State of Arkansas Construction Assistance Revolving Loan Fund Program

Accountants' Report and Financial Statements

June 30, 2008 and 2007

BKD LLP

State of Arkansas Construction Assistance Revolving Loan Fund Program

June 30, 2008 and 2007

Contents

Independent Accountants' Report on Financial Statements and Supplementary Information

The Commissioners of the Arkansas Natural
Resources Commission (ANRC)

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

We have audited the accompanying basic financial statements of the State of Arkansas Construction Assistance Revolving Loan Fund Program (the Program) as of and for the years ended June 30, 2008 and 2007, as listed in the table of contents. 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. 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, 2008 and 2007, 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, 2008 and 2007, 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.

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 principally 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.

5000 Rogers Avenue, Suite 700
Fort Smith, AR 72903-2079
479.452.1040 Fax 479.452.5542
bkd.com

400 W. Capitol Avenue, Suite 2500
P.O. Box 3667
Little Rock, AR 72203-3667
501.372.1040 Fax 501.372.1250

200 E. 11th Avenue
P.O. Box 8306
Pine Bluff, AR 71611-8306
870.534.9172 Fax 870.534.2146

Our audits were conducted for the purpose of forming an opinion on the Program's basic financial statements. The accompanying supplementary information, as listed in the table of contents 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.

BKD, LLP

October 30, 2008

State of Arkansas Construction Assistance Revolving Loan Fund Program

Management's Discussion and Analysis

June 30, 2008 and 2007

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, 2008, 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, 2007 and 2006, 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 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 – Statements of Net Assets

(*In thousands*)

	2008	2007	2006
Total assets	$ 328,661	$ 317,437	$ 307,654
Current liabilities	7,309	6,640	5,957
Noncurrent liabilities	67,522	74,283	80,343
Total liabilities	74,831	80,923	86,300
Total net assets – restricted for program requirements	$ 253,830	$ 236,514	$ 221,354

The Program's total assets increased 3.5% to $328.7 million at June 30, 2008, compared with $317.4 million at June 30, 2007, which reflects a 3.2 % increase over June 30, 2006. During fiscal year 2008, loans outstanding increased by $8.3 million and investments increased by $11.3 million, which is offset by a decrease in cash and cash equivalents of $8.0 million. In fiscal year 2007, loans outstanding increased by $20.0 million, which was offset by a decrease in cash and cash equivalents of $4.7 million and a decrease in investments of $5.7 million.

The following table reports loan activity for each year (in thousands).

	2008	2007	2006
Loan disbursements	$ 23,091	$ 34,433	$ 25,610
Loan repayments	14,825	14,577	12,026
Net increase in loans receivable	$ 8,266	$ 19,856	$ 13,584

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

	2008	2007	2006
New loans	$ 43,300	$ 2,300	$ 36,250
Loan disbursements - new loans	4,438	9	4,634
Existing loans	21,805	101,555	67,555
Loan disbursements - existing loans	18,653	34,424	20,976

The Program is continually making loans from federal and state matching funds and revolving Program funds. The table below reflects the amounts used from each funding source for fiscal years 2008, 2007 and 2006 as follows (in thousands):

	2008	2007	2006
Federal	$ 10,730	$ 8,161	$ 11,516
State matching	2,235	1,700	2,365
Revolving Program funds	10,126	24,572	11,729
	$ 23,091	$ 34,433	$ 25,610

The Program has utilized its cash within the Program as an additional funding source, essentially revolving the assets.

As of June 30, 2008, the Program had expended all federal grants awarded. Information regarding when federal grant awards were expended is as follows (in thousands):

		Amount Expended in		
Federal Award Year	Beginning Balance	FY2006	FY2007	FY2008
2003	3,205	$ 3,205	$ —	$ —
2004	8,311	8,311	—	—
2005	6,739	—	6,739	—
2006	5,459	—	1,422	4,037
2007	6,693	—	—	6,693
		$ 11,516	$ 8,161	$ 10,730

The Federal fiscal year 2008 capitalization grant has been approved by the Environmental Protection Agency.

The Program's total liabilities decreased to $74.8 million at June 30, 2008, from $80.9 million at June 30, 2007, and from $86.3 million at June 30, 2006. The decrease is primarily attributed to scheduled bond redemptions of $5.8 million and $5.2 million, respectively, for fiscal years ending June 30, 2008 and 2007.

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

(In thousands)

	2008	2007	2006
Total interest income	$ 8,002	$ 8,913	$ 8,196
Other income	3,141	2,801	2,406
Total operating revenues	11,143	11,714	10,602
Total interest on bonds and notes	3,659	3,875	4,077
Total amortization expense	131	140	147
Administrative expense	290	282	283
Total operating expenses	4,080	4,297	4,507
Operating income	7,063	7,417	6,095
Transfers out	(818)	(864)	(888)
Federal grants	11,071	8,607	11,999
Change in net assets	17,316	15,160	17,206
Net assets			
Beginning of year	236,514	221,354	204,148
End of year	$ 253,830	$ 236,514	$ 221,354

Total operating revenue has fluctuated over the past three years. In fiscal year 2008, total operating revenues declined $571,000, which is due to the decline in investment income of $1.3 million, which is offset by increases of $374,000 in loan interest income, $212,000 in the net increase in the fair value of investments and $121,000 in financing fee income. Federal grants revenue increased $2.5 million as compared to fiscal year 2007. The Program completely expended all the available grants due to the increased rate at which the municipalities incurred allowable expenses and has utilized its cash on hand to continually fund loans.

Of the increase of $1.1 million in operating revenue for fiscal year 2007, $426,000 is due to an increase in the interest on loans, $291,000 is due to the increase in investment income and $274,000 is due to the increase in financing fee income. In fiscal year 2007, federal grants declined by $3.4 million primarily due to the decline in the amount of capitalization grants. The Program continues to fund loans from other revenue sources.

Revenues from investments were $2.0 million, $3.3 million and $3.0 million for fiscal years ending June 30, 2008, 2007 and 2006, respectively. The average return on cash, cash equivalents and investments was 2.63%, 3.80% and 3.22% for years ending June 30, 2008, 2007 and 2006, respectively. The Program maintains liquidity to fund projects as needed.

Operating expenses and transfers out declined by $ 263,000 during 2008 and $234,000 during 2007. This is primarily attributed to the decline in bond interest expense to $3.7 million for the year ended June 30, 2008, from $3.9 million for the year ended June 30, 2007. Program administration expenses totaled $290,000, $282,000 and $283,000 for the fiscal years ended June 30, 2008, 2007 and 2006, respectively. These expenses included amounts paid for audit expense, trustee fees and the administrative fee to the Arkansas Development Finance Authority (ADFA). The transfers out of $818,000, $864,000 and $888,000 during 2008, 2007 and 2006 respectively, represented the administrative fee paid to the Arkansas Natural Resources Commission (ANRC) for administrating the Program. The funding source for the administrative fee is 4% of the EPA capitalization grant along with funds from the Fees and Expenses Fund.

The net assets of the Program increased $32.5 million in the past three years. The bond resolutions 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 ANRC Water Development Division Chief at 501.682.1611.

State of Arkansas Construction Assistance Revolving Loan Fund Program

Statements of Net Assets

June 30, 2008 and 2007

(In thousands)	2008	2007
Current Assets		
Cash and cash equivalents	$ 51,951	$ 59,902
Accrued interest receivable		
Investments	251	400
Loans	382	362
Accounts receivable		
Environmental Protection Agency	—	165
Borrowers	154	141
Total current assets	52,738	60,970
Noncurrent Assets		
Investments – restricted	44,737	33,428
Loans receivable – restricted		
Construction	230,278	222,108
Wetlands mitigation	296	200
Other assets	612	731
Total noncurrent assets	275,923	256,467
Total assets	328,661	317,437
Current Liabilities		
Accounts payable	493	520
Accrued interest payable	291	310
Bonds payable – current portion	6,525	5,810
Total current liabilities	7,309	6,640
Noncurrent Liabilities		
Deferred fees	1,256	1,517
Bonds payable, net of unamortized premiums (discounts)	66,266	72,766
Total noncurrent liabilities	67,522	74,283
Total liabilities	74,831	80,923
Net Assets		
Restricted for program requirements	$ 253,830	$ 236,514

State of Arkansas Construction Assistance Revolving Loan Fund Program

Statements of Revenues, Expenses and Changes in Net Assets

Years Ended June 30, 2008 and 2007

(In thousands)	2008	2007
Operating Revenues		
Interest on investments	$ 2,024	$ 3,309
Interest on loans	5,978	5,604
Financing fees	2,361	2,240
Net increase in the fair value of investments	773	561
Other	7	—
Total operating revenues	11,143	11,714
Operating Expenses		
Program administration	290	282
Bond interest	3,659	3,875
Amortization of bond issuance costs	106	113
Amortization of bond discounts and premiums	25	27
Total operating expenses	4,080	4,297
Operating Income	7,063	7,417
Nonoperating Revenue		
Federal grants	11,071	8,607
Income Before Transfers Out	18,134	16,024
Transfers Out	(818)	(864)
Change in Net Assets	17,316	15,160
Net Assets, Beginning of Year	236,514	221,354
Net Assets, End of Year	$ 253,830	$ 236,514

State of Arkansas Construction Assistance Revolving Loan Fund Program

Statements of Cash Flows

Years Ended June 30, 2008 and 2007

(In thousands)	2008	2007
Operating Activities		
Interest received on investments	$ 2,190	$ 3,260
Interest received on loans	5,958	5,464
Financing fee income received	2,087	1,895
Loan disbursements	(23,091)	(34,433)
Principal repayments on loans	14,825	14,577
Cash paid for interest	(3,678)	(3,895)
Cash paid for arbitrage rebate	(32)	—
Cash paid for program administration	(283)	(215)
Net cash used in operating activities	(2,024)	(13,347)
Noncapital Financing Activities		
Repayment of long-term debt	(5,810)	(5,180)
Transfers out	(818)	(864)
Nonoperating grants received	11,236	8,441
Net cash provided by noncapital financing activities	4,608	2,397
Investing Activities		
Proceeds from maturities of investments	56,680	44,111
Purchase of investments	(67,215)	(37,863)
Net cash (used in) provided by investing activities	(10,535)	6,248
Decrease in Cash and Cash Equivalents	(7,951)	(4,702)
Cash and Cash Equivalents, Beginning of Year	59,902	64,604
Cash and Cash Equivalents, End of Year	$ 51,951	$ 59,902

State of Arkansas Construction Assistance Revolving Loan Fund Program

Statements of Cash Flows (Continued)

Years Ended June 30, 2008 and 2007

(In thousands)	2008	2007
Reconciliation of Operating Income to Net Cash Used In Operating Activities		
Operating income	$ 7,063	$ 7,417
Items not requiring (providing) operating activities cash flows		
Amortization of bond issuance costs	106	113
Amortization of bond discounts and premiums	25	27
Amortization of deferred financing fees	(261)	(277)
Net appreciation of investments	(773)	(561)
Changes in		
Accrued interest receivable		
Investments	149	(70)
Loans	(20)	(140)
Accounts receivable – borrowers	(13)	(68)
Loans receivable	(8,266)	(19,856)
Accounts payable	(27)	73
Accrued interest payable	(19)	(20)
Other assets	12	15
Net cash used in operating activities	$ (2,024)	$ (13,347)

State of Arkansas Construction Assistance Revolving Loan Fund Program

Notes to Financial Statements
June 30, 2008 and 2007

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 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 with ANRC. The amounts incurred to ADFA for administration costs for the years ending June 30, 2008 and 2007, were $206,000 and $203,000, 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, 2008 and 2007, respectively, the AAWQLP had $23.7 and $23.3 million in deposits and investments with various financial institutions.

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.

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, 2008 and 2007, cash equivalents of $52.0 million and $59.9 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 $5.5 million and $7.0 million at June 30, 2008 and 2007, 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 ANRC 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 using the interest method. Early retirement of bonds results in the acceleration 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

Net assets restricted by bond resolution and program represent 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.

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, 2008 and 2007, respectively, $13.6 million and $14.3 million of the Program's deposits (and carrying value) of $17.0 million and $17.9 million were exposed to custodial credit risk as follows:

(In thousands)	2008	2007
Uninsured and collateral held by pledging financial institution trust department or agent in other than the Program's name	$ 13,621	$ 14,280

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.

At June 30, 2008 and 2007, the Program had the following investments and maturities:

(In thousands)	June 30, 2008				
		Maturities in Years			
Type	**Fair Value**	**Less than 1**	**1-5**	**6-10**	**More than 10**
U.S. Treasury obligations	$ 2,650	$ —	$ 2,650	$ —	$ —
U.S. agencies obligations	35,574	26,550	9,024	—	—
Money market mutual funds	34,903	34,903	—	—	—
Guaranteed investment contracts	6,513	—	—	4,480	2,033
	$ 79,640	$ 61,453	$ 11,674	$ 4,480	$ 2,033

(In thousands)

	June 30, 2007				
		Maturities in Years			
Type	Fair Value	Less than 1	1-5	6-10	More than 10
U.S. Treasury obligations	$ 2,442	$ —	$ —	$ 2,442	$ —
U.S. agencies obligations	24,473	22,505	1,968	—	—
Money market mutual funds	41,979	41,979	—	—	—
Guaranteed investment contracts	6,513	—	—	3,640	2,873
	$ 75,407	$ 64,484	$ 1,968	$ 6,082	$ 2,873

Interest Rate Risk - As a means of limiting its exposure to fair value losses due to 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 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 5% or more of total investments are as follows (in thousands):

Issuer	Fair Value	Percentage
Federal Home Loan Bank	$ 23,027	29%
Federal Farm Credit Bank	$ 6,606	8%

Summary of Carrying Values

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

(In thousands)	2008	2007
Carrying value		
Deposits	$ 17,048	$ 17,923
Investments	79,640	75,407
	$ 96,688	$ 93,330
Included in the following statement of net assets captions		
Cash and cash equivalents	$ 51,951	$ 59,902
Investments – restricted	44,737	33,428
	$ 96,688	$ 93,330

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, 2008 and 2007, such loans had a carrying value of approximately $230.6 million and $222.3 million, respectively, of which approximately $21.4 million and $51.5 million, respectively, are for projects still under construction. The loans bear interest ranging from 1.5% 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, 2008 and 2007, $413.4 million and $369.9 million, respectively, in cumulative loans had been approved for funding. At June 30, 2008 and 2007, $42.5 million and $22.1 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	2008	2007
1995-A				
Serial	5.20% – 5.30%	12/1/2007	$ —	$ 340
1999-A				
Serial	4.00% – 4.60%	12/1/2013	5,090	5,860
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	16,370	18,350
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	3.00% – 5.00%	6/1/2015	18,065	20,785
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
			72,965	78,775
	Unamortized discounts and premiums		(174)	(199)
			$ 72,791	$ 78,576

Activity in bonds payable for 2008 was as follows:

(In thousands)	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due within One Year
1995-A	$ 340	$ —	$ (340)	$ —	$ —
1999-A	16,185	—	(770)	15,415	815
2001-A	32,815	—	(1,980)	30,835	2,450
2004-A	29,435	—	(2,720)	26,715	3,260
Total bonds payable	$ 78,775	$ 0	$ (5,810)	$ 72,965	$ 6,525

The principal amount shown above differs from the amount on the balance sheet due to unamortized discounts and premiums of approximately $174,000.

Activity in bonds payable for 2007 was as follows:

(In thousands)	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due within One Year
1995-A	$ 990	$ —	$ (650)	$ 340	$ 340
1996-A	350	—	(350)	—	—
1999-A	16,915	—	(730)	16,185	770
2001-A	34,020	—	(1,205)	32,815	1,980
2004-A	31,680	—	(2,245)	29,435	2,720
Total bonds payable	$ 83,955	$ 0	$ (5,180)	$ 78,775	$ 5,810

The principal amount shown above differs from the amount on the balance sheet due to unamortized discounts and premiums of approximately $199,000.

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

(In thousands)	Principal	Interest
2009	$ 6,525	$ 3,426
2010	6,850	3,146
2011	7,165	2,886
2012	7,255	2,577
2013	7,445	2,216
2014-2018	31,295	5,371
2019-2022	6,430	646
	72,965	20,268
Unamortized discounts and premiums	(174)	—
	$ 72,791	$ 20,268

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 EPA. During 2008 and 2007, the Program received 50% and 42%, respectively, of total revenue in the form of federal grants.

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, 2008 and 2007, 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, 2008

(In thousands)	Revolving Loan Fund	Fees and Expenses	Total
Current Assets			
Cash and cash equivalents	$ 46,455	$ 5,496	$ 51,951
Accrued interest receivable			
Investments	194	57	251
Loans	382	—	382
Accounts receivable			
Borrowers	—	154	154
Total current assets	47,031	5,707	52,738
Noncurrent Assets			
Investments – restricted	40,733	4,004	44,737
Loans receivable – restricted			
Construction	230,278	—	230,278
Wetlands mitigation	296	—	296
Other assets	612	—	612
Total noncurrent assets	271,919	4,004	275,923
Total assets	318,950	9,711	328,661
Current Liabilities			
Accounts payable	271	222	493
Accrued interest payable	291	—	291
Bonds payable – current portion	6,525	—	6,525
Total current liabilities	7,087	222	7,309
Noncurrent Liabilities			
Deferred fees	67	1,189	1,256
Bonds payable, net of unamortized premiums (discounts)	66,266	—	66,266
Total noncurrent liabilities	66,333	1,189	67,522
Total liabilities	73,420	1,411	74,831
Net Assets			
Restricted for program requirements	$ 245,530	$ 8,300	$ 253,830

State of Arkansas Construction Assistance Revolving Loan Fund Program

Combining Statement of Revenues, Expenses and Changes in Net Assets

Year Ended June 30, 2008

(In thousands)	Revolving Loan Fund	Fees and Expenses	Total
Operating Revenues			
Interest on investments	$ 1,714	$ 310	$ 2,024
Interest on loans	5,978	—	5,978
Financing fees	26	2,335	2,361
Net increase in the fair value of investments	740	33	773
Other	7	—	7
Total operating revenues	8,465	2,678	11,143
Operating Expenses			
Program administration	12	278	290
Bond interest	3,659	—	3,659
Amortization of bond issuance costs	106	—	106
Amortization of bond discounts and premiums	25	—	25
Total operating expenses	3,802	278	4,080
Operating Income	4,663	2,400	7,063
Nonoperating Revenue			
Federal grants	10,730	341	11,071
Income Before Transfers In (Out)	15,393	2,741	18,134
Transfers In (Out)	1,349	(2,167)	(818)
Change in Net Assets	16,742	574	17,316
Net Assets, Beginning of Year	228,788	7,726	236,514
Net Assets, End of Year	$ 245,530	$ 8,300	$ 253,830

State of Arkansas Construction Assistance Revolving Loan Fund Program

Combining Statement of Cash Flows

Year Ended June 30, 2008

(In thousands)	Revolving Loan Fund	Fees and Expenses	Total
Operating Activities			
Interest received on investments	$ 1,893	$ 297	$ 2,190
Interest received on loans	5,958	—	5,958
Financing fee income received	—	2,087	2,087
Loan disbursements	(23,091)	—	(23,091)
Principal repayments on loans	14,825	—	14,825
Cash paid for interest	(3,678)	—	(3,678)
Cash paid for arbitrage rebate	(32)	—	(32)
Cash paid for program administration	(24)	(259)	(283)
Net cash (used in) provided by operating activities	(4,149)	2,125	(2,024)
Noncapital Financing Activities			
Repayment of long-term debt	(5,810)	—	(5,810)
Transfers in (out)	1,349	(2,167)	(818)
Nonoperating grants received	10,729	507	11,236
Net cash provided by (used in) noncapital financing activities	6,268	(1,660)	4,608
Investing Activities			
Proceeds from maturities of investments	53,680	3,000	56,680
Purchase of investments	(62,211)	(5,004)	(67,215)
Net cash used in investing activities	(8,531)	(2,004)	(10,535)
Decrease in Cash and Cash Equivalents	(6,412)	(1,539)	(7,951)
Cash and Cash Equivalents, Beginning of Year	52,867	7,035	59,902
Cash and Cash Equivalents, End of Year	$ 46,455	$ 5,496	$ 51,951

State of Arkansas Construction Assistance Revolving Loan Fund Program

Combining Statement of Cash Flows (Continued)

Year Ended June 30, 2008

(In thousands)	Revolving Loan Fund	Fees and Expenses	Total
Reconciliation of Operating Income to Net Cash Provided By (Used In) Operating Activities			
Operating income	$ 4,663	$ 2,400	$ 7,063
Items not requiring (providing) operating activities cash flows			
Amortization of bond issuance costs	106	—	106
Amortization of bond discounts and premiums	25	—	25
Amortization of deferred financing fees	(26)	(235)	(261)
Net appreciation of investments	(740)	(33)	(773)
Changes in			
Accrued interest receivable			
Investments	163	(14)	149
Loans	(20)	—	(20)
Accounts receivable – borrowers	—	(13)	(13)
Loans receivable	(8,266)	—	(8,266)
Accounts payable	(47)	20	(27)
Accrued interest payable	(19)	—	(19)
Other assets	12	—	12
Net cash (used in) provided by operating activities	$ (4,149)	$ 2,125	$ (2,024)