

**State of Arkansas Construction Assistance
Revolving Loan Fund Program**

Independent Auditor's Report and Financial Statements

June 30, 2017 and 2016



**State of Arkansas Construction Assistance
Revolving Loan Fund Program
June 30, 2017 and 2016**

Contents

Independent Auditor’s Report	1
Management’s Discussion and Analysis	4
Financial Statements	
Statements of Net Position	10
Statements of Revenues, Expenses and Changes in Net Position	11
Statements of Cash Flows	12
Notes to Financial Statements	14
Supplementary Information	
Combining Statement of Net Position	27
Combining Statement of Revenues, Expenses and Changes in Net Position	28
Combining Statement of Cash Flows	29

Independent Auditor's Report

The Commissioners of the Arkansas Natural
Resources Commission (ANRC)

The Board of Directors of
Arkansas Development Finance Authority (ADFA)

Report on the Financial Statements

We have audited the accompanying financial statements of the State of Arkansas Construction Assistance Revolving Loan Fund Program (the Program), which are comprised of statements of net position as of June 30, 2017 and 2016, and the related statements of revenues, expenses and changes in net position and statements of cash flows for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

The Commissioners of the Arkansas Natural
Resources Commission (ANRC)

The Board of Directors of
Arkansas Development Finance Authority (ADFA)

Page 2

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Program as of June 30, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in *Note 1*, the financial statements present only the Program and do not purport to, and do not, present fairly the financial position of the State of Arkansas as of June 30, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

The Commissioners of the Arkansas Natural
Resources Commission (ANRC)

The Board of Directors of
Arkansas Development Finance Authority (ADFA)
Page 3

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2017, on our consideration of the Program's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Program's internal control over financial reporting and compliance.

BKD, LLP

Little Rock, Arkansas
October 31, 2017

**State of Arkansas Construction Assistance
Revolving Loan Fund Program
Management's Discussion and Analysis
June 30, 2017 and 2016**

This discussion and analysis is designed to assist the reader in focusing on significant issues and activities and to identify any significant changes in the financial position of the Construction Assistance Revolving Loan Fund Program (the Program). Readers are encouraged to consider the information presented in conjunction with the financial statements and notes as a whole, which follow this section of the report.

Discussion of Financial Statements

The June 30, 2017, basic financial statements include three required statements: The statement of net position; the statement of revenues, expenses and changes in net position; and the statement of cash flows. Comparative totals as of and for the years ended June 30, 2016 and 2015, are also presented. Although not required, these comparative totals are intended to facilitate an enhanced understanding of the Program's financial position and results of operations for the current fiscal year in comparison to the prior fiscal years. Additional information, following the *Notes to Financial Statements*, includes the combining statement of net position; the combining statement of revenues, expenses and changes in net position; as well as the combining statement of cash flows. These combining statements detail the Revolving Loan Fund and the Fees and Expenses Fund, which comprise the Program.

Condensed Financial Information – Statements of Net Position

<i>(In thousands)</i>	2017	2016	2015
Total assets and deferred outflow of resources	\$ <u>408,829</u>	\$ <u>397,078</u>	\$ <u>387,347</u>
Current liabilities	2,654	2,710	4,317
Noncurrent liabilities	<u>25,325</u>	<u>28,140</u>	<u>34,537</u>
Total liabilities	<u>27,979</u>	<u>30,850</u>	<u>38,854</u>
Net position – restricted by bond resolution and program requirements	\$ <u>380,850</u>	\$ <u>366,228</u>	\$ <u>348,493</u>

The Program's total assets and deferred outflow of resources have increased over the past three years. At June 30, 2017 the total assets increased \$11.8 million as compared to June 30, 2016, which is primarily attributable to the increase of \$40.6 million in cash and cash equivalents and loan receivable – restricted, which is offset by the decline of \$29.1 million in total investments. At June 30, 2016, the Program's total assets increased \$9.7 million as compared to June 30, 2015. The primary factor is the increase of \$9.6 million in loans receivable - restricted. The following table reports loan activity for each year (in thousands):

**State of Arkansas Construction Assistance
Revolving Loan Fund Program
Management's Discussion and Analysis
June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Loan disbursements	\$ 29,511	\$ 24,055	\$ 23,776
Loan repayments	<u>23,416</u>	<u>14,411</u>	<u>58,596</u>
Net increase (decrease) in loans receivable	\$ <u>6,095</u>	\$ <u>9,644</u>	\$ <u>(34,820)</u>

The following table reflects the disbursement of funds to new and existing loan borrowers (in thousands):

	<u>2017</u>	<u>2016</u>	<u>2015</u>
New loans	\$ 94,175	\$ 10,200	\$ 10,350
Loan disbursements – new loans	13,170	982	1,030
Existing loans	56,000	76,350	79,500
Loan disbursements – existing loans	16,341	23,073	22,746

The Program continually made loans from Environmental Protection Agency (EPA) federal grant funds, prepayment funds, state matching funds and revolving Program funds. The Program received federal funds in the form of an annual capitalization grant (Base). In the current fiscal year, the Program has approved several new loans that have been partially funded, but the Program has several funding sources available to meet all future funding requirements. The Program utilized \$16.3 million of the total \$29.5 million disbursed in the revolving Program funds. The Program has not disbursed the Federal Fiscal Year 2017 state matching funds of \$1.7 million even though the funds have been designated as such. The Program has available \$4.7 million of the Federal Fiscal Year 2016 grant to utilize for additional subsidy and repayable loans. In the prior fiscal year, the Program increased the amount of federal funds disbursed while utilizing state match funds and revolving Program funds. The Program matches federal grant awards prior to receiving the federal grant at a rate of five federal dollars to one state dollar. In the prior fiscal year, the Program used \$8.8 million from 2014 federal capitalization grant and \$3.8 million from the 2015 federal capitalization grant. The 2015 federal capitalization grant has \$5.0 million left to draw which is to be used for additional subsidy (principal forgiveness loans) as required by EPA. In the prior year, the Program disbursed the remaining \$304,000 of state match funds relating the 2015 federal capitalization grant and \$1.7 million of the state match funds relating to the 2016 capitalization grant. Per EPA guidelines and Arkansas Natural Resources Commission (ANRC) policy, all state match funds must be matched with federal dollars on or prior to the receipt of the federal funds and ANRC has chosen to fund loans with state match funds prior to utilizing the federal capitalization grant. The 2009 Issue Prepayment Funds (Prepayments) fluctuate based upon the loan payoffs. The Program's general bond resolution allows prepayment funds to be used to make new loans within 90 days of receipt, pay principal and interest at debt service or pay principal and interest on called bonds. The Prepayments used to fund loans in fiscal year 2017 and 2016 were from current and prior year loan payoffs.

**State of Arkansas Construction Assistance
Revolving Loan Fund Program
Management's Discussion and Analysis
June 30, 2017 and 2016**

The table below reflects the amounts used from each funding source for fiscal years 2017, 2016 and 2015 (in thousands):

	<u>2017</u>	<u>2016</u>	<u>2015</u>
EPA Federal			
Base	\$ 7,486	\$ 12,546	\$ 1,886
State Matching	-	2,049	2,519
2009 Issue Prepayment Funds	5,701	290	6,468
Revolving Program Funds	<u>16,324</u>	<u>9,170</u>	<u>12,903</u>
	<u>\$ 29,511</u>	<u>\$ 24,055</u>	<u>\$ 23,776</u>

Also, the Program utilized its cash within the Program as an additional funding source, essentially revolving the assets. The Federal fiscal year 2017 Base grant has been approved by the EPA in the amount of \$8.7 million and will be available in October 2017.

The Program's total liabilities decreased to \$28.0 million at June 30, 2017 from \$30.9 million at June 30, 2016, from \$38.9 million at June 30, 2015. In fiscal year 2017, the Program paid scheduled redemptions of \$2.9 million which attributed to the decline. The decline of \$8.0 million in fiscal year 2016 was attributed to the scheduled bond redemptions and the optional redemption of the 2009 Series A bonds.

**State of Arkansas Construction Assistance
Revolving Loan Fund Program
Management's Discussion and Analysis
June 30, 2017 and 2016**

Condensed Financial Information – Statements of Revenues, Expenses and Changes in Net Position

(In thousands)

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total interest income	\$ 5,361	\$ 4,797	\$ 5,502
Other income	<u>1,808</u>	<u>2,181</u>	<u>2,111</u>
Total operating revenues	<u>7,169</u>	<u>6,978</u>	<u>7,613</u>
Total interest on bonds and notes	1,307	1,592	1,803
Total amortization expense	(470)	(587)	(638)
Federal financial assistance	1,210	3	116
Administrative expense	<u>254</u>	<u>247</u>	<u>239</u>
Total operating expenses	<u>2,301</u>	<u>1,255</u>	<u>1,520</u>
Operating income	4,868	5,723	6,093
Base federal grants	9,131	12,852	2,323
Transfers in (out), net	<u>623</u>	<u>(840)</u>	<u>320</u>
Change in net position	14,622	17,735	8,736
Net position			
Beginning of year	<u>366,228</u>	<u>348,493</u>	<u>339,757</u>
End of year	<u>\$ 380,850</u>	<u>\$ 366,228</u>	<u>\$ 348,493</u>

Total operating revenues have fluctuated over the past three years. In the current fiscal year, the Program's interest on investments and financing fee income increased \$708,000, which is offset by the decline in interest on loans and net depreciation of investments of \$517,000. To help increase interest on investments, the Program began investing funds in an internal investment pool administered by the State of Arkansas. The funds are available within one business days' notice and offer a higher rate of return. The net depreciation on investments is an adjustment in the market value of the Program's investments. In the prior fiscal year, the Program's interest on loans and financing fee income decreased \$1.2 million, which is offset by increases in interest on investments and net depreciation of investments totaling \$531,000. Interest on loans has declined over the past three years. Interest on loans decreased \$70,000 in fiscal year 2017 and \$912,000 during fiscal year 2016. Financing fee income, which represents the 1% fee paid by the borrowers, has fluctuated over the past three years. Financing fee income increased \$74,000 during fiscal year 2017 and decreased \$254,000 during fiscal year 2016. The Program received \$7.7 million and \$360,000 in loan prepayments during fiscal year 2017 and 2016, respectively. Loans in

**State of Arkansas Construction Assistance
Revolving Loan Fund Program
Management's Discussion and Analysis
June 30, 2017 and 2016**

repayment are paying on a declining loan balance which effects interest on loans and financing fee income. The Program is still making new loans, but the total loan interest and financing fee being paid by new borrowers is less than the total interest and fee paid by the older borrowers and the Program has restructured the terms on a few older loans. The Program has seen a decline in loan activity over the past few years due to the economy, increased loan prepayment rate, the interest rate environment and the regulations placed on the Program by governing agencies. The Program is funding loans, but the interest rates on the new funded loans are lower than older fully funded loans. The average return on loans was 1.72%, 1.79% and 2.01% for the fiscal years ended June 30, 2017, 2016 and 2015, respectively.

Interest on investments was \$1.3 million, \$690,000 and \$483,000 for fiscal years ended June 30, 2017, 2016 and 2015, respectively. The Program maintains liquidity to fund projects as needed. The Program invested excess funds in U. S. agencies obligations at higher yields than current money market mutual fund rates. The Program's investment portfolio is structured with maturities every six months to ensure availability of funds, if needed, and to capitalize on higher long term yields. Another investment option the Program has begun utilizing is the State Treasurer Money Management Trust Fund (MMTF). The Program has \$31.3 million invested in the MMTF which is reported as a part of cash and cash equivalents. The average return on cash, cash equivalents and investments was 0.63%, 0.28% and 0.05% for years ended June 30, 2017, 2016 and 2015, respectively. The Program has \$30.2 million of investments maturing by June 2018.

Total operating expenses increased \$1.0 million in fiscal year 2017 which is primarily attributed to the increase of federal financial assistance and the decline in interest on bond and notes. The decline of \$265,000 in fiscal year 2016 in total operating expenses is primarily attributed to the decline of federal financial assistance and interest on bonds and notes. During fiscal years 2017 and 2016, the Program forgave principal of \$1.2 million and \$3,000, respectively. The Program's interest on bonds and notes decreased \$285,000 and \$211,000 during fiscal years 2017 and 2016, respectively, which correlated to the decrease in bonds payable. Program administration expenses totaled \$254,000, \$247,000 and \$239,000 for the fiscal years ended June 30, 2017, 2016 and 2015, respectively. These expenses included amounts paid for audit expense, trustee fees and the administrative fee paid to the Arkansas Development Finance Authority (ADFA).

Base federal grants revenue declined \$3.7 million in the current fiscal year. The Base federal grants guidelines allow for the funding of forgiveness of principal, repayable loans and the reimbursement of expenses of the Program. The Program has expended part of the fiscal year 2015 grant totaling \$5.0 million and \$3.7 million of the fiscal year 2016 grant. The loans of the Program have approximately a two year construction period in which many existing loans are being funded. The Program receives federal grant revenue for reimbursement of the Program's expenses. In the prior fiscal year, base federal grant revenue increased \$10.5 million. The Program has expended part of the fiscal year 2014 grant totaling \$8.8 million and \$3.8 million of the fiscal year 2015 grant. Information regarding when Base federal grant awards were expended for construction draws and principal forgiveness loans is as follows (in thousands):

**State of Arkansas Construction Assistance
Revolving Loan Fund Program
Management's Discussion and Analysis
June 30, 2017 and 2016**

Federal Award Year	Beginning Balance	Amount Expended in		
		FY2015	FY2016	FY2017
2013	\$ 8,373	\$ 2,002	\$ -	\$ -
2014	8,798	-	8,798	-
2015	8,752	-	3,750	5,002
2016	8,380	-	-	3,694
		<u>\$ 2,002</u>	<u>\$ 12,548</u>	<u>\$ 8,696</u>

Transfers in and out are comprised of transfers to or from other state programs or agencies. In the current fiscal year, the Program received transfers in of \$1.6 million from the ANRC Water, Waste Disposal and Pollution Abatement Facilities General Obligation Bond Fund Program to fund state match, which is offset by transfers out of \$990,000 to ANRC for administrative expenses of the Program. In the prior fiscal year, the Program has transfers out of \$840,000 to ANRC for administrative expenses. The funding source for the administrative expenses is the 4% set aside of the EPA capitalization grant along with other funds deposited into the Fees and Expenses Fund.

The net position of the Program increased \$32.4 million in the past two years. The bond resolutions and the Program restrict all of the net position.

The overall financial position and results of operations of the Program have improved.

Contact Regarding the Program

This financial report is designed to provide bondholders, constituents and business partners with a general overview of the Program's finances and to show the Program's accountability for the funds it administers. Questions about this report and requests for additional financial information should be directed to the ADFA Vice President for Finance and Administration by telephoning 501.682.5900 or by contacting the ANRC Water Development Division Chief at 501.682.1611.

State of Arkansas Construction Assistance Revolving Loan Fund Program

Statements of Net Position June 30, 2017 and 2016

<i>(in thousands)</i>	2017	2016
Current Assets		
Cash and cash equivalents	\$ 93,085	\$ 58,533
Accrued interest receivable		
Investments	230	140
Loans	208	228
Accounts Receivable		
Borrowers	123	142
Environmental Protection Agency	104	-
Investments - current portion	30,150	69,368
Total current assets	123,900	128,411
Noncurrent assets		
Investments - restricted	43,306	33,139
Loans receivable - restricted		
Construction loans	241,136	234,595
Wetlands mitigation	487	933
Total noncurrent assets	284,929	268,667
Total assets	408,829	397,078
Current Liabilities		
Accounts Payable	209	195
Accrued interest payable	100	110
Bonds payable - current portion	2,345	2,405
Total current liabilities	2,654	2,710
Noncurrent Liabilities		
Bonds payable, net of unamortized premiums	25,325	28,140
Total liabilities	27,979	30,850
Net Position		
Restricted by bond resolution and program requirements	\$ 380,850	\$ 366,228

**State of Arkansas Construction Assistance
Revolving Loan Fund Program**
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2017 and 2016

<i>(in thousands)</i>	<u>2017</u>	<u>2016</u>
Operating Revenues		
Interest on investments	\$ 1,324	\$ 690
Interest on loans	4,037	4,107
Financing fee income	2,365	2,291
Net depreciation of investments	<u>(557)</u>	<u>(110)</u>
Total operating revenues	<u>7,169</u>	<u>6,978</u>
Operating Expenses		
Program administration	254	247
Federal financial assistance		
Base	1,210	3
Bond interest	1,307	1,592
Amortization of bond premiums	<u>(470)</u>	<u>(587)</u>
Total operating expenses	<u>2,301</u>	<u>1,255</u>
Operating Income	4,868	5,723
Nonoperating Income		
Base federal grants	<u>9,131</u>	<u>12,852</u>
Income Before Transfers In (Out), Net	13,999	18,575
Transfers In (Out), Net	<u>623</u>	<u>(840)</u>
Change in Net Position	14,622	17,735
Net Position, Beginning of year	<u>366,228</u>	<u>348,493</u>
Net Position, End of year	<u>\$ 380,850</u>	<u>\$ 366,228</u>

State of Arkansas Construction Assistance Revolving Loan Fund Program

Statements of Cash Flows Years Ended June 30, 2017 and 2016

(in thousands)

	2017	2016
Operating Activities		
Financing fee income received	\$ 2,384	\$ 2,303
Cash paid for program administration	<u>(240)</u>	<u>(236)</u>
Net cash provided by operating activities	<u>2,144</u>	<u>2,067</u>
Noncapital Financing Activities		
Repayment of long-term debt	(2,405)	(7,405)
Cash paid for interest	(1,317)	(1,595)
Transfers in (out)	623	(840)
Nonoperating grants received	<u>9,027</u>	<u>12,852</u>
Net cash provided by noncapital financing activities	<u>5,928</u>	<u>3,012</u>
Investing Activities		
Interest received on investments	1,236	704
Interest received on loans	4,057	4,137
Purchase of investments	(41,456)	(141,935)
Proceeds from maturities of investments	69,948	99,033
Loan disbursements	(29,511)	(24,055)
Principal repayments on loans	23,416	14,411
Federal grant funds expended	<u>(1,210)</u>	<u>(3)</u>
Net cash provided by (used in) investing activities	<u>26,480</u>	<u>(47,708)</u>
Increase (Decrease) in Cash and Cash Equivalents	34,552	(42,629)
Cash and Cash Equivalents, Beginning of Year	<u>58,533</u>	<u>101,162</u>
Cash and Cash Equivalents, End of Year	<u>\$ 93,085</u>	<u>\$ 58,533</u>

**State of Arkansas Construction Assistance
Revolving Loan Fund Program
Statements of Cash Flows (Continued)
Years Ended June 30, 2017 and 2016**

(in thousands)

	2017	2016
Reconciliation of Operating Income to Net Cash		
Provided by Operating Activities		
Operating income	\$ 4,868	\$ 5,723
Items not requiring (providing) operating activities cash flows		
Interest on investments	(1,324)	(690)
Interest on loans	(4,037)	(4,107)
Bond interest	1,307	1,592
Amortization of bond premiums	(470)	(587)
Net depreciation of investments	557	110
Federal grants expended	1,210	3
Changes in		
Account receivable - borrowers	19	12
Accounts payable	14	11
Net cash provided by operating activities	\$ 2,144	\$ 2,067

State of Arkansas Construction Assistance Revolving Loan Fund Program

Notes to Financial Statements

June 30, 2017 and 2016

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

The State of Arkansas Construction Assistance Revolving Loan Fund Program (the Program), an enterprise fund of the State of Arkansas, was created pursuant to the 1987 Amendments (P.L.100-4) to the "Clean Water Act" (P.L.92-500) to provide a perpetual fund for financing the construction of wastewater treatment facilities for municipalities and other public entities. The Program is to be capitalized with federal grants from the U.S. Environmental Protection Agency (EPA) and state matching funds on a ratio of five federal dollars to one state dollar.

As of July 2001, Arkansas Natural Resources Commission (ANRC), formerly known as Arkansas Soil and Water Conservation Commission, became the lead agency for the Program (previously led by Arkansas Department of Environmental Quality). As lead agency, ANRC is responsible for performing technical project reviews, monitoring construction and coordinating the total management of the Program. Act 1243 of 2006 authorized the name change to ANRC, which has not had an impact on the Program. Arkansas Development Finance Authority (ADFA) serves as financial manager for the Program under an interagency agreement. ADFA is responsible for investing and disbursing funds as authorized by the lead agency, servicing loans, preparing and submitting monthly financial reports and annual financial statements and procuring audit services. ADFA is reimbursed for Program administration costs through a calculation based on loans outstanding in accordance with the interagency agreement. The amounts incurred to ADFA for administration costs for the years ended June 30, 2017 and 2016, were \$196,000 and \$190,000, respectively.

The Arkansas Agriculture Water Quality Loan Program (AAWQLP) is accounted for within the Program. Under the AAWQLP, ANRC establishes noninterest-bearing cash accounts with financial institutions. In fiscal year 2007, an agreement was established with AgriBank in which AAWQLP would purchase a noninterest bearing bond in conjunction with loans made by AgriBank under the AAWQLP guidelines. Loans are originated by the financial institution or AgriBank to the farmers or property owners that provide for the installation of water quality, anti-pollution equipment. Interest income normally earned on these balances at the financial institutions or on the bond is used to reduce the interest rates applicable to the loans obtained by the farmers or other property owners. ANRC has established a Program contribution limit to AAWQLP in the amount of \$25 million. As of June 30, 2017 and 2016, the AAWQLP had \$6.8 million and \$7.9 million, respectively, in deposits and investments with various financial institutions.

State of Arkansas Construction Assistance Revolving Loan Fund Program

Notes to Financial Statements

June 30, 2017 and 2016

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 disclosure 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. Material estimates that are particularly susceptible to significant change relate to the determination of fair values of investments.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The Program is accounted for as an enterprise fund for financial reporting purposes and utilizes the economic resource measurement focus and accrual basis of accounting wherein revenues are recognized when earned and expenses when incurred.

Operating revenues and expenses are distinguished from nonoperating items in the Program's statement of revenues, expenses and changes in net position. Operating revenues and expenses generally result from providing services in connection with the principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating items.

Recently Issued Accounting Pronouncements

GASB Statement No. 85, *Omnibus 2017*: This statement addresses practice issues that have been identified during implementation and application of certain GASB standards and addresses a variety of topics, including issues related to blending component units, goodwill, fair value measurement and postemployment benefits. The requirements of this statement are effective for reporting periods beginning after June 15, 2017. The Program has not yet determined the potential impact, if any, that this statement could have on its financial statements.

GASB Statement No. 86 – Certain Debt Extinguishment Issues: This statement improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement is effective for periods beginning after June 15, 2017, with earlier application encouraged. The Program has not yet determined the potential impact, if any, that this statement could have on its financial statements.

State of Arkansas Construction Assistance Revolving Loan Fund Program

Notes to Financial Statements

June 30, 2017 and 2016

Cash and Cash Equivalents

The Program considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2017 and 2016, cash equivalents of \$93.1 million and \$58.5 million, respectively, consisted primarily of money market mutual funds with variable interest rates and an internal governmental investment pool administered by the State of Arkansas.

Included in cash equivalents on the Program's statement of net position is the Fees and Expenses Fund with a balance of approximately \$9.6 million and \$3.7 million at June 30, 2017 and 2016, respectively. This fund contains fees charged on loans of the Program as allowed by EPA, federal grant administration set aside funds and interest earnings of the fund. These funds may be used at the discretion of ANRC to fund expenses of the Program.

Investments

Investments are carried at fair value. Fair value is determined using quoted market prices.

Bond Issuance Premiums

Premiums on sales of bonds are capitalized and are amortized over the term of the bonds using the effective interest method. Early retirement of bonds results in the acceleration of amortization of premiums.

Financing Fees

The Program receives a 1% monthly financing fee from borrowers.

Net Position Restricted by Bond Resolution and Program Requirements

Net position restricted by bond resolution and program requirements represents funds restricted due to the specific provisions of the Program.

Income Taxes

As an essential government function of the State of Arkansas, the Program is exempt from income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law.

State of Arkansas Construction Assistance Revolving Loan Fund Program

Notes to Financial Statements

June 30, 2017 and 2016

Note 2: Deposits and Investments

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Program’s deposits may not be returned to it. The Program’s deposit policy for custodial credit risk requires compliance with the provisions of state law and bond indentures. Deposits are collateralized for those amounts exceeding federal depository insurance, typically with obligations of the U.S. Treasury, U.S. agencies or instrumentalities or municipal bonds having an aggregate market value at least equal to 105% of the amount of the deposits as directed in the State Board of Finance Cash Management of Funds Rule 2012-A.

At June 30, 2017 and 2016, \$1.5 million and \$2.1 million of the Program’s deposits (and carrying value) of \$3.6 million and \$4.6 million were exposed to custodial credit risk as follows:

<i>(In thousands)</i>	2017	2016
Uninsured and collateral held by Pledging Financial Institution agent in the Program's name	\$ <u>1,467</u>	\$ <u>2,058</u>

Investments

Arkansas statutes and the Program’s General Resolution authorizes the Program to invest in direct obligations of the U.S. government; obligations on which the principal and interest are fully guaranteed or are fully secured, insured or covered by commitments or agreements to purchase by the U.S. government; obligations of agencies and instrumentalities created by act of the United States Congress and authorized thereby to issue securities or evidence of indebtedness, regardless of guarantee of repayment by the U.S. government; obligations of political subdivisions of the United States; certain obligations issued by the State Board of Education; short-term warrants of political subdivisions of the State of Arkansas and municipalities; the sale of federal funds with a maturity of not more than one business day; demand, savings or time deposits fully insured by a federal deposit insurance agency; repurchase agreements that are fully insured by obligations of the U.S. government, any U.S. state or any political subdivision thereof; securities of, or other interest in, any open-end type investment company or investment trust registered under the Investment Company Act of 1940, and which is considered a money market fund, provided that the portfolio is limited principally to U.S. government obligations and the investment company or trust takes delivery of collateral either directly or through an authorized custodian; guaranteed investment contracts; and bank certificates of deposit.

State of Arkansas Construction Assistance Revolving Loan Fund Program

Notes to Financial Statements June 30, 2017 and 2016

At June 30, 2017 and 2016, the Program had the following investments and maturities:

(In thousands)

<u>Type</u>	<u>June 30, 2017</u>				
	<u>Fair Value</u>	<u>Maturities in Years</u>			
		<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More than 10</u>
U.S. agencies obligations	\$ 73,457	\$ 30,151	\$ 43,306	\$ -	\$ -
Money market mutual funds	58,327	58,327	-	-	-
State Treasurer Money Management Trust Fund	31,132	31,132	-	-	-
	<u>\$ 162,916</u>	<u>\$ 119,610</u>	<u>\$ 43,306</u>	<u>\$ -</u>	<u>\$ -</u>

(In thousands)

<u>Type</u>	<u>June 30, 2016</u>				
	<u>Fair Value</u>	<u>Maturities in Years</u>			
		<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More than 10</u>
U.S. Treasury obligations	\$ 15,015	\$ 15,015	\$ -	\$ -	\$ -
U.S. agencies obligations	87,492	54,353	33,139	-	-
Money market mutual funds	53,887	53,887	-	-	-
	<u>\$ 156,394</u>	<u>\$ 123,255</u>	<u>\$ 33,139</u>	<u>\$ -</u>	<u>\$ -</u>

Interest Rate Risk—As a means of limiting its exposure to fair value losses due to rising interest rates, the Program limits the maturity of investments to expected cash flow needs of the Program. The Program has also begun investing in an internal governmental investment pool administrated by the State of Arkansas which has a weighted average maturity of 25 days. The Program may request withdrawal of its funds with one business days' notice.

State of Arkansas Construction Assistance Revolving Loan Fund Program

Notes to Financial Statements

June 30, 2017 and 2016

Credit Risk—Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The Program’s investments in U.S. agencies obligations not directly guaranteed by the U.S. government were rated “Aaa” or not rated by Moody’s Investors Service and rated “AA+” or not rated by Standard & Poor’s and its investments in money market mutual funds or investments of those funds were rated “AAAm” or “AAA” by Standard & Poor’s and “Aaa-mf” or “Aaa” by Moody’s Investors Service.

Custodial Credit Risk—For an investment, custodial credit risk 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 investment or collateral securities that are in the possession of an outside party. The Program’s investment in mutual funds is not classified by custodial credit risk category, as they are not evidenced by securities in physical or book entry form.

Concentration of Credit Risk—The Program places no limit on the amount that may be invested in any one issuer. Investments of the Program (not guaranteed by the U.S. government or considered mutual funds) representing 5% or more of total investments are as follows (in thousands):

Issuer	Fair Value	Percentage
Federal Home Loan Mortgage Corporation	\$ 39,270	24%
Federal Home Loan Bank	22,012	14%
Federal National Mortgage Association	8,989	6%

Summary of Carrying Values

The carrying values of deposits and investments are included in the statements of net position as follows:

<i>(In thousands)</i>	2017	2016
Carrying value		
Deposits	\$ 3,625	\$ 4,646
Investments	162,916	156,394
	<u>\$ 166,541</u>	<u>\$ 161,040</u>

Included in the following statement of net position captions

Cash and cash equivalents	\$ 93,085	\$ 58,533
Investments - current portion	30,150	69,368
investments - restricted	43,306	33,139
	<u>\$ 166,541</u>	<u>\$ 161,040</u>

State of Arkansas Construction Assistance Revolving Loan Fund Program

Notes to Financial Statements June 30, 2017 and 2016

Note 3: Loans Receivable

The Program originates loans with Arkansas municipalities, sewer improvement districts, and water facilities boards for financing the construction of wastewater treatment facilities. The loans are payable in semi-annual installments. At June 30, 2017 and 2016, such loans had a carrying value of approximately \$241.6 million and \$235.5 million, respectively, of which approximately \$55.2 million and \$19.4 million, respectively, are for projects still under construction. The loans bear interest ranging from 0.00% to 3.75%, and are collateralized by special assessments, user charges or sales and use tax bonds issued by the municipalities, sewer improvement districts and water facilities board.

In fiscal year 2010, the Program began funding loans with American Recovery and Reinvestment Act (ARRA) federal funds. As of June 30, 2017, the Program's current loan balance of ARRA loans was \$8.5 million which was funded with ARRA and other Program funds

Through the years ended June 30, 2017 and 2016, \$734.1 million and \$640.0 million, respectively, in cumulative loans had been approved for funding. At June 30, 2017 and 2016, \$94.5 million and \$29.8 million, respectively, remained encumbered and awaiting disbursement to loan recipients.

Note 4: Bonds Payable

Bonds payable were as follows at June 30:

(In thousands)

Series	Interest Rate Range	Final Maturity Dates	2017	2016
2011-C				
Serial	3.25% - 5.00%	6/1/2028	\$ 25,485	\$ 27,890
			25,485	27,890
	Unamortized Premiums		2,185	2,655
			<u>\$ 27,670</u>	<u>\$ 30,545</u>

State of Arkansas Construction Assistance Revolving Loan Fund Program

Notes to Financial Statements

June 30, 2017 and 2016

Activity in bonds payable for 2017 was as follows:

<i>(In thousands)</i>	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due within One Year
2011-C	\$ 27,890	\$ -	\$ (2,405)	\$ 25,485	\$ 2,345
Total bonds payable	<u>\$ 27,890</u>	<u>\$ -</u>	<u>\$ (2,405)</u>	<u>\$ 25,485</u>	<u>\$ 2,345</u>

The principal amount shown above differs from the amount on the statement of net position due to unamortized premiums of approximately \$2.2 million.

Activity in bonds payable for 2016 was as follows:

<i>(In thousands)</i>	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due within One Year
2009-A	\$ 5,005	\$ -	\$ (5,005)	\$ -	\$ -
2011-C	<u>30,290</u>	<u>-</u>	<u>(2,400)</u>	<u>27,890</u>	<u>2,405</u>
Total bonds payable	<u>\$ 35,295</u>	<u>\$ -</u>	<u>\$ (7,405)</u>	<u>\$ 27,890</u>	<u>\$ 2,405</u>

The principal amount shown above differs from the amount on the statement of net position due to unamortized premiums of approximately \$2.7 million.

State of Arkansas Construction Assistance Revolving Loan Fund Program

Notes to Financial Statements

June 30, 2017 and 2016

Annual debt service requirements to maturity for bonds payable are as follows:

(In thousands)

Fiscal year ending June 30,	<u>Principal</u>	<u>Interest</u>
2018	\$ 2,345	\$ 1,197
2019	2,920	1,079
2020	2,745	933
2021	2,640	796
2022	2,525	664
2023 - 2027	11,310	1,475
2028	<u>1,000</u>	<u>35</u>
	25,485	6,179
Unamortized premiums	<u>2,185</u>	<u>-</u>
	<u>\$ 27,670</u>	<u>\$ 6,179</u>

The Program did not have any new bond issuances in current or previous fiscal years.

Note 5: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities

- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities.

State of Arkansas Construction Assistance Revolving Loan Fund Program

Notes to Financial Statements June 30, 2017 and 2016

Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2017 and 2016:

		June 30, 2017			
		Fair Value Measurements Using			
Type	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
U. S. agency obligations	\$ 73,457	\$ -	\$ 70,272	\$ 3,185	
State Treasurer Money Management Trust Fund	31,132	-	31,132	-	
Total	\$ 104,589	\$ -	\$ 101,404	\$ 3,185	

		June 30, 2016			
		Fair Value Measurements Using			
Type	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
U. S. Treasury obligations	\$ 15,015	\$ -	\$ 15,015	-	
U. S. agency obligations	87,492	-	84,277	3,215	
Total	\$ 102,507	\$ -	\$ 99,292	\$ 3,215	

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying financial statements, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the years ended June 30, 2017 or 2016.

State of Arkansas Construction Assistance Revolving Loan Fund Program

Notes to Financial Statements

June 30, 2017 and 2016

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. The Program's investments were not classified as Level 1 securities at June 30, 2017 and June 30, 2016. Level 2 securities include U.S. Government and federal agencies, the State Treasurer Money Management Trust Fund (MMTF) and U. S. Treasury Notes. If quoted market prices are not available, then fair values are estimated by an independent third-party pricing service using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. For these investments, the inputs used by the pricing service to determine fair value may include one, or a combination of observable inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data market research publications. The fair value of MMTF is calculated by the internal governmental investment pool. All these types of Program's investments are classified within Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. The Program has classified one investment as Level 3. The Program has a relationship with Agri Bank in where the Program purchases a Federal Farm Credit Bank bond. This investment is marketed only to the Program and the Program has concluded the fair market value to be equal to the par amount.

The fair value amounts in the previous table do not reflect all investments included in the amounts presented in the statement of financial position. GASB 72 provides certain exceptions for money market mutual funds.

Note 6: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Economic Dependency

The Program's federal revenue is dependent upon the amount of annual federal grants awarded and the amounts available for disbursement. The amount awarded varies from year to year and does have an impact on the Program's total revenue. For the year ended June 30, 2017 and 2016, the Program received 56% and 65%, respectively, of total revenue in the form of federal grants. As of June 30, 2017 and 2016, the Program has \$4.8 million of the Federal Fiscal Year 2016 grant and \$5.1 million of the Federal Fiscal Year 2015 grant remaining to disburse, respectively.

State of Arkansas Construction Assistance Revolving Loan Fund Program

Notes to Financial Statements

June 30, 2017 and 2016

Principal Forgiveness Loans

In the fiscal year 2013, the Program began funding principal forgiveness loans (PF) with Base federal capitalization grant funds. EPA required, as part of the Base capitalization grant requirements, that a percentage of the grant be available as subsidy to eligible borrowers. With the federal fiscal year 2010 and 2011 capitalization grant, at least 30% of the grant would be in the form of forgiveness of principal, negative interest loans or grants. The percentage was changed to be not less than 20%, but not greater than 30% of the federal fiscal year 2012 through 2014 and the 2016 grants. The 2015 grant conditions allowed up to 30% of the capitalization grant may be provided as additional subsidization consistent with the provisions provided under Water Resources Reform and Development Act. States are not required to provide a minimum amount of additional subsidization for this grant. However, the above requirement only applies to the portion of the total Base capitalization grant federal appropriation that exceeds \$1 billion. To be eligible to receive subsidy, the borrower must show either:

1. The current utility rates or proposed utility rates for 4,000 gallons of water on an annual basis are at least 1.5% of the Median Household Income (MHI) for the project area; or
2. If 51% of the customers who benefit from a project are either Low or Moderate Income as defined by the U. S. Department of Housing and Urban Developments' Community Block Grant Program then the ratio used drops to 1.25% of the MHI for the project area.
3. If the Population trend (2010 census compared to 1990 census) has declined at least 20% (the 2010 population is at least 20% lower than the 1990 population) then the ratio used drops to 1.25% of the MHI for the project area.
4. If the Unemployment figures (average of last three 5-year American Community Survey Census Bureau numbers) are 250% higher than the State's unemployment figures then the ratio used drops to 1.25% of the MHI for the project area.

State of Arkansas Construction Assistance Revolving Loan Fund Program

Notes to Financial Statements

June 30, 2017 and 2016

The chart below shows the minimum and maximum allowed for principal forgiveness loans:

(In thousands)

Federal Fiscal Year	Grant Award Amount	PF Minimum Amount	PF Maximum Amount	Cumulative Disbursements	PF Amount Remaining to Fund
2010	\$ 13,328	\$ 1,996	\$ 6,654	\$ 1,996	\$ -
2011	9,657	895	2,983	895	-
2012	9,239	513	770	513	-
2013	8,722	411	616	167	244
2014	9,165	499	748	-	499
2015	9,117	-	2,735	-	2,689
2016	8,729	873	2,619	-	873
				<u>\$ 3,571</u>	<u>\$ 4,305</u>

The Program has allocated the minimum amounts for the 2010, 2011, 2012, 2013, 2014, and 2016 Base capitalization grants as shown above. The 2015 Base capitalization grant does not have a minimum amount, but the maximum amount is \$2.7 million. The Program has allocated approximately \$2.7 million for the 2015 Base capitalization grant. The Program has the option to spend up to the maximum amount for each Base capitalization grant.

The Program forgives the loans as the construction draws are disbursed. In fiscal year 2017 and 2016, \$1.2 million and \$3,000 in principal forgiveness loans were expensed, respectively.

Contingencies

The Program is capitalized by state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustments by the grantor agencies; therefore, to the extent that the Program has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable may be impaired. In the opinion of the management of the Program, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such a contingency.

Supplementary Information

**State of Arkansas Construction Assistance
Revolving Loan Fund Program
Combining Statement of Net Position
June 30, 2017**

<i>(in thousands)</i>	Revolving Loan Fund	Fees and Expenses	Total
Current Assets			
Cash and cash equivalents	\$ 83,471	\$ 9,614	\$ 93,085
Accrued interest receivable			
Investments	228	2	230
Loans	208	-	208
Accounts Receivable			
Borrowers	-	123	123
Environmental Protection Agency	-	104	104
Investments - current portion	<u>30,150</u>	<u>-</u>	<u>30,150</u>
 Total current assets	 <u>114,057</u>	 <u>9,843</u>	 <u>123,900</u>
Noncurrent Assets			
Investments - restricted	43,306	-	43,306
Loans receivable - restricted			
Construction loans	241,136	-	241,136
Wetland mitigation	<u>153</u>	<u>334</u>	<u>487</u>
 Total noncurrent assets	 <u>284,595</u>	 <u>334</u>	 <u>284,929</u>
 Total assets	 <u>398,652</u>	 <u>10,177</u>	 <u>408,829</u>
Current Liabilities			
Accounts payable	13	196	209
Accrued interest payable	100	-	100
Bonds payable - current portion	<u>2,345</u>	<u>-</u>	<u>2,345</u>
 Total current liabilities	 <u>2,458</u>	 <u>196</u>	 <u>2,654</u>
Noncurrent Liabilities			
Bonds payable, net of unamortized premiums	<u>25,325</u>	<u>-</u>	<u>25,325</u>
 Total liabilities	 <u>27,783</u>	 <u>196</u>	 <u>27,979</u>
Net Position:			
Restricted by bond resolution and program requirements	<u>\$ 370,869</u>	<u>\$ 9,981</u>	<u>\$ 380,850</u>

**State of Arkansas Construction Assistance
Revolving Loan Fund Program**
Combining Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2017

<i>(in thousands)</i>	Revolving Loan Fund	Fees and Expenses	Total
Operating Revenues			
Interest on investments	\$ 1,270	\$ 54	\$ 1,324
Interest on loans	4,037	-	4,037
Financing fee income	-	2,365	2,365
Net depreciation of investments	<u>(554)</u>	<u>(3)</u>	<u>(557)</u>
 Total operating revenues	 <u>4,753</u>	 <u>2,416</u>	 <u>7,169</u>
Operating Expenses			
Program administration	-	254	254
Federal financial assistance			
Base	1,210	-	1,210
Bond interest	1,307	-	1,307
Amortization of bond premiums	<u>(470)</u>	<u>-</u>	<u>(470)</u>
 Total operating expenses	 <u>2,047</u>	 <u>254</u>	 <u>2,301</u>
 Operating Income	 <u>2,706</u>	 <u>2,162</u>	 <u>4,868</u>
Nonoperating Revenues			
Base federal grants	<u>8,696</u>	<u>435</u>	<u>9,131</u>
Income Before Transfers In (Out), Net	11,402	2,597	13,999
 Transfers In (Out), Net	 <u>1,732</u>	 <u>(1,109)</u>	 <u>623</u>
 Change in Net Position	 13,134	 1,488	 14,622
 Net Position, Beginning of year	 <u>357,735</u>	 <u>8,493</u>	 <u>366,228</u>
 Net Position, End of year	 <u>\$ 370,869</u>	 <u>\$ 9,981</u>	 <u>\$ 380,850</u>

**State of Arkansas Construction Assistance
Revolving Loan Fund Program
Combining Statement of Cash Flows
Year Ended June 30, 2017**

(in thousands)

	Revolving Loan Fund	Fees and Expenses	Total
Operating Activities			
Financing fee income received	\$ -	\$ 2,384	\$ 2,384
Cash received (paid) for program administration	<u>8</u>	<u>(248)</u>	<u>(240)</u>
Net cash provided by operating activities	<u>8</u>	<u>2,136</u>	<u>2,144</u>
Noncapital Financing Activities			
Repayment of long-term debt	(2,405)	-	(2,405)
Cash paid for interest	(1,317)	-	(1,317)
Transfers in (out)	1,732	(1,109)	623
Nonoperating grants received	<u>8,697</u>	<u>330</u>	<u>9,027</u>
Net cash provided by (used in) noncapital financing activities	<u>6,707</u>	<u>(779)</u>	<u>5,928</u>
Investing Activities			
Interest received on investments	1,173	63	1,236
Interest received on loans	4,057	-	4,057
Purchase of investments	(41,456)	-	(41,456)
Proceeds from maturities of investments	65,946	4,002	69,948
Loan disbursements	(29,511)	-	(29,511)
Principal repayments on loans	22,970	446	23,416
Federal grant funds expended	<u>(1,210)</u>	<u>-</u>	<u>(1,210)</u>
Net cash provided by investing activities	<u>21,969</u>	<u>4,511</u>	<u>26,480</u>
Increase in Cash and Cash Equivalents	28,684	5,868	34,552
Cash and Cash Equivalents, Beginning of Year	<u>54,787</u>	<u>3,746</u>	<u>58,533</u>
Cash and Cash Equivalents, End of Year	<u>\$ 83,471</u>	<u>\$ 9,614</u>	<u>\$ 93,085</u>

**State of Arkansas Construction Assistance
Revolving Loan Fund Program**

**Combining Statement of Cash Flows (Continued)
Year Ended June 30, 2017**

<i>(in thousands)</i>	Revolving Loan Fund	Fees and Expenses	Total
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating income	\$ 2,706	\$ 2,162	\$ 4,868
Items not requiring (providing) operating activities cash flows			
Interest on investments	(1,270)	(54)	(1,324)
Interest on loans	(4,037)	-	(4,037)
Bond interest	1,307	-	1,307
Amortization of bond premiums	(470)	-	(470)
Net depreciation of investments	554	3	557
Federal grants expended	1,210	-	1,210
Changes in			
Account receivable - borrowers	-	19	19
Accounts payable	8	6	14
	<u>8</u>	<u>2,136</u>	<u>2,144</u>
Net cash provided by operating activities	<u>\$ 8</u>	<u>\$ 2,136</u>	<u>\$ 2,144</u>