

State of Arkansas Construction Assistance Revolving Loan Fund Program

Accountants' Report and Financial Statements

June 30, 2003 and 2002



**State of Arkansas Construction Assistance
Revolving Loan Fund Program
June 30, 2003 and 2002**

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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 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 year ended June 30, 2002, are also presented. 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 prior fiscal year. Additional information, following the Notes to the Combined 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, which comprise the Program.

Condensed Financial Information – Statement of Net Assets *(In thousands)*

	2003	2003
Total assets	\$ <u>282,437</u>	\$ <u>275,422</u>
Current liabilities	5,782	5,571
Noncurrent liabilities	<u>99,650</u>	<u>104,904</u>
Total liabilities	<u>105,432</u>	<u>110,475</u>
Total net assets – restricted for program requirements	\$ <u>177,005</u>	\$ <u>164,947</u>

The program's total assets increased 2.5% to \$282.4 million, from \$275.4 million at June 30, 2002. The increase in the cash balance of \$15.7 million comprised the most significant change during the year. Included in the increasing cash balance were the calls or maturities of investments totaling \$10.5 million, which remained as cash at year-end. The loan balance remained relatively constant during the year due to the loan repayments offsetting loan fundings. The Program funded \$915 thousand of the \$4.2 million in new loans approved during the year as well as \$10.4 million related to existing loans, which was offset by the payments received on loans during the year of \$13.0 million. Environmental Protection Agency ("EPA") grants comprise 75.6% of the \$11.4 million in loans funded during the year. The Program issued loans to various cities across the State of Arkansas, for which the construction period is typically two years.

The Program's total liabilities decreased 4.6% to \$105.4 million, from \$110.5 million at June 30, 2002. The decrease is primarily attributed to scheduled bond redemptions of \$4.8 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>2003</u>	<u>2002</u>
Total investment income	\$ 9,109	\$ 10,230
Other income	<u>—</u>	<u>—</u>
Total operating revenues	9,109	10,230
Total interest on bonds and notes	5,235	5,492
Total amortization expense	281	286
Administrative expense	<u>292</u>	<u>502</u>
Total operating expenses	<u>5,808</u>	<u>6,280</u>
Operating income	3,301	3,950
Transfers out	(765)	(751)
Federal grants	<u>9,522</u>	<u>15,836</u>
Change in net assets	12,058	19,035
Net Assets		
Beginning of year	<u>164,947</u>	<u>145,912</u>
End of year	\$ <u>177,005</u>	\$ <u>164,947</u>

Operating revenue and federal grants totaled \$18.6 million and \$26.1 million for fiscal years ended June 30, 2003 and June 30, 2002, respectively. The change of \$7.5 million is primarily attributed to the decline in the federal grants of \$6.3 million as well as a decrease in investment income of \$1.5 million. Revenues from investments were \$1.9 million and \$3.4 million for fiscal years ending June 30, 2003 and June 30, 2002, respectively. The average return on cash, cash equivalents and investments was 2.20% at June 30, 2003, compared with 4.22% at June 30, 2002.

Operating expenses and transfers out declined by \$458 thousand from the fiscal year ended June 30, 2002, to the fiscal year ended June 30, 2003. Program administration expenses totaled \$292 thousand and \$502 thousand for the fiscal years ended June 30, 2003 and June 30, 2002, respectively. These expenses would include amounts paid for audit expense, trustee fees and the administrative fee to Arkansas Development Finance Authority (ADFA). The transfers out are the administrative fee paid to the Arkansas Soil and Water Conservation Commission for administrating the Program. The funding source for the administrative fee is 4% of the EPA capitalization grant.

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

The net assets of the Program increased from \$164.9 million at June 30, 2002 to \$177.0 million at June 30, 2003. The bond resolution and the Program restrict all of the net assets.

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

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 statement of net assets of the State of Arkansas Construction Assistance Revolving Loan Fund Program (the "Program") as of June 30, 2003, and the related statement of revenues, expenses and changes in net assets and cash flows for the year 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 audit. The financial statements of the Program as of June 30, 2002, were audited by other accountants whose report dated October 9, 2002, expressed an unqualified opinion on those statements.

We conducted our audit 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 audit provides 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, 2003 and 2002, 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 2003 financial statements referred to above present fairly, in all material respects, the financial position of the Program as of June 30, 2003, and its changes in financial position and cash flows for the year 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 September 18, 2003, 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 as listed in the table of contents 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.

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**

Little Rock, Arkansas
September 18, 2003

**State of Arkansas Construction Assistance
Revolving Loan Fund Program
Statements of Net Assets
June 30, 2003 and 2002**

In thousands

	<u>2003</u>	<u>2002</u>
Current Assets		
Cash and cash equivalents	\$ 75,476	\$ 59,810
Accrued interest receivable		
Investments	193	278
Loans	285	359
Accounts receivable	<u>75</u>	<u>90</u>
Total current assets	<u>76,029</u>	<u>60,537</u>
Noncurrent Assets		
Investments – restricted	12,809	19,588
Loans receivable – restricted		
Construction	185,789	186,071
Nature Conservancy	6,500	7,780
Wetlands Mitigation	200	200
Other assets	<u>1,110</u>	<u>1,246</u>
Total noncurrent assets	<u>206,408</u>	<u>214,885</u>
Total assets	<u>282,437</u>	<u>275,422</u>
Current Liabilities		
Accounts payable	288	289
Accrued interest payable	424	442
Bonds payable - current portion	<u>5,070</u>	<u>4,840</u>
Total current liabilities	<u>5,782</u>	<u>5,571</u>
Noncurrent Liabilities		
Deferred fees	2,736	3,084
Bonds payable, net of unamortized premium (discount)	<u>96,914</u>	<u>101,820</u>
Total noncurrent liabilities	<u>99,650</u>	<u>104,904</u>
Total liabilities	<u>105,432</u>	<u>110,475</u>
Net Assets		
Restricted for program requirements	<u>\$ 177,005</u>	<u>\$ 164,947</u>

**State of Arkansas Construction Assistance
Revolving Loan Fund Program**
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2003 and 2002

In thousands

	2003	2002
Operating Revenues		
Interest on investments	\$ 1,886	\$ 3,380
Interest on loans	5,633	5,453
Financing fees	1,889	1,827
Net decrease in the fair value of investments	(299)	(430)
Total operating revenues	9,109	10,230
Operating Expenses		
Program administration	292	502
Bond interest	5,235	5,492
Amortization of bond issuance costs	117	125
Amortization of bond discounts	164	161
Total operating expenses	5,808	6,280
Operating Income	3,301	3,950
Nonoperating Revenue		
Federal grants	9,522	15,836
Income Before Transfers Out	12,823	19,786
Transfers Out	(765)	(751)
Change in Net Assets	12,058	19,035
Net Assets, Beginning of Year	164,947	145,912
Net Assets, End of Year	\$ 177,005	\$ 164,947

**State of Arkansas Construction Assistance
Revolving Loan Fund Program
Statements of Cash Flows
Years Ended June 30, 2003 and 2002**

In thousands

	2003	2002
Operating Activities		
Interest received on investments	\$ 1,955	\$ 3,525
Interest received on loans	5,706	5,373
Financing fee income received	1,556	1,457
Loan disbursements	(11,397)	(23,589)
Principal repayments on loans	12,959	9,309
Other cash paid	—	(243)
Cash paid for interest	(5,254)	(5,532)
Cash paid for program administration	(256)	(511)
Cash paid for arbitrage rebate	—	(306)
	<u>5,269</u>	<u>(10,517)</u>
Net cash provided by (used in) operating activities		
Noncapital Financing Activities		
Proceeds from bond issuance	—	38,120
Repayment of long-term debt	(4,840)	(42,140)
Transfers out	(765)	(751)
Nonoperating grants received	9,522	15,836
	<u>3,917</u>	<u>11,065</u>
Net cash provided by noncapital financing activities		
Investing Activities		
Proceeds from sale of investments	10,500	17,660
Purchase of investments	(4,020)	—
	<u>6,480</u>	<u>17,660</u>
Net cash provided by investing activities		
Increase in Cash and Cash Equivalents	15,666	18,208
Cash and Cash Equivalents, Beginning of Year	<u>59,810</u>	<u>41,602</u>
Cash and Cash Equivalents, End of Year	<u>\$ 75,476</u>	<u>\$ 59,810</u>

**State of Arkansas Construction Assistance
Revolving Loan Fund Program
Statements of Cash Flows (Continued)
Years Ended June 30, 2003 and 2002**

	2003	2002
Reconciliation of Operating Income to Net Cash Provided By (Used in) Operating Activities		
Operating income	\$ 3,301	\$ 3,950
Items not requiring (providing) operating activities cash flows		
Amortization of bond issuance costs	117	125
Amortization of bond discounts	164	161
Amortization of deferred financing fees	(348)	(370)
Net depreciation of investments	299	430
Changes in		
Accrued interest receivable		
Investments	85	145
Loans	74	(80)
Accounts receivable	15	(8)
Loans receivable	1,562	(14,280)
Accounts payable	(1)	(315)
Accrued interest payable	(18)	(40)
Other assets	19	(235)
Net cash provided by (used in) operating activities	\$ 5,269	\$ (10,517)

**State of Arkansas Construction Assistance
Revolving Loan Fund Program
Notes to Financial Statements
June 30, 2003 and 2002**

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. As lead agency, ASWCC is responsible for performing technical project reviews, monitoring construction, and coordinating the total management of 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, originating and servicing loans, preparing and submitting monthly financial reports and annual financial statements, and procuring auditing services. ADFA is reimbursed for Program administration costs equal to 1/10 of 1% of loans outstanding.

Arkansas Soil and Water Conservation Commission ("ASWCC") is the lead agency for the Program and for The Arkansas Agriculture Water Quality Loan Program ("AAWQLP"). The AAWQLP is accounted for within the Program. Under the AAWQLP, ASWCC establishes noninterest bearing cash accounts with local banks in 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 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.

**State of Arkansas Construction Assistance
Revolving Loan Fund Program
Notes to Financial Statements
June 30, 2003 and 2002**

Cash Equivalents

The Program considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2003 and 2002, cash equivalents of \$72.4 million and \$58.5 million, respectively, consisted primarily of money market mutual funds with variable interest rates.

Investments and Investment Income

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

Investment income includes dividend and interest income, realized gains and losses on investments carried at other than fair value and the net change for the year in the fair value of investments carried at fair value.

Bond Issuance Costs and Discounts

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

Financing Fees

The Program receives financing fees from borrowers. Certain nonrefundable fees are deferred and amortized into income ratably over the term of the respective programs based on the balance of mortgage loans outstanding.

Net Assets Restricted by Bond Resolution and Program

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.

Reclassifications

Certain reclassifications have been made to the 2002 financial statements to conform to the 2003 financial statement presentation. These reclassifications had no effect on net assets.

**State of Arkansas Construction Assistance
Revolving Loan Fund Program
Notes to Financial Statements
June 30, 2003 and 2002**

Note 2: Deposits and Investments

Deposits

At June 30, 2003 and 2002, the carrying value and the bank balance of the Program's deposits were as follows:

<i>In thousands</i>	2003	2002
Insured (FDIC) or collateralized with securities held by Program or Program's agent in the Program's name	\$ <u>3,078</u>	\$ <u>1,263</u>
Carrying value	\$ <u>3,078</u>	\$ <u>1,263</u>

State law requires collateralization of all deposits with federal depository insurance and other acceptable collateral in specific amounts. No legal opinion has been obtained regarding the enforceability of any of the collateral arrangements.

Included in cash equivalents on the Program's balance sheet is a "Fees and Expenses" account with a balance of approximately \$6.3 million and \$8.7 million at June 30, 2003 and 2002, 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.

Approximately \$3.6 million of the cash balance at June 30, 2003 was held in debt service reserve accounts.

Investments

Arkansas statutes authorize 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, 2003 and 2002**

The Program's investment in common trust funds/money markets 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.

The Program's investments consisted of:

<i>In thousands</i>	Category 1	2003 Fair/Carrying Value	2002 Fair/Carrying Value
Investment Type			
Categorized			
U.S. agencies obligations	\$ 6,296	\$ 6,296	\$ 13,075
Uncategorized			
Guaranteed investment contracts	6,513	6,513	6,513
Money market mutual funds	<u>72,398</u>	<u>72,398</u>	<u>58,547</u>
	<u>\$ 85,207</u>	<u>\$ 85,207</u>	<u>\$ 78,135</u>

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>	2003	2002
Carrying value		
Deposits	\$ 3,078	\$ 1,263
Investments	<u>85,207</u>	<u>78,135</u>
	<u>\$ 88,285</u>	<u>\$ 79,398</u>
Included in the following statement of net assets captions		
Cash and cash equivalents	\$ 75,476	\$ 59,810
Investments – restricted	<u>12,809</u>	<u>19,588</u>
	<u>\$ 88,285</u>	<u>\$ 79,398</u>

**State of Arkansas Construction Assistance
Revolving Loan Fund Program
Notes to Financial Statements
June 30, 2003 and 2002**

Note 3: Loans Receivable

The Program originates loans with Arkansas municipalities for financing the construction of wastewater treatment facilities. The loans are payable in semi-annual installments. At June 30, 2003 and 2002, such loans had a carrying value of approximately \$192.5 million and \$194.1 million, respectively, of which approximately \$18.6 million and \$48.6 million, respectively, are for projects still under construction. The loans 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.

Through the years ended June 30, 2003 and 2002, \$270.6 million and \$266.4 million, respectively, in cumulative loans had been approved for funding. At June 30, 2003 and 2002, \$8.3 million and \$15.5 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		2003	2002
1993-A Serial	4.95% - 5.30%	12/1/2007	\$	2,950	\$ 3,495
1993-B Serial	4.70% - 5.00%	6/1/2015		40,185	42,115
1995-A Serial	5.10% - 5.30%	12/1/2007		2,700	3,225
1996-A Serial	5.00% - 5.20%	12/1/2006		2,225	2,775
1999-A Serial	3.70% - 4.60%	12/1/2013		8,580	9,180
Term 1	4.875%	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		21,845	22,535
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
				<u>103,275</u>	<u>108,115</u>
	Unamortized discount			<u>(1,291)</u>	<u>(1,455)</u>
			\$	<u>101,984</u>	\$ <u>106,660</u>

**State of Arkansas Construction Assistance
Revolving Loan Fund Program
Notes to Financial Statements
June 30, 2003 and 2002**

Activity in bonds payable for 2003 was as follows:

<i>In thousands</i>	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due within One Year
1993-A	\$ 3,495	\$ —	\$ (545)	\$ 2,950	\$ 585
1993-B	42,115	—	(1,930)	40,185	2,020
1995-A	3,225	—	(525)	2,700	530
1996-A	2,775	—	(550)	2,225	585
1999-A	19,505	—	(600)	18,905	630
2001-A	<u>37,000</u>	<u>—</u>	<u>(690)</u>	<u>36,310</u>	<u>720</u>
Total bonds payable	<u>\$ 108,115</u>	<u>\$ 0</u>	<u>\$ (4,840)</u>	<u>\$ 103,275</u>	<u>\$ 5,070</u>

Activity in bonds payable for 2002 was as follows:

<i>In thousands</i>	Beginning Balance	Additions	Reductions	Ending Balance
1992-A	\$ 4,045	\$ —	\$ (4,045)	\$ —
1993-A	13,465	—	(9,970)	3,495
1993-B	43,960	—	(1,845)	42,115
1995-A	13,580	—	(10,355)	3,225
1996-A	17,240	—	(14,465)	2,775
1999-A	19,845	—	(340)	19,505
2001-A	<u>—</u>	<u>38,120</u>	<u>(1,120)</u>	<u>37,000</u>
Total bonds payable	<u>\$ 112,135</u>	<u>\$ 38,120</u>	<u>\$ 42,140</u>	<u>\$ 108,115</u>

**State of Arkansas Construction Assistance
Revolving Loan Fund Program
Notes to Financial Statements
June 30, 2003 and 2002**

Annual debt service requirements to maturity for bonds payable are as follows. The principal amount shown differs from the amount on the balance sheet due to unamortized discounts of approximately \$1,291,000.

In thousands

	Principal	Interest
Year ending June 30		
2004	\$ 5,070	\$ 5,030
2005	5,345	4,792
2006	5,665	4,537
2007	5,985	4,262
2008	6,300	3,975
2009 – 2013	36,475	15,051
2014 – 2018	32,005	5,479
2019 – 2022	6,430	646
	103,275	43,722
Unamortized discounts	(1,291)	—
	\$ 101,984	\$ 43,772

In prior years, 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 \$23.8 million and \$39.4 million were considered defeased at June 30, 2003 and 2002, 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 2003 and 2002, the Program received 51% and 61%, 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, 2003 and 2002**

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, 2003 and 2002, 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, 2003**

<i>In thousands</i>	<u>Revolving Loan Fund</u>	<u>Fees and Expenses</u>	<u>Total</u>
Current Assets			
Cash and cash equivalents	\$ 69,127	\$ 6,349	\$ 75,476
Accrued interest receivable			
Investments	150	43	193
Loans	285	—	285
Accounts receivable	<u>—</u>	<u>75</u>	<u>75</u>
Total current assets	<u>69,562</u>	<u>6,467</u>	<u>76,029</u>
Noncurrent Assets			
Investments – restricted	10,533	2,276	12,809
Loans receivable – restricted			
Construction	185,789	—	185,789
Nature Conservancy	6,500	—	6,500
Wetlands Mitigation	200	—	200
Other assets	<u>1,110</u>	<u>—</u>	<u>1,110</u>
Total noncurrent assets	<u>204,132</u>	<u>2,276</u>	<u>206,408</u>
Total assets	<u>273,694</u>	<u>8,743</u>	<u>282,437</u>
Current Liabilities			
Accounts payable	95	193	288
Accrued interest payable	424	—	424
Bonds payable - current portion	<u>5,070</u>	<u>—</u>	<u>5,070</u>
Total current liabilities	<u>5,589</u>	<u>193</u>	<u>5,782</u>
Noncurrent Liabilities			
Deferred fees	237	2,499	2,736
Bonds payable, net of unamortized premium (discount)	<u>96,914</u>	<u>—</u>	<u>96,914</u>
Total noncurrent liabilities	<u>97,151</u>	<u>2,499</u>	<u>99,650</u>
Total liabilities	<u>102,740</u>	<u>2,692</u>	<u>105,432</u>
Net Assets			
Restricted for program requirements	<u>\$ 170,954</u>	<u>\$ 6,051</u>	<u>\$ 177,005</u>

**State of Arkansas Construction Assistance
Revolving Loan Fund Program**
Combining Statement of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2003

<i>In thousands</i>	Revolving Loan Fund	Fees and Expenses	Total
Operating Revenues			
Interest on investments	\$ 1,627	\$ 259	\$ 1,886
Interest on loans	5,633	—	5,633
Financing fees	43	1,846	1,889
Net (decrease) increase in the fair value of investments	<u>(366)</u>	<u>67</u>	<u>(299)</u>
Total operating revenues	<u>6,937</u>	<u>2,172</u>	<u>9,109</u>
Operating Expenses			
Program administration	20	272	292
Bond interest	5,235	—	5,235
Amortization of bond issuance costs	117	—	117
Amortization of bond discounts	<u>164</u>	<u>—</u>	<u>164</u>
Total operating expenses	<u>5,536</u>	<u>272</u>	<u>5,808</u>
Operating Income	1,401	1,900	3,301
Nonoperating Revenue			
Federal grants	<u>8,787</u>	<u>735</u>	<u>9,522</u>
Income Before Transfers In (Out)	10,188	2,635	12,823
Transfers In (Out)	<u>6,315</u>	<u>(7,080)</u>	<u>(765)</u>
Change in Net Assets	16,503	(4,445)	12,058
Net Assets, Beginning of Year	<u>154,451</u>	<u>10,496</u>	<u>164,947</u>
Net Assets, End of Year	<u>\$ 170,954</u>	<u>\$ 6,051</u>	<u>\$ 177,005</u>

**State of Arkansas Construction Assistance
Revolving Loan Fund Program
Combining Statement of Cash Flows
Year Ended June 30, 2003**

<i>In thousands</i>	Revolving Loan Fund	Fees and Expenses	Total
Operating Activities			
Interest received on investments	\$ 1,629	\$ 326	\$ 1,955
Interest received on loans	5,706	—	5,706
Financing fee income received	—	1,556	1,556
Loan disbursements	(11,397)	—	(11,397)
Principal repayments on loans	12,959	—	12,959
Cash paid for interest	(5,254)	—	(5,254)
Cash paid for program administration	<u>18</u>	<u>(274)</u>	<u>(256)</u>
Net cash provided by operating activities	<u>3,661</u>	<u>1,608</u>	<u>5,269</u>
Noncapital Financing Activities			
Repayment of long-term debt	(4,840)	—	(4,840)
Transfers in (out)	5,670	(6,435)	(765)
Nonoperating grants received	<u>9,522</u>	<u>—</u>	<u>9,522</u>
Net cash provided by (used in) noncapital financing activities	<u>10,352</u>	<u>(6,435)</u>	<u>3,917</u>
Investing Activities			
Proceeds from sale of investments	8,000	2,500	10,500
Purchase of investments	<u>(4,020)</u>	<u>—</u>	<u>(4,020)</u>
Net cash provided by investing activities	<u>3,980</u>	<u>2,500</u>	<u>6,480</u>
Increase (Decrease) in Cash and Cash Equivalents	17,993	(2,327)	15,666
Cash and Cash Equivalents, Beginning of Year	<u>51,134</u>	<u>8,676</u>	<u>59,810</u>
Cash and Cash Equivalents, End of Year	<u>\$ 69,127</u>	<u>\$ 6,349</u>	<u>\$ 75,476</u>

**State of Arkansas Construction Assistance
Revolving Loan Fund Program
Combining Statement of Cash Flows (Continued)
Year Ended June 30, 2003**

	Revolving Loan Fund	Fees and Expenses	Total
Reconciliation of Operating Income to Net Cash Provided By Operating Activities			
Operating income	\$ 1,401	\$ 1,900	\$ 3,301
Items not requiring (providing) operating activities cash flows			
Amortization of bond issuance costs	117	—	117
Amortization of bond discounts	164	—	164
Amortization of deferred financing fees	(43)	(305)	(348)
Net appreciation (depreciation) of investments	366	(67)	299
Changes in			
Accrued interest receivable			
Investments	18	67	85
Loans	74	—	74
Accounts receivable	—	15	15
Loans receivable	1,562	—	1,562
Accounts payable	1	(2)	(1)
Accrued interest payable	(18)	—	(18)
Other assets	19	—	19
Net cash provided by operating activities	\$ 3,661	\$ 1,608	\$ 5,269