1999 and SFY 2000**

Total Investment: \$43,172,052

Number of Projects (Closed Loans): 27

Project Funding (Closed Loans) \$29.3 million

Total Population Served: 2.1 million

Average Interest Rate: 3.8 percent

Average Repayment Period: 20 years

Small Systems Funded: 16 for \$8.2 million

Disadvantaged Community Loan Funding: 8 for \$5.2 million

II. GOALS AND ACCOMPLISHMENTS

We developed the goals below for the SFY 1999 and SFY 2000 IUPs. Our long-term goals provide a framework that guides our management decisions for the DWRLF program. Our short-term goals support the implementation of the program's long-term goals.

A. Progress Toward Long-Term Goals

1. *Maximize below-market rate loans to eligible public water systems to fund improvements to eliminate public health threats and ensure compliance with federal and state drinking water laws and regulations.*
2. *Maintain the long-term financial integrity of the DWRLF by judicious use and management of its assets and by realizing an adequate rate of return.*

Progress Toward Goals 1 & 2: We use a financial planning model to explore the effects of our management decisions. The model provides projections of annual loan funding levels over a twenty year period. For example, by varying assumptions in the model we can understand the trade-offs of providing low interest rate loans, disadvantaged community subsidies, and set-aside funding. In establishing the financial structure of the program we have tried to provide low interest rate loans for projects that address pressing human health problems while ensuring that the DWRLF will serve as a long-term source of funding. In SFY 2001, we will study these issues in greater depth as part of a more thorough analysis of financial decisions in the program.

3. *Use the DWRLF set-aside funds strategically and in coordination with the program loans to maximize the DWRLF loan account's impact on achieving affordable compliance and public health protection.*

Progress Toward Goal 3: Set-aside funds should be spent strategically and in coordination with program loans. We consider the following to be a good example of this type of coordination:

New Water's Rural Water Association, New Water's Rural Community Assistance Program, and the New Water Association of Community Action Agencies designed assistance programs that have had a significant impact on the technical, financial, and managerial capacity of small systems in our state. The DWRLF bypassed the public water systems of Dawson, Summerville, and Shaw Creek during SFY 1999 due to concern regarding their technical, financial and managerial capacity. However, these towns received set-aside funding to help them increase their capacity and, as a result, they received loans in SFY 2000. The use of set-aside funding has been very effective. We expect that the DWRLF will be able to offer loans to many projects that would be bypassed were it not for the efforts of these assistance programs.

4. *Target program resources and funds available each year to address the most significant public health and compliance problems facing the state.*

Progress Toward Goal 4: The DWRLF priority system directs funding to projects that address the most significant public health and compliance problems in the state. In SFY 1999, we targeted enforcement efforts at systems that are chronic violators of bacteriological maximum contaminant levels (MCLs). Our highest priority violator was the Stanford Water Department, which for the past decade has had chronically high levels of a variety of bacteria, including E. coli. A DWRLF loan enabled the city to afford the installation of a pipeline from a new, proven well to the rest of its water system.

5. ***Promote the development of the technical, managerial and financial capacity of public water systems to maintain or come into compliance with state drinking water and federal SDWA requirements.***
6. ***Encourage the consolidation and/or regionalization of small public water systems that lack the capability to operate and maintain systems in a cost-effective manner, thus allowing them to take advantage of the economics of scale available to larger water systems.***

Progress Toward Goals 5 & 6: We developed a capacity development strategy that ensures all public water systems will have adequate technical, managerial, and financial capacity. This capacity development strategy, implemented in June 2000, includes a variety of technical and financial assistance options and encourages consolidation, collaboration, regionalization, and contract operation and maintenance cooperatives.

B. Progress Toward Short-Term Goals

1. ***Initiate the operation of the DWRLF loan program by immediately providing loans to fifteen systems confronting high priority acute health risks. (Target Completion: July 1998)***

Progress Toward Goal 1: The DWRLF loan program provided loans to 18 high priority projects by July 30, 1998. The projects addressed high-priority acute health risks such as bacteriological and nitrate MCL violations. (See Table 3.)

2. ***Develop NWDHE performance tracking measures for the DWRLF program to track:***
 - A. Financial Management (e.g., repayment recycling rate, projected funding levels)***
 - B. Compliance/Public Health (e.g., state-wide compliance improvement)***
 - C. Customer Service (e.g., total population served, disadvantaged communities served).******(Target Completion: September 2000)***

Progress Toward Goal 2: The DWRLF program is developing performance tracking measures. Our staff developed a draft report after reviewing DWSRF performance tracking programs from 6 other states and identifying the measures most relevant to New Water's DWRLF program. The draft report is now being reviewed. We expect to meet our September 2000 target completion date.

- 3. Develop accounting management reports to track loan account, set-aside account, and administrative account activities. Develop separate management reports for each set-aside activity in the set-aside account. (Target Completion: January 1999)***

Progress Toward Goal 3: New Water has developed accounting management reports to track loan account, set-aside account, and administrative account activities. We have also developed separate management reports for each activity in the set-aside account. Our staff developed these reports after reviewing similar DWSRF reports from 6 states. We have included example accounting management reports and set-aside management reports in Appendix B.

- 4. Finalize modifications to loan applicant credit review process for privately-owned public water systems. (Target Completion: October 1999)***

Progress Toward Goal 4: The DWRLF finalized the loan applicant credit review process for privately-owned public water systems in October 1999. The credit review process, conducted by New Water's Department of Economic Development (NWDED), is very similar to the process NWDED uses to evaluate loans to private entities in other state programs. In SFY 1999, NWDED provided two loans to privately-owned drinking water systems totaling \$673,500.

- 5. Review and modify loan agreement and closing documents from the Clean Water Revolving Loan Fund (CWRLF) for use in DWRLF program. (Target Completion: July 1998)***

Progress Toward Goal 5: We reviewed loan agreement and closing documents from the CWRLF program and modified them for use in the DWRLF program. After modification, these documents were reviewed and approved by the state's legal counsel. We completed this process by July 1998.

- 6. Review loan processing procedures and modify as necessary to reflect DWRLF project requirements. (Target Completion: October 1999)***

Progress Toward Goal 6: The DWRLF developed loan processing procedures after reviewing procedures in New Water's CWRLF program and in other states' drinking water programs. We completed the development of these procedures by October 1999.

- 7. Conduct management study within 3 years to review annual DWRLF planning process, division roles in New Water's Department of Health and Environment (NWDHE), need for modification to memoranda of understanding, schedule of activities, and staffing and personnel levels and training. (Target Completion: August 2000)***

Progress Toward Goal 7: The DWRLF began a management study in August 1999. Our program has tried to implement an adaptive management style; for that reason we do not expect this study to recommend large scale organization or management modifications. However, we expect that the process will provide us with a useful opportunity to fine-tune the program.

8. Complete set-aside workplans for each set-aside activity. (Target Completion: October 1998/June 1999)

Progress Toward Goal 8: The DWRLF has completed two years of set-aside workplans for each set-aside activity. We submitted workplans for federal FY 1997 grant funds to EPA in October 1998. In June 1999, we submitted workplans for federal FY 1998 grant funds along with the SFY 2000 IUP.

9. Use local assistance set-aside funds to complete 50 percent of the effort to delineate and assess source waters in the state by June 2000, and 100 percent of the effort by June 2001. (Target Completion (100%): June 2001)

Progress Toward Goal 9: NWDHE has delineated and assessed 50 percent of the source waters in our state. In January 1999, following an 18-month development process, we submitted our Source Water Assessment Plan (SWAP) to EPA. In July 1999, the SWAP received EPA approval and we initiated source water delineation and assessment activities. New Water is using a combination of approaches to complete these assessments. Some source waters are being assessed by NWDHE staff or state-funded contractors. Other source waters are being assessed by counties, communities, or water suppliers with the financial assistance of the state. The remaining source waters are being assessed by locals with state-funded contractor assistance. We have completed 50 percent of this effort and expect to meet our target completion date of June 2001.

10. Use set-aside funding to support the implementation of the state's operator certification program. (Target Completion: December 2000)

Progress Toward Goal 10: Implementation of our revised operator certification program was completed in June 2000. New Water has certified operators of community water systems that use treatment since 1967, but to comply with the SDWA, we were required to significantly expand our program to certify operators of all community and nontransient noncommunity systems (including systems without treatment). We used set-aside funding to add administrative and enforcement personnel and to augment our operator training contract with our assistance providers.

11. Work with appropriate NWDHE water program sections to complete a capacity development strategy. (Target Completion: June 30, 2000)

Progress Toward Goal 11: NWDHE has developed a capacity development strategy that will provide public water systems with tools and financial assistance so that they can obtain and maintain the technical, financial, and managerial capacity needed to ensure a supply of safe drinking water. We developed our capacity development strategy in two stages. Our first goal was to ensure that all new systems have adequate capacity. Using capacity development set-aside funding, we developed a program that addresses new system capacity, passed legislation, developed regulations, and implemented the program by the SDWA deadline of October 1, 1999.

Our second goal was the development of a capacity development strategy that ensures all public water systems have adequate capacity. With the assistance of other water program sections and our

stakeholder committee, we identified the technical, financial, and managerial impediments confronted by our existing water systems and developed a capacity development strategy that addresses those impediments.

The capacity development strategy, implemented in June 2000, includes a variety of technical and financial assistance options and encourages consolidation, collaboration, regionalization, and contract operation and maintenance cooperatives.

- 12. *Hold kickoff meeting of stakeholder committee. An initial meeting will be held to discuss goals for the committee and to develop a schedule for the year. (Target Completion: July 1998)***

Progress Toward Goal 12: The stakeholder committee guided the development and implementation of the DWRLF program. The committee provided valuable input in the development of the capacity development strategy and the SWAP. We expect it to provide significant input into the recently initiated DWRLF management study.

- 13. *Continue outreach activities to ensure systems are aware of and understand DWRLF assistance options and the loan application process by attending 7 state-wide meetings to publicize the DWRLF program. (Target Completion: Annually)***

Progress Toward Goal 13: NWDHE staff has attended 7 state-wide meetings in each year since the program's inception. We developed an outreach presentation that can be adapted for different audiences. We have also developed an informational brochure about the DWRLF program and a number of fact sheets. Both the outreach presentation and the informational materials have been used by our contract assistance providers as well as by our own staff. We have also sought to expand our audience by developing partnerships with public health organizations and other non-traditional constituencies.

- 14. *Conduct initial financial modeling to assess financial decisions in the program, including the effects of using revenue bonds for state match and/or leveraging. (Target Completion: August 2000)***

Progress Toward Goal 14: New Water is using a cash-flow modeling program to conduct financial modeling of the program. We conducted initial modeling as part of the IUP planning process and are now nearing completion of additional modeling that focuses on the impact of using revenue bonds for state match and leveraging the program. We will use this analysis of state match revenue bonds when we discuss future sources of state match with state decision-makers. The leveraging assessment will help us understand the impacts of leveraging on funding levels provided by the program over time. We will explore the effects of varying the frequency and level of leveraging in the program. If the demand for loan funds exceeds what is available from a direct loan program, we will be prepared to implement a leveraging approach.

III. DWRLF LOAN AND SET-ASIDE ACTIVITIES

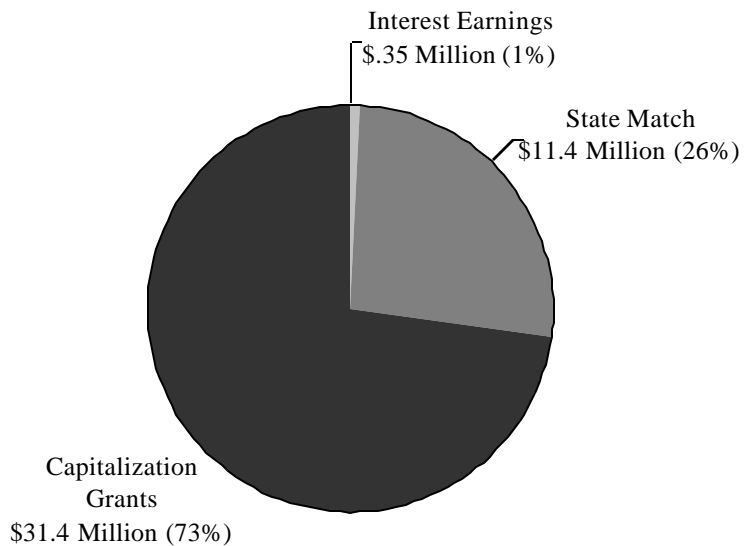
In this section we provide a detailed discussion of the DWRLF assistance activities during SFY 1999 and SFY 2000. We provide details on the sources of funding in our program, the status of loan activities, and the status of set-aside activities.

Table 1 and Table 2 provide information about the sources and uses of DWRLF funding. Table 1 shows all sources of DWRLF funds available in SFY 1999 and SFY 2000. It also shows the binding commitments, workplan commitments, and administrative funding commitments made for each year. Table 2 shows New Water’s actual disbursements in SFY 1999 and SFY 2000. (Note: Disbursed funds reflect cash outlays from the current year’s committed funds as well as from the funds committed in previous years.)

A. Sources of DWRLF Funding

The funding available for the DWRLF program in this reporting period totaled \$43,172,052 (See Figure 1). Because we have only operated the program for two years, federal capitalization grants and state match have been our major sources of funding. In the future, we may decide to employ a leveraging approach or transfer funds from the CWRLF to increase immediately available funding. We describe major aspects of the sources below.

Figure 1: Available Funds (\$43.2 Million)



“ Capitalization Grants

EPA has awarded New Water \$31,400,000 in federal capitalization grants. In June 1998, we were awarded a capitalization grant for \$20 million from federal FY 1997 grant funds. In June 1999, we were awarded a capitalization grant for \$11.4 million from federal FY 1998 grant funds.

“ State Match

New Water provided \$6.28 million as the required 20 percent state match for the federal FY 1997 and FY 1998 capitalization grants. We also provided \$1.11 million as an additional state program management set-aside match. In addition, we augmented the federal FY 1997 funding by providing a one-time appropriation of \$4 million for loan assistance. New Water provided state match for both years from General Fund appropriations.

“ Interest Earnings

The DWRLF received \$347,552 in interest earnings on investments in this reporting period. Earnings

TABLE 1: SOURCES AND USES OF COMMITTED DWRLF FUNDING

SOURCES OF FUNDS	1999	2000	Cumulative
Capitalization Grant	\$ 20,000,000	\$ 11,400,000	\$ 31,400,000
State Match	\$ 4,000,000	\$ 2,280,000	\$ 6,280,000
Additional State Contributions	\$ 4,480,000	\$ 664,500	\$ 5,144,500
Investment Interest Earnings	\$ 100,000	\$ 247,552	\$ 347,552
Principal Repayments	\$ -	\$ -	\$ -
Interest Earnings on Loans	\$ -	\$ -	\$ -
Bond Proceeds	\$ -	\$ -	\$ -
Transfers	\$ -	\$ -	\$ -
TOTAL	\$ 28,580,000	\$ 14,592,052	\$ 43,172,052
USES OF COMMITTED FUNDS			
DWRLF LOAN ACCOUNT BINDING COMMITMENTS			
Standard Loans 1452(a)	\$ 16,380,000	\$ 4,687,660	\$ 21,067,660
Small Systems 1452(a)(2)			
Standard	\$ 2,562,000	\$ 449,818	\$ 3,011,818
Disadvantaged Communities 1452(d)	\$ 4,158,000	\$ 1,076,091	\$ 5,234,091
Small System Subtotal:	\$ 6,720,000	\$ 1,525,909	\$ 8,245,909
Committed Loan Subtotal:	\$ 23,100,000	\$ 6,213,569	\$ 29,313,569
Unclosed Loans ¹	\$ -	\$ 6,003,483	\$ 6,003,483
Subtotal:	\$ 23,100,000	\$ 12,217,052	\$ 35,317,052
SET-ASIDE ACCOUNT WORKPLAN COMMITMENTS			
Technical Assistance (max. 2%) 1452(g)(2)	\$ 400,000	\$ 228,000	\$ 628,000
State Program Management (max. 10%) 1452(g)(2)			
Source Water Program Administration	\$ 475,000	\$ 324,000	\$ 799,000
PWSS Program	\$ 585,000	\$ 610,000	\$ 1,195,000
Operator Certification	\$ 310,000	\$ 243,000	\$ 553,000
Capacity Development	\$ 310,000	\$ 152,000	\$ 462,000
State Program Management Subtotal:	\$ 1,680,000	\$ 1,329,000	\$ 3,009,000
Local Assistance/ Other State Programs (max. 15%) 1452(k)			
Source Water Delineation and Assessment	\$ 2,000,000	\$ -	\$ 2,000,000
Source Water Land Acquisition	\$ 600,000	\$ 362,000	\$ 962,000
Local Assistance/ Other State Programs Subtotal:	\$ 2,600,000	\$ 362,000	\$ 2,962,000
Subtotal:	\$ 4,680,000	\$ 1,919,000	\$ 6,599,000
DWRLF ADMINISTRATION ACCOUNT COMMITMENTS			
4% Set-Aside 1452(g)(2)	\$ 800,000	\$ 456,000	\$ 1,256,000
Fees	\$ -	\$ -	\$ -
Subtotal:	\$ 800,000	\$ 456,000	\$ 1,256,000
TOTAL	\$ 28,580,000	\$ 14,592,052	\$ 43,172,052

¹ Unclosed loans are funds for projects that have not yet entered into a binding commitment with the DWRLF.

TABLE 2: USES OF DISBURSED DWRLF FUNDING

USES OF DISBURSED FUNDS	1999	2000	Cumulative
DWRLF LOAN ACCOUNT			
Standard Loans 1452(a)	\$ 1,945,248	\$ 7,212,163	\$ 9,157,411
Small Systems 1452(a)(2)			
Standard	\$ 271,375	\$ 1,024,330	\$ 1,295,705
Disadvantaged Communities 1452(d)	\$ 653,245	\$ 1,907,363	\$ 2,560,608
Small System Subtotal:	\$ 924,620	\$ 2,931,692	\$ 3,856,312
Subtotal:	\$ 2,869,868	\$ 10,143,855	\$ 13,013,723
SET-ASIDE ACCOUNT			
Technical Assistance (max. 2%) 1452(g)(2)	\$ 240,000	\$ 240,000	\$ 480,000
State Program Management (max. 10%) 1452(g)(2)			
Source Water Program Administration	\$ 318,000	\$ 322,000	\$ 640,000
PWSS Program	\$ 585,000	\$ 590,000	\$ 1,175,000
Operator Certification	\$ 215,000	\$ 241,000	\$ 456,000
Capacity Development	\$ 147,000	\$ 151,000	\$ 298,000
State Program Management Subtotal:	\$ 1,265,000	\$ 1,304,000	\$ 2,569,000
Local Assistance/ Other State Programs (max. 15%) 1452(k)			
Source Water Delineation and Assessment	\$ 400,000	\$ 700,000	\$ 1,100,000
Source Water Land Acquisition	\$ 346,000	\$ 550,000	\$ 896,000
Local Assistance/ Other State Programs Subtotal:	\$ 746,000	\$ 1,250,000	\$ 1,996,000
Subtotal:	\$ 2,251,000	\$ 2,794,000	\$ 5,045,000
DWRLF ADMINISTRATION ACCOUNT			
4% Set-Aside 1452(g)(2)	\$ 525,000	\$ 486,000	\$ 1,011,000
Fees	\$ -	\$ -	\$ -
Subtotal:	\$ 525,000	\$ 486,000	\$ 1,011,000
TOTAL	\$ 5,645,868	\$ 13,423,855	\$ 19,069,723

resulted from the deposit of the state match and of the \$4 million additional appropriation into DWRLF accounts.

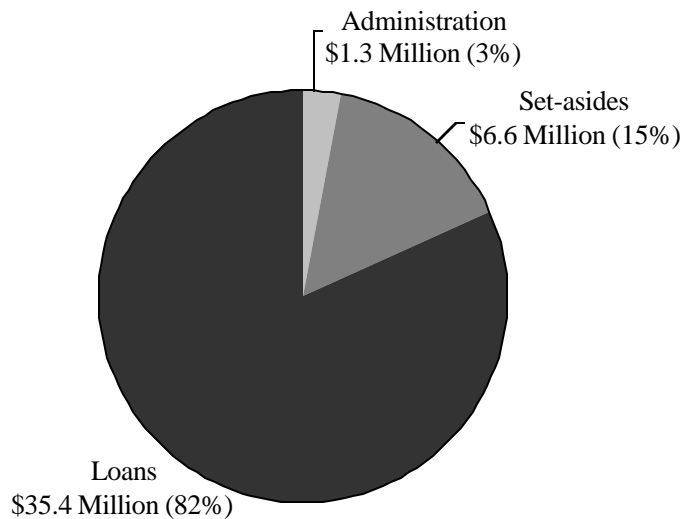
“ Repayments

Funded projects are still in the construction phase so we have not received any loan repayments. We expect that loan repayments will begin in SFY 2002. Future Biennial Reports will describe the amount and use of repayments for new loans.

B. Uses of DWRLF Funds

The DWRLF is providing \$35.4 million in loans to public water systems (See Figure 2). The program has committed \$6.6 million in set-aside assistance to systems, assistance providers, and to the State of New Water for set-aside activities. The DWRLF allocated an additional \$1.3 million from set-aside funding for administration.

Figure 2: Allocation of Available Funds



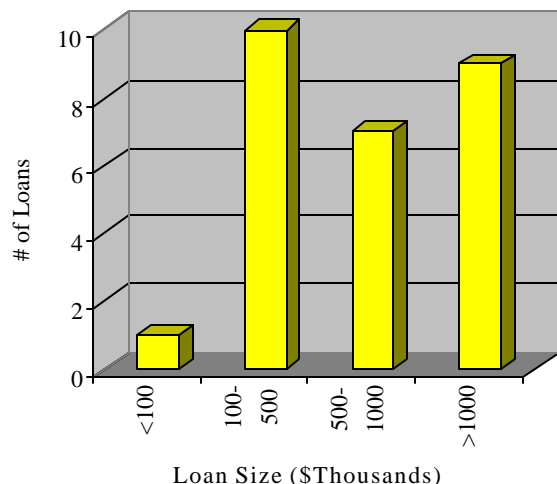
Loan Assistance Status

The DWRLF entered into loan agreements with 27 public water systems totaling \$29.2 million in this reporting period. The loans range in size from \$43,524 to \$4,135,064 (See Figure 3). The loan term for all 27 loans is 20 years, with an average interest rate of 3.8 percent. The water systems receiving these loans serve 2.1 million people; systems receiving DWRLF loans range in size from 65 to 651,223 people (See Figure 4). Disadvantaged communities have received a variety of principal forgiveness options (See Figure 5). We have disbursed \$13.0 million in DWRLF loans (See Table 2).

“ Binding Commitments

On a cumulative basis, we have obligated 83 percent of all available loan funds to projects. This utilizes 100 percent of the federal FY 1997 capitalization grant loan funds and 51 percent of the federal FY 1998 capitalization grant loan funds. Table 3 lists the new loan agreements for this reporting period and provides a brief description of each project.

Figure 3: Distribution of Loans by Loan Size



“ Project Bypass

We bypassed three projects on the SFY 1999

TABLE 3: FUNDED PROJECTS

PRIORITY RANKING	PRIORITY POINTS	NAME	PWS ID #	AMOUNT	PROJECT TYPE	POPULATION SERVED	SMALL SYSTEM	DISAD. COMMUNITY
SFY 1999								
6	197	Artesian Water Department	NW1200717	\$ 2,638,944	This project is for construction of a water filtration system for treatment of the town's surface water supply. The project will bring the system into compliance with the Surface Water Treatment Rule.	651,223		
11	184	Town of Beverton	NW1200201	\$ 43,524	This project is the installation of wells and associated facilities to replace an existing surface water source that is subject to bacteriological contamination.	65	YES	YES
12	183	Bevin Water Company	NW1200058	\$ 332,000	This project is the development of a ground water source to replace an existing surface water source. The system is currently in violation of the Surface Water Treatment Rule.	3,221	YES	
2	224	Chandler Heights Water District	NW1200123	\$ 668,223	The project consists of construction of a tank and booster pump station allowing the water system to avoid filtration requirements in accordance with its Administrative Consent Order and Agreement.	25,267		
5	200	Clarendon Water Department	NW1200301	\$ 257,000	This project is the installation of a new disinfection system to comply with the Surface Water Treatment Rule.	3,265	YES	
24	135	Davidson Water Department	NW1200861	\$ 705,500	This project will replace a deteriorated transmission main.	7,512	YES	
14	171	Fish Hook Mobile Home Park	NW1200441	\$ 341,500	This project is the installation wells and associated facilities to replace an existing surface water source.	85	YES	

**TABLE 3: FUNDED
PROJECTS CONT'D**

PRIORITY RANKING	PRIORITY POINTS	NAME	PWS ID #	AMOUNT	PROJECT TYPE	POPULATION SERVED	SMALL SYSTEM	DISAD. COMMUNITY
13	175	Haskins Water Department	NW1200648	\$ 3,587,260	This project is the construction of a new water treatment facility. Construction of the facility is an action to comply with the Surface Water Treatment Rule.	350,000		
20	155	Homestead Water Department	NW1200816	\$ 1,825,000	This project is the installation of a new filtration and disinfection system. Construction of the facility is an action to comply with the Surface Water Treatment Rule.	62,487		
23	136	Langley Water Department	NW1200369	\$ 412,000	This project is the construction of a new storage tank.	1,524	YES	
9	187	Milltown Water Department	NW1200845	\$3,525,509	This project is the installation of transmission lines and pump system to a new water source.	90,015		
25	133	Moon Township	NW1200148	\$ 4,135,064	This project is the replacement of existing transmission mains and distribution system.	490,000		
15	170	Patterstown Water Department	NW1200929	\$ 650,637	This project is the installation of wells and associated facilities to replace an existing surface water source.	6,907	YES	YES
7	196	Pinecrest Water District	NW1200159	\$ 1,538,844	This project is the installation of new filtration and pump system to comply with the Surface Water Treatment Rule.	5,925	YES	YES
18	160	Puryear Water Department	NW1200357	\$ 323,866	This project is the installation of a new disinfection system.	989	YES	YES
22	140	Spring Valley Water Department	NW1200585	\$ 576,174	This project is the installation of a new transmission and distribution system and storage tank.	9,256	YES	YES

**TABLE 3: FUNDED
PROJECTS CONT'D**

PRIORITY RANKING	PRIORITY POINTS	NAME	PWS ID #	AMOUNT	PROJECT TYPE	POPULATION SERVED	SMALL SYSTEM	DISAD. COMMUNITY
1	240	Stanford Water Department	NW1200737	\$ 1,024,955	This project is for installation of a pipeline from a new, proven well to the rest of its water system.	9,852	YES	YES
21	142	Willow Wood Water Department	NW1200477	\$ 514,000	This project is the replacement of water mains and a new storage tank.	8,564	YES	

SFY 2000

7	185	Dawson Water Department	NW1200912	\$ 373,515	This project is the installation of a new well and pumping system.	1,212	YES	YES
8	164	Dresden Water Department	NW1200585	\$ 630,000	This project is the construction of a new treatment facility complete with aeration for removal of CO ₂ for corrosion control to address a violation of the Lead and Copper Rule. Radon gas will also be removed as a result of this project.	69,000		
3	208	Fulsom Water District	NW1200344	\$ 300,000	This project is the construction of a new storage tank.	990	YES	
6	188	Gordon Valley Water Co-operative	NW1200550	\$ 180,000	This project is the rehabilitation of an existing storage tank.	32,156		
1	226	Kingstown Water Department	NW1200311	\$ 1,023,000	This project is the construction of a new storage tank and the replacement of existing transmission mains.	92,156		
9	151	Middletown Water Improvement District	NW1200099	\$ 198,660	This project is the rehabilitation of an existing storage tank.	47,287		

**TABLE 3: FUNDED
PROJECTS CONT'D**

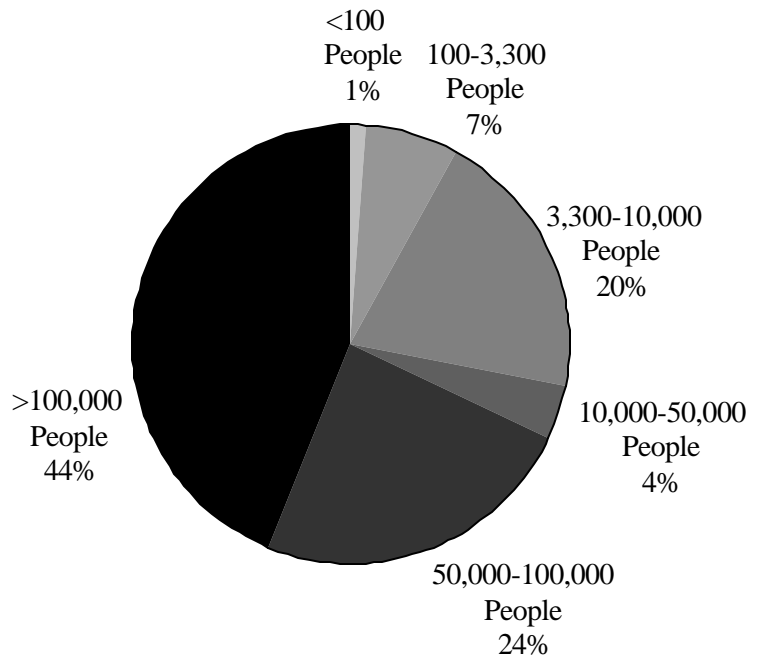
PRIORITY RANKING	PRIORITY POINTS	NAME	PWS ID #	AMOUNT	PROJECT TYPE	POPULATION SERVED	SMALL SYSTEM	DISAD. COMMUNITY
4	199	Rockport Beach Water Department	NW1200124	\$ 2,656,000	This project is to develop a new ground water source to meet summer water demands. Along with bringing a new well online, storage tanks and mains will be installed to address pressure deficiencies in the system.	152,488		
2	214	Shaw Creek Water Department	NW1200415	\$ 149,818	This project is the installation of a new disinfection system to comply with the Surface Water Treatment Rule.	587	YES	
5	191	Summerville Water Department	NW1200346	\$ 702,576	This project is the replacement of a storage tank and distribution system.	9,152	YES	YES
			TOTAL	\$29,313,569				

fundable list. Appendix A includes a description of these projects, an explanation for each bypass, and actions taken to ensure that the bypassed systems would be prepared to receive funding during SFY 2000. These actions were successful; all three projects signed loan agreements to receive funds. We have bypassed no projects from the SFY 2000 fundable list.

“ Small Systems

In the IUPs for SFY 1999 and SFY 2000, New Water planned to commit a total of \$11.8 million to loans for small systems for the two year period (\$7.2 million and \$4.6 million, respectively). This represents 33 percent of the funding available during the reporting period (31% and 37%, respectively). In SFY 1999, two small systems on our fundable list chose not to use DWRLF funding, and we bypassed three projects (see above). We added four small systems to our fundable list. New Water entered into binding commitments for all SFY 1999 funds and small systems received commitments for \$6.7 million in loans (29 percent of available funds). To date, small systems on the SFY 2000 fundable list have received commitments for \$1.5 million in loans. We expect that once we commit all SFY 2000 funds, we will have committed 37 percent of the funds to small systems.

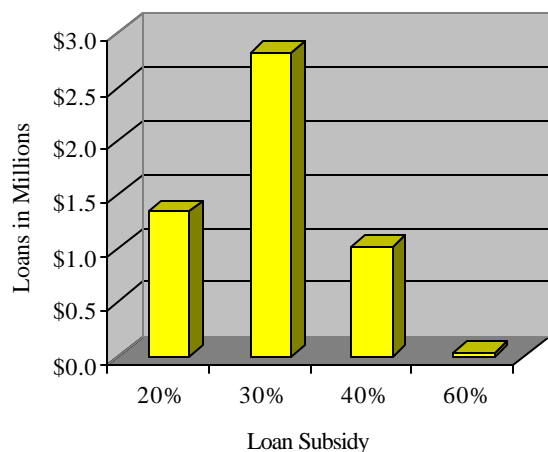
Figure 4: Distribution of Loan Dollars by Population Served



“ Disadvantaged Community Systems

In the SFY 1999 and SFY 2000 IUPs, New Water planned to commit \$8.2 million to loans for disadvantaged communities (\$5 million and \$3.2 million, respectively). In SFY 1999, one system on our fundable list serving disadvantaged communities chose not to use DWRLF funding, and we bypassed two projects. We added one system to our fundable list that serves a disadvantaged community. New Water committed \$4.2 million of the SFY 1999 funds to systems serving disadvantaged communities. To date, New Water has committed \$1.1 million of the SFY 2000 funds to systems serving disadvantaged communities. We have provided principal subsidies of \$1.3 million from the federal FY 1997 capitalization grant (7 percent) and \$.29 million from the federal FY 1998 capitalization grant.

Figure 5: Distribution of Disadvantaged Community Binding Commitments by Subsidy



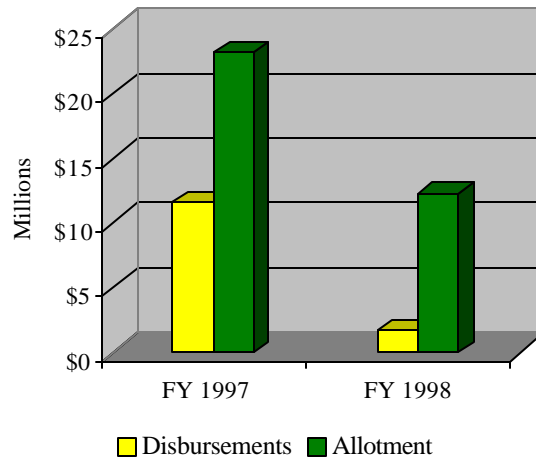
“ Disbursements

New Water has disbursed \$13.0 million – 37 percent of all available loan funds and 44 percent of all committed funds. We have disbursed \$11.5 million (50%) of the federal FY 1997 capitalization grant loan funds and \$1.6 million (13%) of the federal FY 1998 capitalization grant loan funds. Appendix C lists all loan-related disbursements.

Set-Aside Activity Status

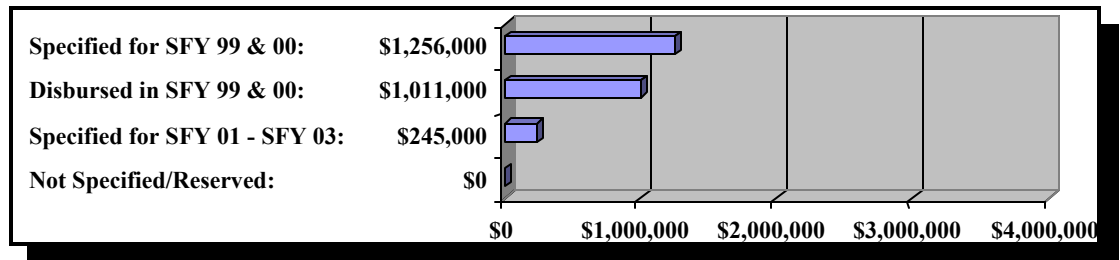
New Water developed and submitted annual set-aside performance status reports for DWRLF-funded activities in SFY 1999 and SFY 2000 (included in Appendix B). The following pages provide an overview of our set-aside activities in the last two years. A bar chart showing set-aside funding status accompanies the description of each set-aside activity. This chart shows dollars specified in workplans for SFY 1999 and SFY 2000, dollars actually disbursed in SFY 1999 and SFY 2000, dollars specified in workplans for SFYs 2001-2003, and dollars not specified in workplans but reserved for use from a future grant. Funds initially specified for use in SFY 1999 and 2000 but undisbursed are now specified for use in SFY 2001-2003.

Figure 6: Disbursement of Allotted Loan Funds



Set-Aside: Administration

The majority of funds from this set-aside paid salaries and associated expenses of personnel administering the DWRLF program.



The state is not

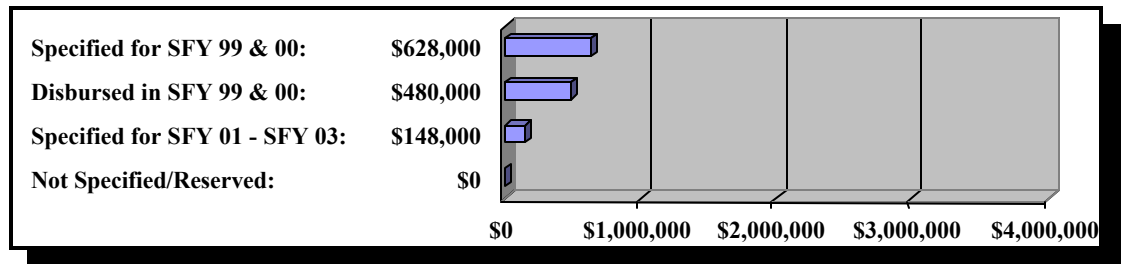
currently charging fees to supplement available set-aside funds. Implementation of the DWRLF has required the work of 6 FTEs – 4 with the Drinking Water Section, 1.5 with the Office of Administration and Accounting, and .5 with the Department of Economic Development. In addition, we engaged the accounting firm of Jones & Smith, LLP, to complete audits of the DWRLF program for each year. Within the first two years of the program, New Water has completed the following administrative activities:

- “ Hiring/training of new staff
- “ Purchase of computer hardware and software

- " Development of program documents
- " Development of program procedures
- " Solicitation of applications, including attendance at 7 annual state-wide meetings
- " Development of comprehensive list of projects
- " Evaluation of public water systems for technical, financial, and managerial capacity
- " Project selection and development of IUPs
- " Development of set-aside workplans
- " Conduct of public hearings for project priority lists and IUPs
- " Creation/meeting of stakeholder committee
- " Preparation of capitalization grant application
- " Development of Accounting Management Reports
- " Development of Set-Aside Performance Status Reports
- " Completion of DWRLF program audits
- " Financial modeling

Set-Aside: Small Systems Technical Assistance

We have entered into contracts with three assistance providers, the New Water Rural Water Association, the New Water Rural Community



Assistance Program, and the New Water Association of Community Action Agencies (\$80,000/contract). The “circuit rider” programs designed by the Rural Water Association and the Rural Community Assistance Program have been a great success. The circuit riders are experienced operators, licensed to operate all levels of water treatment plants. The Association of Community Action Agencies, which has an office in every county of the state, has assisted many communities with their planning activities. In the last two years, these three programs have assisted 45 public water systems throughout the state. The programs have offered the following types of assistance:

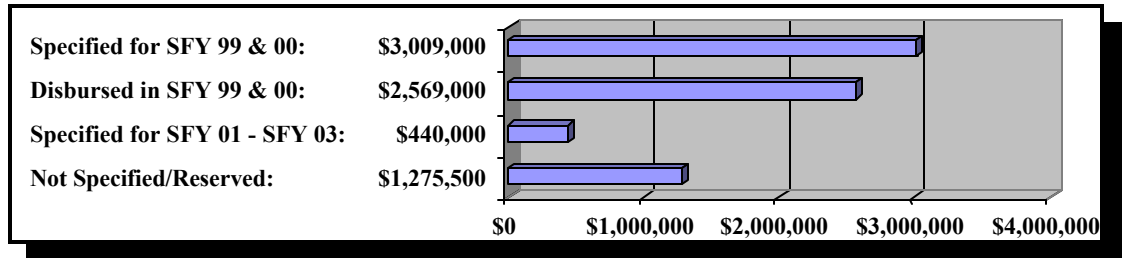
- " Assisting with planning in preparation for a DWRLF loan
- " Helping small systems comply with federal cross-cutting requirements and other state requirements
- " Helping small systems find and obtain funding in addition to the DWRLF
- " Determining the ability of a small system to repay a loan
- " Providing capacity assessments to small systems and devising plans for improving technical, financial, and managerial capacity
- " Helping small systems develop a business plan
- " Assisting with chemical feed systems, leak detection services, etc.
- " Developing and implementing source water protection programs

“ Addressing short-term non-compliance problems such as sporadic bacteriological, lead, and copper violations

Small systems have some of the most pressing needs in our state. The programs designed by these three assistance providers have very efficiently provided small systems with the ability to improve their technical, financial, and managerial capabilities. For example, the assistance programs enabled three public water systems that were bypassed for funding during SFY 1999 to be eligible for a loan during SFY 2000.

Set-Aside: State Program Management

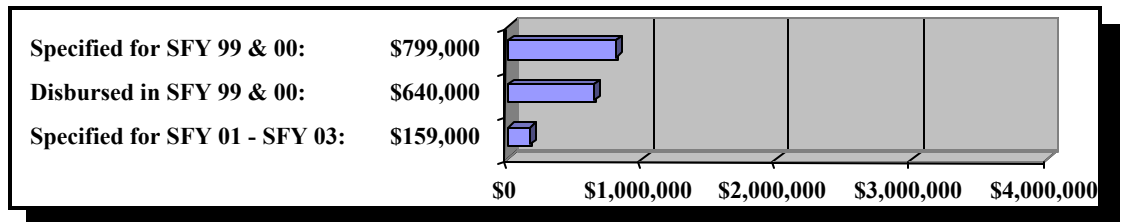
New Water used funds from its state program management set-aside for source water protection program administration, the



Public Water Supply Supervision (PWSS) program, capacity development, and operator certification.

“ *State Program Management: Source Water Protection Program Administration*

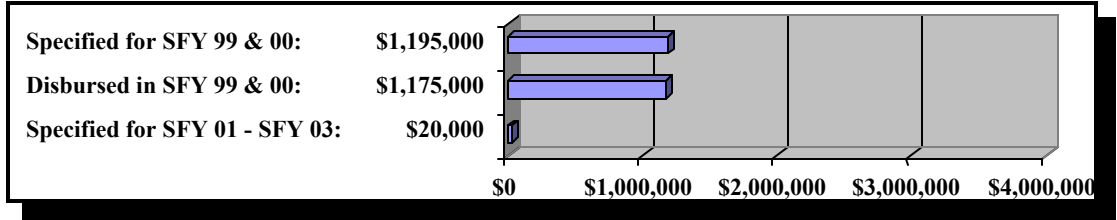
We used funds from this set-aside for the enhancement and implementation of New Water’s source water protection program. Set-aside



funds paid for the salaries and associated expenses of 4 FTEs. As part of this effort, we developed specific strategies appropriate for different source water threats (e.g., pathogens, inorganics, or nutrients). Where possible, we implemented these strategies on state-managed lands. We provided technical assistance to public water systems to encourage the implementation of these source water protection strategies at a local level, and we offered low-interest loans to public water systems for the purchase of land or conservation easements for source water protection (see page 20). To encourage public support and responsibility for local water supplies, we created citizen advisory committees that help with the local implementation of source water protection strategies.

" State Program Management: Public Water Supply Supervision (PWSS) Program

New Water used funds from this set-aside to support PWSS activities. This set-aside funded 5 FTEs, contractor support, and the purchase of necessary computer hardware and software.

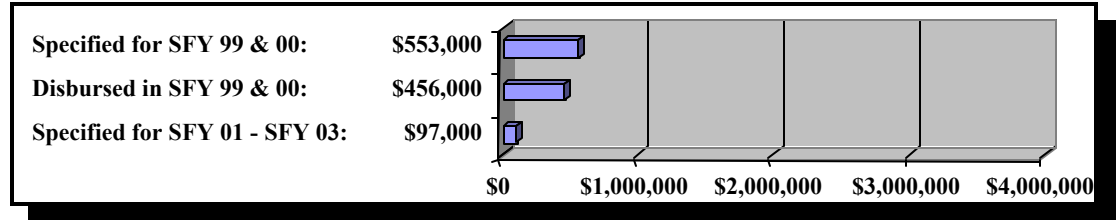


We purchased new computer hardware and software for the State Lab (the equipment will be used strictly for DWRLF/PWSS activities – the State Lab performs the majority of the laboratory analyses for SDWA compliance). A contractor developed software that downloads results of water analyses from testing equipment into a computer database and wrote programs that produce custom-designed laboratory reports from the testing results. We purchased equipment that prepares these reports for rapid mailing. Another contractor posted testing results to the Internet.

State personnel operating NWDHE’s primacy program have been implementing the first of EPA’s new regulations, the Consumer Confidence Rule. As part of this implementation effort, we developed guidance to help systems prepare consumer confidence reports and worked with 150 systems to make their reports more accessible to the public. All systems met their rule-imposed deadlines; the first systems provided consumer confidence reports to customers in October 1999.

" State Program Management: Capacity Development

New Water developed a capacity development program in two stages. Our first goal was to ensure that all new water systems have



adequate capacity. We developed a program that addresses new system capacity, passed legislation, developed regulations, and implemented the program by the SDWA deadline of October 1, 1999. Prior to the SDWA, New Water had required that all new community systems have sufficient technical, financial, and managerial capacity. The major task associated with this first goal was the development of a program for new nontransient noncommunity systems. We developed this program in coordination with county and local government agencies.

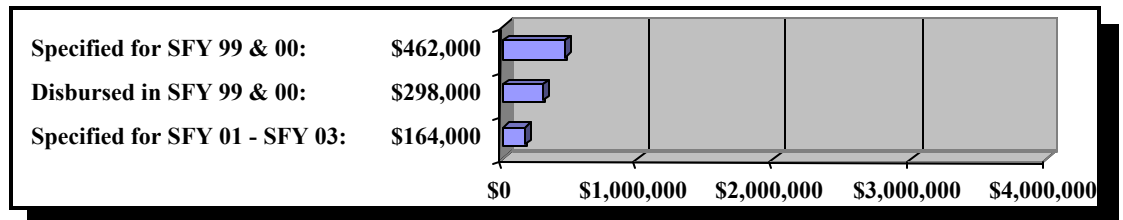
Our second goal was to develop a capacity development strategy that ensures all public water systems have adequate capacity. Prior to the SDWA, New Water had a rudimentary capacity development program, but this set-aside funding allows for a needed expansion of the program. Working with the stakeholder committee of public water systems and other interested parties, we identified the technical, financial, and managerial impediments confronting water systems in their efforts to provide safe and

sustainable drinking water. With the continued input of this committee, we then developed a capacity development strategy that matches capacity development solutions to the previously identified capacity impediments. The capacity development strategy, implemented in June 2000, includes a variety of technical and financial assistance options and encourages consolidation, collaboration, regionalization, and contract operation and maintenance cooperatives. We completed our identification of technical, financial, and managerial impediments and implementation of a capacity development strategy by August 2000.

This set-aside funded 3 FTEs who worked on the development of the capacity development program.

" State Program Management: Operator Certification

New Water has conducted a water system operator certification program since 1967. Since that time, we have required community

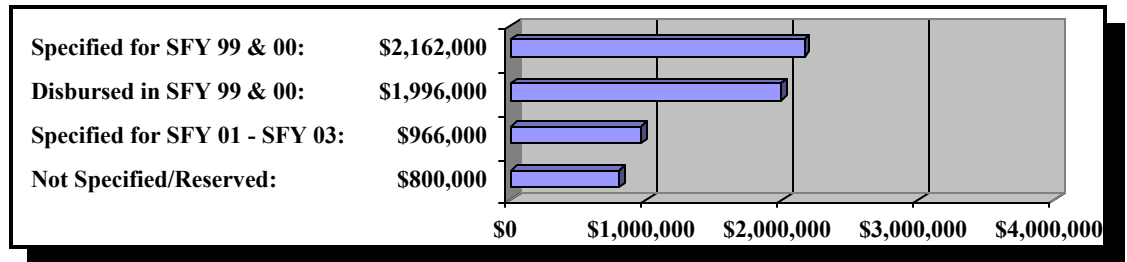


water systems using treatment to have a certified operator. To comply with the new SDWA requirements, we were required to significantly expand our program to certify operators of all community systems and nontransient noncommunity systems (including systems without treatment). We have used set-aside funding to augment our operator training contract and to add administrative and enforcement personnel (2 FTEs).

Our certification program required expansion, but no modification. It meets the essential elements of the nine baseline standards set by EPA's February 1999 guidance. We completed our implementation of the operator certification program in June 2000.

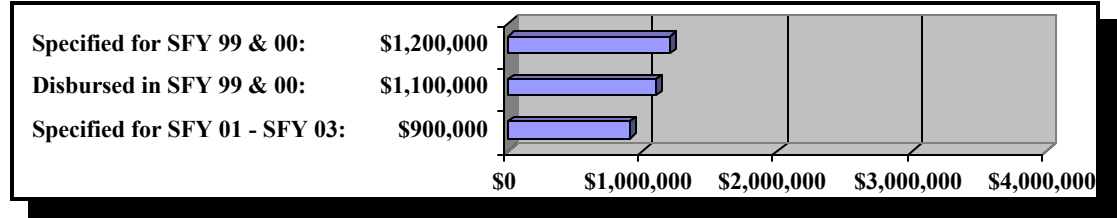
Local Assistance and Other State Programs

New Water used funds from its local assistance set-aside for source water delineation and assessment and for land acquisition for source water protection.



" Local Assistance and Other State Programs – Source Water Delineation and Assessment

New Water used funds from this set-aside for source water delineation and assessment. The first step in this process was the development of a SWAP. We submitted a plan to EPA in January 1999, following a 18-month process in which we had collected existing information, consulted with the stakeholder committee, developed a draft SWAP, and, after public review, revised the draft SWAP. The document outlined a plan to accomplish the assessment of New Water’s source waters and included a schedule and priorities for delineations and assessments.



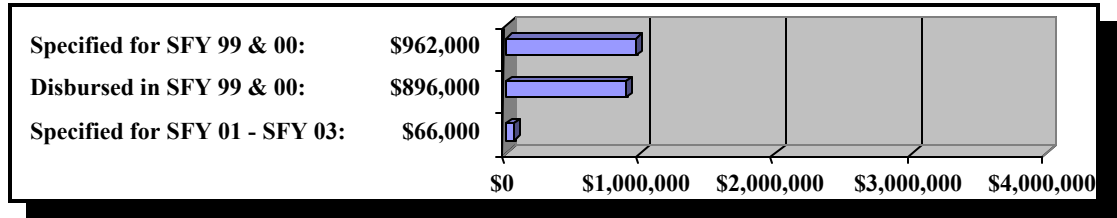
EPA approved our SWAP in July 1999. The plan, which uses a combination of approaches to complete these assessments, is now being implemented. For some source waters, state staff resources and contractors are most effective in completing a source water assessment. For other source waters, municipalities, county governments, or water suppliers can efficiently complete a source water assessment with financial assistance from the state. Finally, locals can work with consultants to complete source water assessments, again with financial assistance from the state. All awards and delegation of duties have been guided by Memorandum of Agreements that ensure NWDHE coordination, review, and quality assurance.

While federal law requires that we obligate these funds within the four federal fiscal years following our initial capitalization grant award, we are planning to spend them by the end of federal FY 2001, when we will have completed our source water delineations and assessments.

Three FTEs developed our source water assessment plan. Resources required for implementation of the plan will depend on the methods chosen by municipalities, counties, and water suppliers for the completion of their source water assessments.

" Local Assistance and Other State Programs – Land Acquisition for Source Water Protection

Funding from this set-aside has provided loans to public water systems for the purchase of land or conservation easements. A public



water system may only purchase land or a conservation easement from a willing party for the purpose of protecting the system’s source water and ensuring compliance with national drinking water regulations. We evaluate all projects using the priority system described in our IUP.

Mt. Pleasant was the only public water system to apply for a loan for the purchase of land. Mt. Pleasant applied for and received loans in SFY 1999 (\$346,000) and SFY 2000 (\$550,000), which it used to purchase two large lots abutting Lake Stillwater, its source of drinking water. The interest rate for these loans was 2 percent for 20 years. We gave these loans a great deal of publicity; they have enabled Mt. Pleasant to avoid a costly upgrade to its treatment plant. Perhaps due to this publicity, we received letters of interest from ten public water systems inquiring about SFY 2001 funds for land acquisition.

IV. FINANCIAL SUMMARY

The following discussion provides additional details on the financial management activities in the DWRLF.

A. Status of Loans

The DWRLF has closed \$29.3 million in loans. Appendix A shows the status of all DWRLF loans to date. Information includes the following: loan amount, interest rate, term, cumulative disbursements, and schedule of principal and interest payments. We present all loan activity by fiscal year.

B. Loan Disbursements/Cash Draw Proportionality

We have disbursed \$13.0 million since the program's inception. Appendix C lists each disbursement, each loan-related federal Automated Clearing House (ACH) cash draw, and the cumulative federal/state proportionality ratio resulting from cash draw activities. We are using the rolling average method to determine federal/state proportionality as defined in the *Guide to Using EPA's Automated Clearing House for the Drinking Water State Revolving Fund Program* (EPA-832-B98-003).

C. Set-Aside Disbursements

We have disbursed \$6.1 million in set-aside funds since the program's inception. Appendix C lists each set-aside-related cash draw and disbursement by type of set-aside and by fiscal year.

D. Annual Repayment/Aging of Accounts

The DWRLF program has had no scheduled loan repayments to date. We expect repayments to begin in SFY 2002.

E. Loan Portfolio Analysis

New Water conducts an annual review of its loan portfolio and summarizes findings in a Portfolio Tracking Report. We identify loans that are potentially weak and track them closely to ensure that conditions are not deteriorating. The assessment process measures the level of funding given to systems by credit quality category as measured by bond rating. Currently our loan portfolio has the following credit quality:

Credit Quality	Bond Rating (S&P and Moody's)	Percent of Portfolio Value
Best	AAA or Aaa	70
High	AA or Aa	10
High-medium	A or A	2
Medium	BBB or Baa	0
Not rated	NA	18

Non-rated communities/systems are those that have no history of issuing debt. We review each non-rated community/system on an annual basis to determine if conditions within the community have weakened to the point where repayment of the DWRLF is threatened. In reviewing the non-rated communities we determined that four communities have experienced some weakening of conditions (e.g., negative net income); however, it appears that conditions in each system are strong enough to assure repayment of the DWRLF loan. We have included our annual reports on credit conditions of borrowers in Appendix E.

F. Investments

The DWRLF program had \$421,925 in investments at the end of SFY 2000. The Office of the Treasurer manages these funds in compliance with state investment practices. We monitor DWRLF investments monthly to confirm that the Treasurer credits interest to the DWRLF account in a timely fashion. Management reports from the state-wide Financial Management System that document the DWRLF investment earnings are on file in our office.

G. Financial Statements

DWRLF audit reports for each year, including financial statements, are attached to this report as Appendix D. The audited financial statements are current through SFY 2000 operation of the DWRLF. The audit reported no material issues for our management to address. We plan to use the audited data from the financial reports of our program in performance assessments of the DWRLF. A summary of the program-wide financial conditions represented in the attached audit reports are provided below.

Balance Sheet: Financial Resources, Claims on Resources and Sources of Capital

To date the DWRLF has accumulated total assets of \$21,850,519. The assets are comprised mostly of outstanding loans (60 percent of total assets) and cash and cash equivalents (39 percent). The program has no long term liabilities and has a very low accounts payable balance. The contributed capital in the fund to date is split almost equally between State of New Water contributions and federal grant funding (cash drawn to date is recorded as contributed capital).

Operating Statements: Loan and Set-Aside Revenues and Expenses/Expenditures

The DWRLF loan-related accounts experienced a loss (negative excess revenues over expenses) due to the level of principal forgiveness recognized in the SFY 2000. As time passes and more projects begin repayment, interest earnings from loans will be much larger than the principal forgiveness expenses. Set-aside revenues and expenditures are almost equal reflecting the 100 percent federal funding for set-aside activity.

V. COMPLIANCE WITH OPERATING AGREEMENT AND GRANT CONDITIONS

New Water has complied with the conditions of the DWRLF operating agreement. We have met and continue to be in compliance with the following conditions as described in the Operating Agreement:

- " Establish state instrumentality and authority
- " Comply with applicable state laws and procedures
- " Review technical, financial, and managerial capacity of assistance recipients
- " Establish DWRLF loan account, set-aside account, and DWRLF administration account
- " Deposit all funds in appropriate accounts
- " Follow state accounting and auditing procedures
- " Require DWRLF loan recipient accounting and auditing procedures
- " Submit IUP and use all funds in accordance with the plan
- " Comply with enforceable requirements of the Act
- " Establish capacity development authority
- " Implement/maintain system to minimize risk of waste, fraud, abuse, and corrective action
- " Develop and submit project priority ranking system

We have met the following conditions as described more fully below:

- " Take payments based on payment schedule

We have received payments based on the schedule included in the grant awards made for SFY 1999 and SFY 2000. Appendix C includes a schedule of grant payments received.

- " Deposit state matching funds

The New Water Legislature appropriated \$11.44 million as state match for the federal FY 1997 and FY 1998 capitalization grants. The state deposited \$8 million (\$4 million match/\$4 million overmatch) into the DWRLF loan account on July 1, 1998 to satisfy the 20 percent match requirement for federal FY 1997 funds. On the same date, New Water deposited \$.48 million of the total into the DWRLF state program administration set-aside subaccount as the required federal FY 1997 dollar-for-dollar match. The state deposited \$2.28 million and \$.66 million, respectively, into these accounts for the federal FY 1998 match.

- " Submit Biennial Report and annual audit

The submission of this document will fulfill New Water's responsibility to submit a Biennial Report.

Jones and Smith, LLP, conducts an annual audit of the DWRLF. Each audit addresses all funding activity from the loan account, the set-aside account and the administration account. Section 1453(k)(1)(A) monies set-aside for source water protection land acquisition loans are presented as separate financial statements and addressed in the DWRLF audit report. For both SFY 1999 and SFY

2000, this firm issued an unqualified opinion on the financial statements and compliance reports and reported that the internal control structure was without material weakness.

“ Assure that borrowers have dedicated source of repayment

NWDHE staff conducts a credit review evaluation for all municipal public water systems. This evaluation determines whether or not an applicant has the ability to repay a loan. Department of Economic Development staff conduct a similar credit review for all private and non-profit public water systems. For all public water systems, the expected revenue stream from user fees must be sufficient to repay the loan, pay operation and maintenance costs, and pay for other necessary expenses.

“ Use funds in timely and expeditious manner

New Water has committed 100 percent of all available loan funds from SFY 1999, and 83 percent of all available loan funds to date. Public water systems with binding commitments have moved in an expeditious and timely manner to start construction. NWDHE will be monitoring construction progress to ensure that operations are initiated according to schedule. Although project construction has not progressed as quickly as is currently the norm in New Water's CWRLF program, the pace compares favorably to the first two years of the CWRLF program.

“ Ensure recipient compliance with applicable federal cross-cutting authorities

New Water and all of its assistance recipients have complied with all applicable federal cross-cutting authorities.

In order to establish an overall fair-share objective for Minority and Women's Business Enterprises (MBE/WBE), we studied the availability of contractors in this field. As a result of this availability study, we recommended a fair-share objective of 9 percent for MBE participation and 6 percent for WBE participation to the NWDHE Office of Financial Services. This recommendation was accepted and used for both SFY 1999 and SFY 2000. Loanee reporting has shown that New Water exceeded its MBE objective in both years, reaching an annual participation of 10.2 percent and 9.3 percent, respectively. New Water also exceeded its WBE objective in both years, reaching an annual participation of 6.1 percent and 7.2 percent, respectively.

“ Conduct environmental reviews

The 27 public water systems receiving assistance during SFY 1999 and SFY 2000 were reviewed and approved using the state's environmental review procedures. We determined that no Environmental Impact Statements were necessary. Eleven projects qualified for a Categorical Exclusion because they replaced existing infrastructure with no impact on the environment. For the remaining projects, an Environmental Assessment was prepared and a Finding of No Significant Impact was issued.

“ Implement operator certification program

We completed implementation of New Water's enhanced operator certification program in June 2000.

The program now certifies operators of all community and nontransient noncommunity water systems, including systems without treatment. It meets or exceeds EPA's minimum standards for operator certification (February 1999 guidance).

" Implement capacity development strategy

New Water developed a capacity development strategy in two stages. First, we expanded our capacity development program to ensure that all new systems have adequate capacity. We passed legislation, developed regulations, and implemented the program by the SDWA deadline of October 1, 1999.

New Water also developed a capacity development strategy that ensures that all public water systems have adequate capacity. Our strategy, implemented in June 2000, includes a variety of technical and financial assistance options and encourages consolidation, collaboration, regionalization, and contract operation and maintenance cooperatives.

APPENDIX A

PROJECT INFORMATION/LOAN STATUS

APPENDIX B

ACCOUNTING AND MANAGEMENT REPORTS

APPENDIX C

REPORT ON PAYMENTS, BINDING COMMITMENTS, AND CASH DRAWS

APPENDIX D

AUDIT REPORTS (INCLUDING FINANCIAL STATEMENTS)

APPENDIX E

ANNUAL REPORTS ON CREDIT CONDITIONS OF BORROWERS