State of Arkansas Construction Assistance Revolving Loan Fund Program

Accountants' Report and Financial Statements

June 30, 2006 and 2005

State of Arkansas Construction Assistance Revolving Loan Fund Program
June 30, 2006 and 2005

Contents

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, 2006 and 2005, 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, 2006 and 2005, 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, 2006 and 2005, 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 September 1, 2006, 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 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**

September 1, 2006

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, 2006 and 2005, 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*)

	2006	2005	2004
Total assets	$ 307,654	$ 295,522	$ 282,981
Current liabilities	5,957	5,589	5,539
Noncurrent liabilities	80,343	85,785	91,013
Total liabilities	86,300	91,374	96,552
Total net assets – restricted for program requirements	$ 221,354	$ 204,148	$ 186,429

The program's total assets increased in the past three years by $24.7 million, primarily attributable to the funding of new loans.

In fiscal year 2006, cash and cash equivalents increased $22.1 million and investments decreased $23.2 million due to the maturing of investment of securities. In fiscal year 2005, investments increased $44.0 million due to purchases of securities totaling $54.8 million, 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.

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

	2006	2005	2004
Loan disbursements	$ 25,610	$ 16,159	$ 9,234
Loan repayments	12,026	12,978	16,035
Net increase (decrease) in loans receivable	$ 13,584	$ 3,181	$ (6,801)

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

	2006	2005	2004
New loans, unfunded	$ 36,250	$ 13,000	$ 49,100
Loan disbursements -new loans	4,634	297	4,377
Existing loans, unfunded	67,555	68,270	23,946
Loan disbursements - existing loans	20,976	15,862	4,857

The Program is continually making loans from federal and state matching funds and revolving Program funds. In fiscal year 2006, the United States Environment Protection Agency ("EPA") provided 45% of the funding for the construction draws compared with 82% in fiscal years 2005 and 2004. The decline is due to the EPA capitalization grants from 2004 and prior years being completely extinguished in 2006. The Program has utilized its cash within the Program as an additional funding source, thus revolving the assets. Fiscal years 2005 and 2006 capitalization grants have been applied for and the award notification is pending.

The Program's total liabilities decreased to $86.3 million at June 30, 2006 from $91.4 million at June 30, 2005 and from $96.6 at June 30, 2004. The decrease is primarily attributed to scheduled bond redemptions of $5.0 million and $4.6 million, respectively, for fiscal years ending June 30, 2006 and 2005.

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

(In thousands)

	2006	2005	2004
Total investment income	$ 10,602	$ 9,498	$ 8,324
Total operating revenues	10,602	9,498	8,324
Total interest on bonds and notes	4,077	4,240	5,042
Total amortization expense	147	154	248
Administrative expense	283	274	266
Total operating expenses	4,507	4,668	5,556
Operating income	6,095	4,830	2,768
Transfers out	(888)	(867)	(808)
Federal grants	11,999	13,756	7,464
Change in net assets	17,206	17,719	9,424
Net assets			
Beginning of year	204,148	186,429	177,005
End of year	$ 221,354	$ 204,148	$ 186,429

Operating revenue and federal grants totaled $22.6 million, $23.3 million and $15.8 million for fiscal years ended June 30, 2006, 2005 and 2004, respectively.

Total operating revenue has increased in the past three years. Of the increase of $1.1 million in operating revenue for fiscal year 2006, $736 thousand is due to an increase in investment interest and $448 thousand net increase in the fair value of investments. In fiscal year 2006, federal grants declined by $1.8 million primarily due to the extinguishment of all available capitalization grants. The Program continues to fund loans from other revenue sources.

In fiscal year 2005, the change in operating revenue and federal grants of $7.5 million from fiscal year 2004 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.

Revenues from investments were $3.0 million, $2.3 million and $972 thousand for fiscal years ending June 30, 2006, 2005 and 2004, respectively. The average return on cash, cash equivalents and investments was 3.22%, 2.17% and 1.30% for years ending June 30, 2006, 2005 and 2004, respectively. The Program maintains liquidity to fund projects as needed.

Operating expenses and transfers out declined by $140 thousand during 2006 and $829 thousand during 2005. This is primarily attributed to the decline in interest on bonds. Program administration expenses totaled $283 thousand, $274 thousand and $266 thousand for the fiscal years ended June 30, 2006, 2005 and 2004, 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 represented the administrative fee paid to the Arkansas Natural Resources Commission ("ANRC") for administrating 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 $34.9 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, 2006 and 2005

In thousands		2006		2005
Current Assets				
Cash and cash equivalents	$	64,604	$	42,467
Accrued interest receivable				
Investments		330		399
Loans		222		233
Accounts receivable				
Borrowers		73		73
Environmental Protection Agency		—		210
Total current assets		65,229		43,382
Noncurrent Assets				
Investments – restricted		39,115		62,281
Loans receivable – restricted				
Construction		202,252		188,668
Wetlands Mitigation		200		200
Other assets		858		991
Total noncurrent assets		242,425		252,140
Total assets		307,654		295,522
Current Liabilities				
Accounts payable		447		289
Accrued interest payable		330		345
Bonds payable - current portion		5,180		4,955
Total current liabilities		5,957		5,589
Noncurrent Liabilities				
Deferred fees		1,794		2,084
Bonds payable, net of unamortized premiums (discounts)		78,549		83,701
Total noncurrent liabilities		80,343		85,785
Total liabilities		86,300		91,374
Net Assets				
Restricted for program requirements	$	221,354	$	204,148

State of Arkansas Construction Assistance Revolving Loan Fund Program

Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2006 and 2005

In thousands	2006	2005
Operating Revenues		
Interest on investments	$ 3,018	$ 2,282
Interest on loans	5,178	5,315
Financing fees	1,966	1,909
Net increase (decrease) in the fair value of investments	440	(8)
Total operating revenues	10,602	9,498
Operating Expenses		
Program administration	283	274
Bond interest	4,077	4,240
Amortization of bond issuance costs	119	124
Amortization of bond discounts and premiums	28	30
Total operating expenses	4,507	4,668
Operating Income	6,095	4,830
Nonoperating Revenue		
Federal grants	11,999	13,756
Income Before Transfers Out	18,094	18,586
Transfers Out	(888)	(867)
Change in Net Assets	17,206	17,719
Net Assets, Beginning of Year	204,148	186,429
Net Assets, End of Year	$ 221,354	$ 204,148

State of Arkansas Construction Assistance Revolving Loan Fund Program

Statements of Cash Flows
Years Ended June 30, 2006 and 2005

In thousands	2006	2005
Operating Activities		
Interest received on investments	$ 3,178	$ 2,023
Interest received on loans	5,189	5,306
Financing fee income received	1,675	1,603
Loan disbursements	(25,610)	(16,159)
Principal repayments on loans	12,026	12,978
Cash paid for interest	(4,092)	(4,377)
Cash paid for program administration	(200)	(265)
Cash paid for arbitrage rebate	—	(79)
Net cash (used in) provided by operating activities	(7,834)	1,030
Noncapital Financing Activities		
Repayment of long-term debt	(4,955)	(4,620)
Transfers out	(888)	(867)
Nonoperating grants received	12,208	13,613
Net cash provided by noncapital financing activities	6,365	8,126
Investing Activities		
Proceeds from maturities of investments	64,098	10,725
Purchase of investments	(40,492)	(54,783)
Net cash provided by (used in) investing activities	23,606	(44,058)
Increase (Decrease) in Cash and Cash Equivalents	22,137	(34,902)
Cash and Cash Equivalents, Beginning of Year	42,467	77,369
Cash and Cash Equivalents, End of Year	$ 64,604	$ 42,467

State of Arkansas Construction Assistance Revolving Loan Fund Program

Statements of Cash Flows (Continued)

Years Ended June 30, 2006 and 2005

In thousands	2006	2005
Reconciliation of Operating Income to Net Cash Provided By (Used In) Operating Activities		
Operating income	$ 6,095	$ 4,830
Items not requiring (providing) operating activities cash flows		
Amortization of bond issuance costs	119	124
Amortization of bond discounts and premiums	28	30
Amortization of deferred financing fees	(291)	(302)
Net depreciation (appreciation) of investments	(440)	8
Changes in		
Accrued interest receivable		
Investments	69	(195)
Loans	11	(9)
Accounts receivable - Borrowers	—	(5)
Loans receivable	(13,584)	(3,181)
Accounts payable	160	(149)
Accrued interest payable	(15)	(137)
Other assets	14	16
Net cash (used in) provided by operating activities	$ (7,834)	$ 1,030

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 Resource Commission formerly known as Arkansas Soil and Water Conservation Commission ("ANRC") 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 2005 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, 2006 and 2005 were $194 thousand and $189 thousand, 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 2006, 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 and 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.

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, 2006 and 2005, cash equivalents of $64.6 million and $42.5 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 $4.0 million and $4.4 million at June 30, 2006 and 2005, 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

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.

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, 2006 and 2005, respectively, $14.9 million and $7.5 million of the Program's deposits of $18.3 million and $9.9 million were exposed to custodial credit risk as follows:

In thousands	2006	2005
Uninsured and uncollateralized	$ 9	$ 125
Uninsured and collateral held by pledging financial institution trust department or agent in other than the Program's name	14,934	7,339
Total	$ 14,943	$ 7,464

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.

At June 30, 2006 and 2005, the Program had the following investments and maturities:

In thousands	June 30, 2006				
		Maturities in Years			
Type	**Fair Value**	**Less than 1**	**1-5**	**6-10**	**More than 10**
U.S. Treasury obligations	$ 2,413	$ —	$ —	$ 2,413	$ —
U.S. agencies obligations	28,094	26,168	1,926	—	—
Money market mutual funds	46,268	46,268	—	—	—
Guaranteed investment contracts	6,513	—	—	3,640	2,873
Municipal bonds	2,095	—	2,095	—	—
	$ 85,383	$ 72,436	$ 4,021	$ 6,053	$ 2,873

	June 30, 2005				
		Maturities in Years			
Type	**Fair Value**	**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	2,880	—	2,880	—	—
	$ 94,844	$ 77,298	$ 8,409	$ 6,264	$ 2,873

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 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):

Issuer	**Fair Value**	**Percentage**
Federal Home Loan Mortgage Corporation	$16,445	19%
Federal National Mortgage Association	7,097	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	2006	2005
Carrying value		
Deposits	$ 18,336	$ 9,904
Investments	85,383	94,844
	$ 103,719	$ 104,748
Included in the following statement of net assets captions		
Cash and cash equivalents	$ 64,604	$ 42,467
Investments – restricted	39,115	62,281
	$ 103,719	$ 104,748

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, 2006 and 2005, such loans had a carrying value of approximately $202.5 million and $188.9 million, respectively, of which approximately $46.1 million and $42.1 million, respectively, are for projects still under construction. The loans bear interest ranging from 2.00% 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, 2006 and 2005, $367.6 million and $331.4 million, respectively, in cumulative loans had been approved for funding. At June 30, 2006 and 2005, $54.2 million and $43.7 million, respectively, remained encumbered and awaiting disbursement to loan recipients.

Note 4: Bonds Payable

Bonds payable are as follows at June 30:

In thousands

Series	Interest Rate Range	Final Maturity Dates	2006	2005
1995-A				
Serial	2.00% - 5.30%	12/1/2007	$ 990	$ 1,600
1996-A				
Serial	5.20%	12/1/2006	350	1,020
1999-A				
Serial	4.00% - 4.60%	12/1/2013	6,590	7,290
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	19,555	20,360
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	23,030	25,200
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
			83,955	88,910
	Unamortized discounts and premiums		(226)	(254)
			$ 83,729	$ 88,656

Activity in bonds payable for 2006 was as follows:

In thousands	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due within One Year
1995-A	$ 1,600	$ —	$ (610)	$ 990	$ 650
1996-A	1,020	—	(670)	350	350
1999-A	17,615	—	(700)	16,915	730
2001-A	34,825	—	(805)	34,020	1,205
2004-A	33,850	—	(2,170)	31,680	2,245
Total bonds payable	$ 88,910	$ 0	$ (4,955)	$ 83,955	$ 5,180

The principal amount shown above differs from the amount on the balance sheet due to unamortized discounts and premiums of approximately $226 thousand.

Activity in bonds payable for 2005 was as follows:

In thousands	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due within One Year
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	35,855	—	(2,005)	33,850	2,170
Total bonds payable	$ 93,530	$ 0	$ (4,620)	$ 88,910	$ 4,955

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

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

In thousands	Principal	Interest
Year ending June 30, 2007	$ 5,180	$ 3,893
2008	5,810	3,678
2009	6,525	3,426
2010	6,850	3,146
2011	7,165	2,886
2012-2016	38,735	9,003
2017-2021	12,455	1,749
2022 – 2026	1,235	57
	83,955	27,838
Unamortized discounts and premiums	(226)	—
	$ 83,729	$ 27,838

Defeasances

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 $14.0 million were considered defeased at June 30, 2005, and as of June 30, 2006 all defeased bonds had matured.

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 2006 and 2005, the Program received 53% and 59%, 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, 2006 and 2005, 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, 2006

In thousands	Revolving Loan Fund	Fees and Expenses	Total
Current Assets			
Cash and cash equivalents	$ 60,637	$ 3,967	$ 64,604
Accrued interest receivable			
Investments	251	79	330
Loans	222	—	222
Accounts receivable			
Borrowers	—	73	73
Total current assets	61,110	4,119	65,229
Noncurrent Assets			
Investments – restricted	33,679	5,436	39,115
Loans receivable – restricted			
Construction	202,252	—	202,252
Wetlands Mitigation	200	—	200
Other assets	858	—	858
Total noncurrent assets	236,989	5,436	242,425
Total assets	298,099	9,555	307,654
Current Liabilities			
Accounts payable	$ 254	$ 193	$ 447
Accrued interest payable	330	—	330
Bonds payable - current portion	5,180	—	5,180
Total current liabilities	5,764	193	5,957
Noncurrent Liabilities			
Deferred fees	122	1,672	1,794
Bonds payable, net of unamortized premiums (discounts)	78,549	—	78,549
Total noncurrent liabilities	78,671	1,672	80,343
Total liabilities	84,435	1,865	86,300
Net Assets			
Restricted for program requirements	$ 213,664	$ 7,690	$ 221,354

State of Arkansas Construction Assistance Revolving Loan Fund Program

Combining Statement of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2006

In thousands	Revolving Loan Fund	Fees and Expenses	Total
Operating Revenues			
Interest on investments	$ 2,660	$ 358	$ 3,018
Interest on loans	5,178	—	5,178
Financing fees	33	1,933	1,966
Net increase (decrease) in the fair value of investments	535	(95)	440
Total operating revenues	8,406	2,196	10,602
Operating Expenses			
Program administration	14	269	283
Bond interest	4,077	—	4,077
Amortization of bond issuance costs	119	—	119
Amortization of bond discounts and premiums	28	—	28
Total operating expenses	4,238	269	4,507
Operating Income	4,168	1,927	6,095
Nonoperating Revenue			
Federal grants	11,516	483	11,999
Income Before Transfers Out	15,684	2,410	18,094
Transfers In (Out)	2,000	(2,888)	(888)
Change in Net Assets	17,684	(478)	17,206
Net Assets, Beginning of Year	195,980	8,168	204,148
Net Assets, End of Year	$ 213,664	$ 7,690	$ 221,354

State of Arkansas Construction Assistance Revolving Loan Fund Program

Combining Statement of Cash Flows
Year Ended June 30, 2006

In thousands	Revolving Loan Fund	Fees and Expenses	Total
Operating Activities			
Interest received on investments	$ 2,829	$ 349	$ 3,178
Interest received on loans	5,189	—	5,189
Financing fee income received	—	1,675	1,675
Loan disbursements	(25,610)	—	(25,610)
Principal repayments on loans	12,027	—	12,026
Cash paid for interest	(4,093)	—	(4,092)
Cash paid for program administration	63	(263)	(200)
Net cash (used in) provided by operating activities	(9,595)	1,761	(7,834)
Noncapital Financing Activities			
Repayment of long-term debt	(4,955)	—	(4,955)
Transfers in (out)	2,000	(2,888)	(888)
Nonoperating grants received	11,516	692	12,208
Net cash provided by (used in) noncapital financing activities	8,561	(2,196)	6,365
Investing Activities			
Proceeds from maturities of investments	64,098	—	64,098
Purchase of investments	(40,492)	—	(40,492)
Net cash provided by investing activities	23,606	—	23,606
Increase (Decrease) in Cash and Cash Equivalents	22,572	(435)	22,137
Cash and Cash Equivalents, Beginning of Year	38,065	4,402	42,467
Cash and Cash Equivalents, End of Year	$ 60,637	$ 3,967	$ 64,604

State of Arkansas Construction Assistance Revolving Loan Fund Program

Combining Statement of Cash Flows (Continued)

Year Ended June 30, 2006

In thousands	Revolving Loan Fund	Fees and Expenses	Total
Reconciliation of Operating Income to Net Cash Provided By (Used In) Operating Activities			
Operating income	$ 4,168	$ 1,927	$ 6,095
Items not requiring (providing) operating activities cash flows			
Amortization of bond issuance costs	119	—	119
Amortization of bond discounts and premiums	28	—	28
Amortization of deferred financing fees	(33)	(258)	(291)
Net appreciation (depreciation) of investments	(533)	93	(440)
Changes in			
Accrued interest receivable			
Investments	76	(7)	69
Loans	11	—	11
Loans receivable	(13,584)	—	(13,584)
Accounts payable	154	6	160
Accrued interest payable	(15)	—	(15)
Other assets	14	—	14
Net cash (used in) provided by operating activities	$ (9,595)	$ 1,761	$ (7,834)