

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

Accountants' Report and Financial Statements

June 30, 2005 and 2004



**State of Arkansas Construction Assistance  
Revolving Loan Fund Program  
June 30, 2005 and 2004**

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## **Independent Accountants' Report on Financial Statements and Supplementary Information**

The Commissioners of the Arkansas Soil and Water  
Conservation Commission ("ASWCC")

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

We have audited the accompanying statements of net assets of the State of Arkansas Construction Assistance Revolving Loan Fund Program (the "Program") as of June 30, 2005 and 2004, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Program's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in *Note 1*, the financial statements of the Program are intended to present the financial position, and the results of its operations and cash flows, where applicable, of only that portion of the business-type activities of the State of Arkansas (the "State") that is attributable to the transactions of the Program. They do not purport to, and do not, present fairly the financial position of the State as of June 30, 2005 and 2004, and the changes in its financial position and its cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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, 2005 and 2004, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2005, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Commissioners of the Arkansas Soil and Water  
Conservation Commission (“ASWCC”)

The Board of Directors of  
Arkansas Development Finance Authority (“ADFA”)  
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The accompanying management’s discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

/s/ **BKD, LLP**

August 31, 2005

# State of Arkansas Construction Assistance Revolving Loan Fund Program Management's Discussion and Analysis

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 basic financial statements include three required statements: the statement of net assets, the statement of revenues, expenses and changes in net assets and the statement of cash flows. Comparative totals as of and for the years ended June 30, 2004 and 2003, 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 year. Additional information, following the Notes to Financial Statements includes the combining statement of net assets, the combining statement of revenues, expenses and changes in net assets 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 – Statement of Net Assets**

*(In thousands)*

	<b>2005</b>	<b>2004</b>	<b>2003</b>
Total assets	\$ <u>295,522</u>	\$ <u>282,981</u>	\$ <u>282,437</u>
Current liabilities	5,589	5,539	5,782
Noncurrent liabilities	<u>85,785</u>	<u>91,013</u>	<u>99,650</u>
Total liabilities	<u>91,374</u>	<u>96,552</u>	<u>105,432</u>
Total net assets – restricted for program requirements	\$ <u>204,148</u>	\$ <u>186,429</u>	\$ <u>177,005</u>

The program's total assets increased in the past three years by \$13.1 million. In fiscal year 2005, investments increased \$44.0 million due to purchases of securities totaling \$54.8 million, which is offset by investment maturities of \$10.8 million. Cash and cash equivalents decreased \$34.9 million, attributable to the investment purchases, offset primarily by federal grant revenue receipts and net loan activity. In fiscal year 2004, investments increased \$5.4 million due to the purchase of securities totaling \$6.4 million offset by maturities of \$878 thousand. Loans receivable has fluctuated over the past three years.

## State of Arkansas Construction Assistance Revolving Loan Fund Program Management's Discussion and Analysis

The Program is continually making loans from federal and state matching funds. The following table reports loan activity for each year (In thousands).

	<b>2005</b>	<b>2004</b>	<b>2003</b>
Construction draws (loan fundings)	\$ 16,159	\$ 9,234	\$ 11,397
Loan repayments	<u>12,978</u>	<u>16,035</u>	* <u>12,959</u>
Net increase (decrease) in loans receivable	\$ <u><u>3,181</u></u>	\$ <u><u>(6,801)</u></u>	\$ <u><u>1,562</u></u>

\* Includes repayment from the Nature Conservancy totaling \$5.3 million.

Grants from the United States Environmental Protection Agency ("EPA") comprised a majority of the loans funded during each year. The construction period is typically two years for these loans.

The Program's total liabilities decreased 5.4% to \$91.4 million at June 30, 2005, from \$96.6 million at June 30, 2004, which reflected an 8.4% decrease from the balance of \$105.4 million at June 30, 2003. In fiscal year 2005, the decrease is primarily attributed to scheduled bond redemptions of \$4.6 million. In fiscal year 2004, the Program redeemed \$39.2 million in bonds during the year through the issuance of \$35.9 million in refunding bonds, in addition to scheduled redemptions and bond calls of \$4.2 million.

**State of Arkansas Construction Assistance  
Revolving Loan Fund Program  
Management's Discussion and Analysis**

**Condensed Financial Information – Statement of Revenues, Expenses and Changes in Net Assets**

(In thousands)

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Total investment income	\$ <u>9,498</u>	\$ <u>8,324</u>	\$ <u>9,109</u>
Total operating revenues	<u>9,498</u>	<u>8,324</u>	<u>9,109</u>
Total interest on bonds and notes	4,240	5,042	5,235
Total amortization expense	154	248	281
Administrative expense	<u>274</u>	<u>266</u>	<u>292</u>
Total operating expenses	<u>4,668</u>	<u>5,556</u>	<u>5,808</u>
Operating income	4,830	2,768	3,301
Transfers out	(867)	(808)	(765)
Federal grants	<u>13,756</u>	<u>7,464</u>	<u>9,522</u>
Change in net assets	17,719	9,424	12,058
Net assets			
Beginning of year	<u>186,429</u>	<u>177,005</u>	<u>164,947</u>
End of year	<u>\$ 204,148</u>	<u>\$ 186,429</u>	<u>\$ 177,005</u>

Operating revenue and federal grants totaled \$23.3 million, \$15.8 million and \$18.6 million for fiscal years ended June 30, 2005, 2004 and 2003, respectively. Total operating revenue has fluctuated in the past three years. In fiscal year 2005, the change of \$7.5 million is primarily attributed to the increase in federal grants of \$6.3 million as well as an increase in investment income of \$1.2 million. In comparison, fiscal year 2004 had a decline in operating revenue due to a decrease in federal grants of \$2.1 million and a decrease of \$785 thousand in investment income. Revenues from investments were \$2.3 million, \$972 thousand and \$1.9 million for fiscal years ending June 30, 2005, 2004 and 2003, respectively. The average return on cash, cash equivalents and investments was 2.17%, 1.30% and 2.20% for years ending June 30, 2005, 2004 and 2003, respectively. The Program maintains liquidity to fund projects as needed.

Operating expenses and transfers out have continually declined over the past three years. Operating expenses and transfers out declined by \$829 thousand during 2005 and \$209 thousand during 2004. This is primarily attributed to the decline in interest on bonds, due to the 2004 bond refunding and bond redemptions during the current year. Program administration expenses totaled \$274 thousand, \$266 thousand and \$292 thousand for the fiscal years ended June 30, 2005, 2004 and 2003, respectively. These expenses included amounts paid for audit expense, trustee fees and the administrative fee to the Arkansas Development Finance Authority. The transfers out

# **State of Arkansas Construction Assistance Revolving Loan Fund Program Management's Discussion and Analysis**

represented the administrative fee paid to the Arkansas Soil and Water Conservation Commission for administering the Program. The funding source for the administrative fee is four percent (4%) of the EPA capitalization grant along with funds from the Fees and Expense Fund.

The net assets of the Program increased \$27.1 million in the past three years. The bond resolution and the Program restrict all of the net assets.

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 ASWCC Water Development Division Chief at (501) 682-1611.



**State of Arkansas Construction Assistance  
Revolving Loan Fund Program  
Statements of Net Assets  
June 30, 2005 and 2004**

*In thousands*

	<b>2005</b>	<b>2004</b>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 42,467	\$ 77,369
Accrued interest receivable		
Investments	399	204
Loans	233	224
Accounts receivable		
Borrowers	73	68
Environmental Protection Agency	210	66
Total current assets	43,382	77,931
<b>Noncurrent Assets</b>		
Investments – restricted	62,281	18,233
Loans receivable – restricted		
Construction	188,668	184,310
Nature Conservancy	—	1,177
Wetlands Mitigation	200	200
Other assets	991	1,130
Total noncurrent assets	252,140	205,050
Total assets	295,522	282,981
<b>Current Liabilities</b>		
Accounts payable	289	438
Accrued interest payable	345	481
Bonds payable - current portion	4,955	4,620
Total current liabilities	5,589	5,539
<b>Noncurrent Liabilities</b>		
Deferred fees	2,084	2,386
Bonds payable, net of unamortized premiums (discounts)	83,701	88,627
Total noncurrent liabilities	85,785	91,013
Total liabilities	91,374	96,552
<b>Net Assets</b>		
Restricted for program requirements	\$ 204,148	\$ 186,429

**State of Arkansas Construction Assistance  
Revolving Loan Fund Program**  
Statements of Revenues, Expenses and Changes in Net Assets  
Years Ended June 30, 2005 and 2004

*In thousands*

	2005	2004
<b>Operating Revenues</b>		
Interest on investments	\$ 2,282	\$ 972
Interest on loans	5,315	5,539
Financing fees	1,909	1,928
Net decrease in the fair value of investments	(8)	(115)
Total operating revenues	9,498	8,324
<b>Operating Expenses</b>		
Program administration	274	266
Bond interest	4,240	5,042
Amortization of bond issuance costs	124	123
Amortization of bond discounts and premiums	30	125
Total operating expenses	4,668	5,556
<b>Operating Income</b>	4,830	2,768
<b>Nonoperating Revenue</b>		
Federal grants	13,756	7,464
<b>Income Before Transfers Out</b>	18,586	10,232
<b>Transfers Out</b>	(867)	(808)
<b>Change in Net Assets</b>	17,719	9,424
<b>Net Assets, Beginning of Year</b>	186,429	177,005
<b>Net Assets, End of Year</b>	\$ 204,148	\$ 186,429

**State of Arkansas Construction Assistance  
Revolving Loan Fund Program  
Statements of Cash Flows  
Years Ended June 30, 2005 and 2004**

*In thousands*

	<b>2005</b>	<b>2004</b>
<b>Operating Activities</b>		
Interest received on investments	\$ 2,023	\$ 1,180
Interest received on loans	5,306	5,601
Financing fee income received	1,603	1,585
Loan disbursements	(16,159)	(9,234)
Principal repayments on loans	12,978	16,035
Cash paid for interest	(4,377)	(5,030)
Cash paid for program administration	(265)	(299)
Cash paid for arbitrage rebate	(79)	(16)
	<u>1,030</u>	<u>9,822</u>
<b>Net cash provided by operating activities</b>		
<b>Noncapital Financing Activities</b>		
Proceeds from bond issuance	—	37,521
Repayment of long-term debt	(4,620)	(45,999)
Transfers out	(867)	(808)
Nonoperating grants received	13,613	7,397
Cash paid for bond issuance costs	—	(503)
	<u>8,126</u>	<u>(2,392)</u>
<b>Net cash provided by (used in) noncapital financing activities</b>		
<b>Investing Activities</b>		
Proceeds from maturities of investments	10,725	878
Purchase of investments	(54,783)	(6,415)
	<u>(44,058)</u>	<u>(5,537)</u>
<b>Net cash used in investing activities</b>		
<b>(Decrease) Increase in Cash and Cash Equivalents</b>	(34,902)	1,893
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>77,369</u>	<u>75,476</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 42,467</u>	<u>\$ 77,369</u>

**State of Arkansas Construction Assistance  
Revolving Loan Fund Program  
Statements of Cash Flows (Continued)  
Years Ended June 30, 2005 and 2004**

*In thousands*

	<b>2005</b>	<b>2004</b>
<b>Reconciliation of Operating Income to Net Cash Provided By Operating Activities</b>		
Operating income	\$ 4,830	\$ 2,768
Adjustments to reconcile net income to net cash provided by operating activities		
Accrued interest paid on new bond issuance	—	(45)
Premium paid on bond redemption	—	18
Items not requiring (providing) operating activities cash flows		
Amortization of bond issuance costs	124	123
Amortization of bond discounts and premiums	30	107
Amortization of deferred financing fees	(302)	(350)
Net depreciation of investments	8	115
Changes in		
Accrued interest receivable		
Investments	(195)	(11)
Loans	(9)	61
Accounts receivable	(5)	7
Loans receivable	(3,181)	6,802
Accounts payable	(149)	150
Accrued interest payable	(137)	57
Other assets	16	20
Net cash provided by operating activities	\$ 1,030	\$ 9,822

# State of Arkansas Construction Assistance Revolving Loan Fund Program

## Notes to Financial Statements

June 30, 2005 and 2004

### 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") 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 and state matching funds on a ratio of five federal dollars to one state dollar.

As of July 2001, Arkansas Soil and Water Conservation Commission ("ASWCC") became the lead agency for the Program (previously led by Arkansas Department of Environmental Quality). As lead agency, ASWCC is responsible for performing technical project reviews, monitoring construction, and coordinating the total management of the Program. Effective August 12, 2005, ASWCC will be known as the Arkansas Natural Resources Commission by Act 1243 of 2005. This is not expected to have 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 auditing services. ADFA is reimbursed for Program administration costs through a calculation based on loans outstanding in accordance with the interagency agreement with ASWCC. The amounts paid to ADFA for administration costs for the years ending June 30, 2005 and 2004 were \$189 thousand and \$186 thousand, respectively.

The Arkansas Agriculture Water Quality Loan Program ("AAWQLP") is accounted for within the Program. Under the AAWQLP, ASWCC establishes noninterest bearing cash accounts with local banks from which the farmers or other property owners have obtained loans to install water quality, anti-pollution equipment. Interest income that would normally be earned on these balances at the local banks is used to reduce the interest rates applicable to the loans obtained by the farmers or other property owners.

#### *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.

#### *Accounting Method*

The Program utilizes the proprietary fund method of accounting whereby operating revenues and expenses are distinguished from nonoperating items. 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. All revenues and

# State of Arkansas Construction Assistance Revolving Loan Fund Program

## Notes to Financial Statements

June 30, 2005 and 2004

expenses are recognized on the accrual basis. Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Program has elected not to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989, unless the GASB specifically adopts such FASB Statements or Interpretations. The Program first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

### **Cash Equivalents**

The Program considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2005 and 2004, cash equivalents of \$42.5 million and \$77.3 million, respectively, consisted primarily of money market mutual funds with variable interest rates.

Included in cash equivalents on the Program's balance sheet is the Fees and Expenses Fund with a balance of approximately \$4.4 million and \$4.3 million at June 30, 2005 and 2004, respectively. This account contains fees charged on loans of the Program, as allowed by the Environmental Protection Agency ("EPA"). These funds may be used at the discretion of ASWCC to fund expenses of the Program.

### **Investments**

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

### **Bond Issuance Costs and Discounts and Premiums**

Costs related to issuing bonds and discounts and premiums on sales of bonds are capitalized and are amortized over the term of the bonds based on the balance of bonds outstanding. Early retirement of bonds results in proportionate amounts of amortization of bond issuance costs and discounts and premiums.

### **Financing Fees**

The Program receives monthly financing fees from borrowers. Prior to 2000, the Program charged closing fees that were deferred and are currently being amortized into income ratably over the terms of the bonds outstanding.

### **Net Assets Restricted by Bond Resolution and Program**

Represents funds restricted due to the specific provisions of the Program.

# State of Arkansas Construction Assistance Revolving Loan Fund Program

## Notes to Financial Statements

June 30, 2005 and 2004

### **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.

### **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 value at least equal to the amount of the deposits.

At June 30, 2005 and 2004, respectively, \$7.5 million and \$5.0 million of the Authority's deposits of \$9.9 million and \$5.2 million were exposed to custodial credit risk as follows:

<i>In thousands</i>	<b>2005</b>	<b>2004</b>
Uninsured and uncollateralized	\$ 125	\$ 50
Uninsured and collateral held by pledging financial institution	<u>7,339</u>	<u>4,923</u>
Total	<u>\$ 7,464</u>	<u>\$ 4,973</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; and bank certificates of deposit.

**State of Arkansas Construction Assistance  
Revolving Loan Fund Program  
Notes to Financial Statements  
June 30, 2005 and 2004**

At June 30, 2005 and 2004, the Program had the following investments and maturities:

*In thousands*

Type	June 30, 2005				
	Fair Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
U.S. Treasury obligations	\$ 2,624	\$ —	\$ —	\$ 2,624	\$ —
U.S. agencies obligations	50,264	44,735	5,529	—	—
Money market mutual funds	32,563	32,563	—	—	—
Guaranteed investment contracts	6,513	—	—	3,640	2,873
Municipal bonds	<u>2,880</u>	<u>—</u>	<u>2,880</u>	<u>—</u>	<u>—</u>
	<u>\$ 94,844</u>	<u>\$ 77,298</u>	<u>\$ 8,409</u>	<u>\$ 6,264</u>	<u>\$ 2,873</u>

  

Type	June 30, 2004				
	Fair Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
U.S. Treasury obligations	\$ 2,499	\$ —	\$ —	\$ 2,499	\$ —
U.S. agencies obligations	5,576	—	5,576	—	—
Money market mutual funds	72,196	72,196	—	—	—
Guaranteed investment contracts	6,513	—	—	2,074	4,439
Municipal bonds	<u>3,645</u>	<u>—</u>	<u>3,645</u>	<u>—</u>	<u>—</u>
	<u>\$ 90,429</u>	<u>\$ 72,196</u>	<u>\$ 9,221</u>	<u>\$ 4,573</u>	<u>\$ 4,439</u>

*Interest Rate Risk* - As a means of limiting its exposure to fair value losses arising from rising interest rates, the Program's investments typically match the term of the corresponding bonds or limits the maturity to expected cash flow needs of the Program. The money market mutual funds are presented as an investment with a maturity of less than one year because they are redeemable in full immediately.

*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" by Standard & Poor's and its investments in



**State of Arkansas Construction Assistance  
Revolving Loan Fund Program  
Notes to Financial Statements  
June 30, 2005 and 2004**

money market mutual funds were rated “AAAm” by Standard & Poor’s and “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 and guaranteed investment contracts are 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 five percent or more of total investments are as follows (in thousands):

<u>Issuer</u>	<u>Fair Value</u>	<u>Percentage</u>
Federal Home Loan Mortgage Corporation	\$12,007	13%
Federal National Mortgage Association	30,330	32%
Federal Home Loan Bank	7,928	8%

**Summary of Carrying Values**

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

<i>In thousands</i>	<u>2005</u>	<u>2004</u>
Carrying value		
Deposits	\$ 9,904	\$ 5,173
Investments	<u>94,844</u>	<u>90,429</u>
	<u>\$ 104,748</u>	<u>\$ 95,602</u>
Included in the following statement of net assets captions		
Cash and cash equivalents	\$ 42,467	\$ 77,369
Investments – restricted	<u>62,281</u>	<u>18,233</u>
	<u>\$ 104,748</u>	<u>\$ 95,602</u>

**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, 2005 and 2004, such loans had a carrying value of approximately \$188.9 million and \$185.7 million, respectively, of which approximately \$42.1 million and \$22.0 million, respectively, are for projects still under construction. The loans

**State of Arkansas Construction Assistance  
Revolving Loan Fund Program  
Notes to Financial Statements  
June 30, 2005 and 2004**

bear interest ranging from 2.25% to 4.0%, and are collateralized by special assessments, by user charges, or by sales and use tax bonds issued by the municipalities, sewer improvement districts, and water facilities board.

Through the years ended June 30, 2005 and 2004, \$331.4 million and \$313.2 million, respectively, in cumulative loans had been approved for funding. At June 30, 2005 and 2004, \$43.7 million and \$49.1 million, respectively, remained encumbered and awaiting disbursement to loan recipients.

**Note 4: Bonds Payable**

Bonds payable are as follows at June 30:

<i>In thousands</i>				
Series	Interest Rate Range	Final Maturity Dates	2005	2004
1995-A				
Serial	5.10% - 5.30%	12/1/2007	\$ 1,600	\$ 2,170
1996-A				
Serial	5.00% - 5.20%	12/1/2006	1,020	1,640
1999-A				
Serial	3.70% - 4.60%	12/1/2013	7,290	7,950
Term 1	4.88%	6/1/2017	4,170	4,170
Term 2	5.00%	6/1/2022	6,155	6,155
2001-A				
Serial	4.00% - 5.50%	12/1/2017	20,360	21,125
Term 1	5.50%	12/1/2013	3,170	3,170
Term 2	5.50%	12/1/2014	3,360	3,360
Term 3	5.50%	12/1/2015	4,840	4,840
Term 4	5.50%	12/1/2018	1,750	1,750
Term 5	5.50%	12/1/2019	1,345	1,345
2004-A				
Serial	2.00% - 5.00%	6/1/2015	25,200	27,205
Term 1	5.00%	12/1/2012	3,435	3,435
Term 2	5.00%	12/1/2013	3,290	3,290
Term 3	5.00%	12/1/2014	1,925	1,925
			88,910	93,530
	Unamortized discounts and premiums		(254)	(283)
			\$ 88,656	\$ 93,247

**State of Arkansas Construction Assistance  
Revolving Loan Fund Program  
Notes to Financial Statements  
June 30, 2005 and 2004**

Activity in bonds payable for 2005 was as follows:

<i>In thousands</i>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Amount Due within One Year</b>
1995-A	\$ 2,170	\$ —	\$ (570)	\$ 1,600	\$ 610
1996-A	1,640	—	(620)	1,020	670
1999-A	18,275	—	(660)	17,615	700
2001-A	35,590	—	(765)	34,825	805
2004-A	<u>35,855</u>	<u>—</u>	<u>(2,005)</u>	<u>33,850</u>	<u>2,170</u>
Total bonds payable	<u>\$ 93,530</u>	<u>\$ 0</u>	<u>\$ (4,620)</u>	<u>\$ 88,910</u>	<u>\$ 4,955</u>

Activity in bonds payable for 2004 was as follows:

<i>In thousands</i>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Amount Due within One Year</b>
1993-A	\$ 2,950	\$ —	\$ (2,950)	\$ —	\$ —
1993-B	40,185	—	(40,185)	—	—
1995-A	2,700	—	(530)	2,170	570
1996-A	2,225	—	(585)	1,640	620
1999-A	18,905	—	(630)	18,275	660
2001-A	36,310	—	(720)	35,590	765
2004-A	<u>—</u>	<u>35,855</u>	<u>—</u>	<u>35,855</u>	<u>2,005</u>
Total bonds payable	<u>\$ 103,275</u>	<u>\$ 35,855</u>	<u>\$ (45,600)</u>	<u>\$ 93,530</u>	<u>\$ 4,620</u>

The principal amount shown above differs from the amount on the balance sheet due to unamortized discounts and premiums of approximately \$254 thousand.

**State of Arkansas Construction Assistance  
Revolving Loan Fund Program  
Notes to Financial Statements  
June 30, 2005 and 2004**

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

<i>In thousands</i>	<b>Principal</b>	<b>Interest</b>
Year ending June 30, 2006	\$ 4,955	\$ 4,093
2007	5,180	3,893
2008	5,810	3,678
2009	6,525	3,426
2010	6,850	3,146
2011 – 2015	40,540	10,987
2016 – 2020	16,890	2,556
2021 – 2029	2,160	152
	88,910	31,931
Unamortized discounts and premiums	(254)	—
	<b>\$ 88,656</b>	<b>\$ 31,931</b>

In 2004, the Program defeased its outstanding 1993-B bonds in the total principal amount of \$38.2 million. Proceeds from the bonds were deposited in trust under an escrow agreement sufficient in amount to pay the principal, interest and redemption premiums on the defeased bonds on June 1, 2004. This advance refunding transaction resulted in an extinguishment of debt since the Program was legally released from its obligation on the 1993-B bonds at the time of the defeasance. This resulted in a net present value benefit of \$2.2 million for the Program.

***Defeasances***

In years prior to 2004, the Program defeased certain bonds by placing proceeds of new bonds in irrevocable trusts to provide for all future debt service payments of old bonds. Accordingly, those trust account assets and the liability for the defeased bonds are not included in these financial statements. Bonds with total outstanding amounts of approximately \$14.0 million and \$23.8 million were considered defeased at June 30, 2005 and 2004, respectively.

**Note 5: 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 is economically dependent upon revenue from the Environmental Protection Agency. During 2005 and 2004, the Program received 59% and 47%, respectively, of total revenue in the form of federal grants.

**State of Arkansas Construction Assistance  
Revolving Loan Fund Program  
Notes to Financial Statements  
June 30, 2005 and 2004**

***Contingency***

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 collectibility of any related receivable at June 30, 2005 and 2004, 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 Assets  
June 30, 2005**

<i>In thousands</i>	<u>Revolving Loan Fund</u>	<u>Fees and Expenses</u>	<u>Total</u>
<b>Current Assets</b>			
Cash and cash equivalents	\$ 38,065	\$ 4,402	\$ 42,467
Accrued interest receivable			
Investments	327	72	399
Loans	233	—	233
Accounts receivable			
Borrowers	—	73	73
Environmental Protection Agency	—	210	210
Total current assets	<u>38,625</u>	<u>4,757</u>	<u>43,382</u>
<b>Noncurrent Assets</b>			
Investments – restricted	56,752	5,529	62,281
Loans receivable – restricted			
Construction	188,668	—	188,668
Wetlands Mitigation	200	—	200
Other assets	991	—	991
Total noncurrent assets	<u>246,611</u>	<u>5,529</u>	<u>252,140</u>
Total assets	<u>285,236</u>	<u>10,286</u>	<u>295,522</u>
<b>Current Liabilities</b>			
Accounts payable	100	189	289
Accrued interest payable	345	—	345
Bonds payable - current portion	4,955	—	4,955
Total current liabilities	<u>5,400</u>	<u>189</u>	<u>5,589</u>
<b>Noncurrent Liabilities</b>			
Deferred fees	155	1,929	2,084
Bonds payable, net of unamortized premiums (discounts)	83,701	—	83,701
Total noncurrent liabilities	<u>83,856</u>	<u>1,929</u>	<u>85,785</u>
Total liabilities	<u>89,256</u>	<u>2,118</u>	<u>91,374</u>
<b>Net Assets</b>			
Restricted for program requirements	\$ <u>195,980</u>	\$ <u>8,168</u>	\$ <u>204,148</u>

**State of Arkansas Construction Assistance  
Revolving Loan Fund Program**  
Combining Statement of Revenues, Expenses and Changes in Net Assets  
Year Ended June 30, 2005

<i>In thousands</i>	<b>Revolving Loan Fund</b>	<b>Fees and Expenses</b>	<b>Total</b>
<b>Operating Revenues</b>			
Interest on investments	\$ 1,998	\$ 284	\$ 2,282
Interest on loans	5,315	—	5,315
Financing fees	38	1,871	1,909
Net increase (decrease) in the fair value of investments	<u>39</u>	<u>(47)</u>	<u>(8)</u>
Total operating revenues	<u>7,390</u>	<u>2,108</u>	<u>9,498</u>
<b>Operating Expenses</b>			
Program administration	15	259	274
Bond interest	4,240	—	4,240
Amortization of bond issuance costs	124	—	124
Amortization of bond discounts and premiums	<u>30</u>	<u>—</u>	<u>30</u>
Total operating expenses	<u>4,409</u>	<u>259</u>	<u>4,668</u>
<b>Operating Income</b>	2,981	1,849	4,830
<b>Nonoperating Revenue</b>			
Federal grants	<u>13,264</u>	<u>492</u>	<u>13,756</u>
<b>Income Before Transfers Out</b>	16,245	2,341	18,586
<b>Transfers In (Out)</b>	<u>1,000</u>	<u>(1,867)</u>	<u>(867)</u>
<b>Change in Net Assets</b>	17,245	474	17,719
<b>Net Assets, Beginning of Year</b>	<u>178,735</u>	<u>7,694</u>	<u>186,429</u>
<b>Net Assets, End of Year</b>	<u>\$ 195,980</u>	<u>\$ 8,168</u>	<u>\$ 204,148</u>



**State of Arkansas Construction Assistance  
Revolving Loan Fund Program  
Combining Statement of Cash Flows  
Year Ended June 30, 2005**

<i>In thousands</i>	<b>Revolving Loan Fund</b>	<b>Fees and Expenses</b>	<b>Total</b>
<b>Operating Activities</b>			
Interest received on investments	\$ 1,747	\$ 276	\$ 2,023
Interest received on loans	5,306	—	5,306
Financing fee income received	—	1,603	1,603
Loan disbursements	(16,159)	—	(16,159)
Principal repayments on loans	12,978	—	12,978
Cash paid for interest	(4,377)	—	(4,377)
Cash paid for program administration	(5)	(260)	(265)
Cash paid for arbitrage rebate	(79)	—	(79)
	<u>(589)</u>	<u>1,619</u>	<u>1,030</u>
Net cash (used in) provided by operating activities			
<b>Noncapital Financing Activities</b>			
Repayment of long-term debt	(4,620)	—	(4,620)
Transfers in (out)	1,000	(1,867)	(867)
Nonoperating grants received	13,264	349	13,613
	<u>9,644</u>	<u>(1,518)</u>	<u>8,126</u>
Net cash provided by (used in) noncapital financing activities			
<b>Investing Activities</b>			
Proceeds from maturities of investments	10,725	—	10,725
Purchase of investments	(54,783)	—	(54,783)
	<u>(44,058)</u>	<u>0</u>	<u>(44,058)</u>
Net cash used in investing activities			
<b>(Decrease) Increase in Cash and Cash Equivalents</b>	(35,003)	101	(34,902)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>73,068</u>	<u>4,301</u>	<u>77,369</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 38,065</u>	<u>\$ 4,402</u>	<u>\$ 42,467</u>

**State of Arkansas Construction Assistance  
Revolving Loan Fund Program  
Combining Statement of Cash Flows (Continued)  
Year Ended June 30, 2005**

<i>In thousands</i>	<u>Revolving Loan Fund</u>	<u>Fees and Expenses</u>	<u>Total</u>
<b>Reconciliation of Operating Income to Net Cash Provided By Operating Activities</b>			
Operating income	\$ 2,981	\$ 1,849	\$ 4,830
Items not requiring (providing) operating activities cash flows			
Amortization of bond issuance costs	124	—	124
Amortization of bond discounts and premiums	30	—	30
Amortization of deferred financing fees	(38)	(264)	(302)
Net appreciation (depreciation) of investments	(39)	47	8
Changes in			
Accrued interest receivable			
Investments	(188)	(7)	(195)
Loans	(9)	—	(9)
Accounts receivable	—	(5)	(5)
Loans receivable	(3,181)	—	(3,181)
Accounts payable	(148)	(1)	(149)
Accrued interest payable	(137)	—	(137)
Other assets	<u>16</u>	<u>—</u>	<u>16</u>
Net cash (used in) provided by operating activities	<u>\$ (589)</u>	<u>\$ 1,619</u>	<u>\$ 1,030</u>