State of Arkansas Construction Assistance Revolving Loan Fund Program

Accountants' Report and Financial Statements

June 30, 2010 and 2009

BKD LLP
CPAs & Advisors

State of Arkansas Construction Assistance Revolving Loan Fund Program

June 30, 2010 and 2009

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, 2010 and 2009, 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, 2009 and 2008, 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, 2010 and 2009, 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.

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 (GASB). 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.

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.

/s/ **BKD, LLP**

Little Rock, Arkansas
October 29, 2010

State of Arkansas Construction Assistance Revolving Loan Fund Program

Management's Discussion and Analysis

June 30, 2010 and 2009

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, 2010, 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, 2009 and 2008, 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)

	2010	2009	2008
Total assets	$ 334,619	$ 329,412	$ 328,661
Current liabilities	8,041	7,920	7,309
Noncurrent liabilities	51,360	59,193	67,522
Total liabilities	59,401	67,113	74,831
Total net assets – restricted for program requirements	$ 275,218	$ 262,299	$ 253,830

The Program's total assets of $334.6 million at June 30, 2010, reflect increases of $5.2 million from June 30, 2009 and $751,000 from June 30, 2008 to June 30, 2009. For the current year, the Program had an increase in loans receivable of $14.1 million which is offset by declines in cash and cash equivalents of $5.8 million and in investments of $3.1 million. In the prior year, the Program had increases in cash and cash equivalents of $13.4 million and in loans receivable of $1.5 million, which were offset by a decline in investments of $13.8 million.

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

	2010	2009	2008
Loan disbursements	$ 35,471	$ 19,019	$ 23,091
Loan repayments	21,412	17,565	14,825
Net increase in loans receivable	$ 14,059	$ 1,454	$ 8,266

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

	2010	2009	2008
New loans	$ 11,256	$ 27,600	$ 43,300
Loan disbursements - new loans	3,846	3,804	4,438
Existing loans	77,855	63,255	21,805
Loan disbursements - existing loans	31,625	15,215	18,653

The Program is continually making loans from federal funds from the U.S. Environmental Protection Agency (Base); and state matching funds and revolving Program funds. In fiscal year 2010, the Program began using American Recovery and Reinvestment Act (ARRA) federal funds and the Revolving Loan Fund 2009 A Refunding Issue (2009 Issue) principal prepayment funds to make new loans. The table below reflects the amounts used from each funding source for fiscal years 2010, 2009 and 2008 as follows (in thousands):

	2010	2009	2008
Federal			
Base	$ 4,220	$ 4,220	$ 10,730
ARRA	3,746	—	—
State matching	879	879	2,235
2009 Issue Prepayment funds	1,940	—	—
Revolving Program funds	24,686	13,920	10,126
	$ 35,471	$ 19,019	$ 23,091

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

The federal fiscal year 2010 capitalization grant has been approved by the Environmental Protection Agency in the amount of $13.3 million and will be available in October 2010.

The Program's total liabilities decreased to $59.4 million at June 30, 2010, from $67.1 million at June 30, 2009, and from $74.8 million at June 30, 2008. The decrease is attributed to scheduled bond redemptions of $7.2 million and $6.5 million, respectively, for fiscal years ended June 30, 2010 and 2009. For the fiscal year ended June 30, 2009, the Program also refunded $14.6 million 1999 Series A bonds with $13.3 million 2009 Refunding Series A along with other available funds, which resulted in a decline of $1.3 million in the bonds outstanding.

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

(In thousands)

	2010	2009	2008
Total interest income	$ 6,386	$ 6,669	$ 8,002
Other income	2,693	2,555	3,141
Total operating revenues	9,079	9,224	11,143
Total interest on bonds and notes	2,891	3,405	3,659
Total amortization expense	44	114	131
Federal financial assistance	8,985	—	—
Administrative expense	288	283	290
Total operating expenses	12,208	3,802	4,080
Operating (loss) income	(3,129)	5,422	7,063
Transfers out	(1,080)	(1,350)	(818)
Base federal grants	4,397	—	—
ARRA federal grants	12,731	4,397	11,071
Change in net assets	12,919	8,469	17,316
Net assets			
Beginning of year	262,299	253,830	236,514
End of year	$ 275,218	$ 262,299	$ 253,830

Total operating revenue has continuously decreased over the past three years. In the fiscal year 2010, operating revenue declined $145,000 as compared with a decline of $1.9 million in fiscal year 2009. During the current year, investment income declined $240,000, which included arbitrage rebate expense of $180,000. The interest rate environment and guaranteed investment contract terminations from fiscal year 2009 is still contributing to the decline in investment income.

During fiscal year 2009, the Program had a decline of $1.2 million in investment income due to the termination of certain guaranteed investment contracts (with an average interest rate of 6.7%) and lower interest received from money market mutual funds. The $620,000 decrease in the net appreciation of investments was attributed to investments of the Revolving Loan Fund, which the Program expects to hold to maturity.

Base federal grants revenue was the same for fiscal years 2010 and 2009. As of June 30, 2010, the Program had expended all Base federal grants awarded. Information regarding when Base federal grant awards were expended for construction draws is as follows (in thousands):

		Amount Expended in		
Federal Award Year	**Beginning Balance**	**FY2008**	**FY2009**	**FY2010**
2006	$ 5,459	$ 4,037	$ —	$ —
2007	6,693	6,693	—	—
2008	4,220	—	4,220	—
2009	4,220	—	—	4,220
		$ 10,730	$ 4,220	$ 4,220

The Program received ARRA federal funding of $12.7 million. The funds were expended in the form of principal forgiveness and repayable loans as follows:

Type of Loans	**Amount**
Principal forgiveness loans	$ 8,985
Repayable loans	3,746
	$ 12,731

The Program continues to fund loans from other revenue sources including $24.7 million from the Revolving Loan Fund.

Revenues from investments were $537,000, $777,000 and $2.0 million for fiscal years ended June 30, 2010, 2009 and 2008, respectively. The average return on cash, cash equivalents and investments was 0.42%, 1.10% and 2.63% for years ended June 30, 2010, 2009 and 2008, respectively. The Program maintains liquidity to fund projects as needed. Higher cash and cash equivalent balances were maintained during the current and prior years as the Program evaluated liquidity needs and investment options in the current economic climate.

Operating expenses and transfers out increased by $8.1 million during 2010 and $254,000 during 2009. In fiscal year 2010, the Program expensed $9.0 million in principal forgiveness loans funded by the ARRA federal funds, which is offset by a decrease in bond interest expense of $514,000 and transfers out of $270,000. In fiscal year 2009, the decline was primarily attributable to the increase in transfers out of $532,000, which is offset by a decline in bond interest expense of $254,000. Program administration expenses totaled $288,000, $283,000 and $290,000 for the fiscal years ended June 30, 2010, 2009 and 2008, 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 $1.1 million, $1.4 million and $818,000 during 2010, 2009 and 2008, respectively, represented the administrative funds 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 $21.4 million in the past two 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, 2010 and 2009

(In thousands)	2010	2009
Current Assets		
Cash and cash equivalents	$ 59,535	$ 65,368
Accrued interest receivable		
Investments	70	28
Loans	388	316
Accounts receivable		
Borrowers	186	129
Investments – current portion	17,054	26,162
Total current assets	77,233	92,003
Noncurrent Assets		
Investments – restricted	10,863	4,823
Loans receivable – restricted		
Construction	245,903	231,806
Wetlands mitigation	184	222
Other assets	436	558
Total noncurrent assets	257,386	237,409
Total assets	334,619	329,412
Current Liabilities		
Accounts payable	271	457
Accrued interest payable	225	253
Bonds payable – current portion	7,545	7,210
Total current liabilities	8,041	7,920
Noncurrent Liabilities		
Deferred fees	792	1,014
Bonds payable, net of unamortized premiums (discounts)	50,568	58,179
Total noncurrent liabilities	51,360	59,193
Total liabilities	59,401	67,113
Net Assets		
Restricted for program requirements	$ 275,218	$ 262,299

State of Arkansas Construction Assistance Revolving Loan Fund Program

Statements of Revenues, Expenses and Changes in Net Assets

Years Ended June 30, 2010 and 2009

(In thousands)	2010	2009
Operating Revenues		
Interest on investments	$ 537	$ 777
Interest on loans	5,849	5,892
Financing fees	2,528	2,399
Net appreciation of investments	161	153
Other	4	3
Total operating revenues	9,079	9,224
Operating Expenses		
Program administration	288	283
Federal financial assistance	8,985	—
Bond interest	2,891	3,405
Amortization of bond issuance costs	110	101
Amortization of bond discounts and premiums	(66)	13
Total operating expenses	12,208	3,802
Operating (Loss) Income	(3,129)	5,422
Nonoperating Revenue		
Federal grants	4,397	4,397
American Recovery and Reinvestment Act federal grants	12,731	—
Total nonoperating revenue	17,128	4,397
Income Before Transfers Out	13,999	9,819
Transfers Out, Net	(1,080)	(1,350)
Change in Net Assets	12,919	8,469
Net Assets, Beginning of Year	262,299	253,830
Net Assets, End of Year	$ 275,218	$ 262,299

State of Arkansas Construction Assistance Revolving Loan Fund Program

Statements of Cash Flows

Years Ended June 30, 2010 and 2009

(In thousands)	2010	2009
Operating Activities		
Interest received on investments	$ 314	$ 1,225
Interest received on loans	5,776	5,958
Financing fee income received	2,248	2,183
Loan disbursements	(35,471)	(19,019)
Principal repayments on loans	21,412	17,565
Cash paid for interest	(2,919)	(3,443)
Cash paid for arbitrage rebate	—	(167)
Federal grant funds expended	(8,985)	—
Cash paid for program administration	(276)	(361)
Net cash (used in) provided by operating activities	(17,901)	3,941
Noncapital Financing Activities		
Repayment of long-term debt	(7,210)	(21,125)
Proceeds from bond issuance	—	13,856
Cash paid for cost of issuance of long-term debt	—	(206)
Transfers out	(1,080)	(1,350)
Nonoperating grants received	17,128	4,397
Net cash provided by (used in) noncapital financing activities	8,838	(4,428)
Investing Activities		
Proceeds from maturities of investments	38,425	41,181
Purchase of investments	(35,195)	(27,277)
Net cash provided by investing activities	3,230	13,904
(Decrease) Increase in Cash and Cash Equivalents	(5,833)	13,417
Cash and Cash Equivalents, Beginning of Year	65,368	51,951
Cash and Cash Equivalents, End of Year	$ 59,535	$ 65,368

State of Arkansas Construction Assistance Revolving Loan Fund Program

Statements of Cash Flows (Continued)

Years Ended June 30, 2010 and 2009

(In thousands)		2010		2009
Reconciliation of Operating Income to Net Cash Provided by (Used In) Operating Activities				
Operating (loss) income	$	(3,129)	$	5,422
Items not requiring (providing) operating activities cash flows				
Amortization of bond issuance costs		110		101
Amortization of bond discounts and premiums		(66)		13
Amortization of deferred financing fees		(222)		(239)
Net appreciation of investments		(161)		(153)
Changes in				
Accrued interest receivable				
Investments		(42)		223
Loans		(72)		66
Accounts receivable – borrowers		(57)		25
Loans receivable		(14,059)		(1,454)
Accounts payable		(186)		(36)
Accrued interest payable		(28)		(38)
Other assets		11		11
Net cash (used in) provided by operating activities	$	(17,901)	$	3,941

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

Nature of Operations and Reporting Entity

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

As of July 2001, Arkansas Natural Resources Commission (ANRC), formerly known as Arkansas Soil and Water Conservation Commission, became the lead agency for the Program (previously led by Arkansas Department of Environmental Quality). As lead agency, ANRC is responsible for performing technical project reviews, monitoring construction, and coordinating the total management of the Program. Act 1243 of 2006 authorized the name change to ANRC, which has not had an impact on the Program. Arkansas Development Finance Authority (ADFA) serves as financial manager for the Program under an interagency agreement. ADFA is responsible for investing and disbursing funds as authorized by the lead agency, servicing loans, preparing and submitting monthly financial reports and annual financial statements, and procuring audit services. ADFA is reimbursed for Program administration costs through a calculation based on loans outstanding in accordance with the interagency agreement. The amounts incurred to ADFA for administration costs for the years ended June 30, 2010 and 2009, were $209,000 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, 2010 and 2009, the AAWQLP had $23.6 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. Material estimates that are particularly susceptible to significant change relate to the determination of fair values of investments.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

Operating revenues and expenses are distinguished from nonoperating items in the Program's statement of revenues, expenses and changes in net assets. 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.

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.

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, 2010 and 2009, cash equivalents of $59.5 million and $65.4 million, respectively, consisted primarily of money market mutual funds with variable interest rates.

Included in cash equivalents on the Program's statement of net assets is the Fees and Expenses Fund with a balance of approximately $6.8 million and $9.5 million at June 30, 2010 and 2009, respectively. This fund contains fees charged on loans of the Program, as allowed by the U.S. 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.

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 effective 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 Requirements

Net assets restricted by bond resolution and program requirements 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.

Reclassifications

Certain reclassifications have been made to the 2009 financial statements to conform to the 2010 presentation. The reclassifications had no effect on the changes in net assets.

Note 2: Deposits and Investments

Deposits

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

At June 30, 2010 and 2009, respectively, $6.2 million and $9.0 million of the Program's deposits (and carrying value) of $14.1 million and $15.3 million were exposed to custodial credit risk as follows:

(In thousands)	2010	2009
Uninsured and collateral held by pledging financial institution trust department or agent in the Program's name	$ 6,215	$ 8,981

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, 2010 and 2009, the Program had the following investments and maturities:

(In thousands)

	June 30, 2010				
		Maturities in Years			
Type	**Fair Value**	**Less than 1**	**1-5**	**6-10**	**More than 10**
U.S. Treasury obligations	$ 2,789	$ —	$ 2,789	$ —	$ —
U.S. agencies obligations	23,032	17,054	4,026	1,952	—
Money market mutual funds	45,394	45,394	—	—	—
Guaranteed investment contracts	2,096	—	2,096	—	—
	$ 73,311	$ 62,448	$ 8,911	$ 1,952	$ 0

(In thousands)

	June 30, 2009				
		Maturities in Years			
Type	**Fair Value**	**Less than 1**	**1-5**	**6-10**	**More than 10**
U.S. Treasury obligations	$ 5,601	$ 2,875	$ 2,726	$ —	$ —
U.S. agencies obligations	23,288	23,288	—	—	—
Money market mutual funds	50,035	50,035	—	—	—
Guaranteed investment contracts	2,097	—	531	1,566	—
	$ 81,021	$ 76,198	$ 3,257	$ 1,566	$ 0

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.

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 or investments of those funds were rated "AAAm" or "AAA" 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 Farm Credit Bank	$ 10,281	14%
Federal Home Loan Bank Mortgage Corporation	9,025	12%
Federal Home Loan Bank	3,725	5%

Summary of Carrying Values

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

(In thousands)	2010	2009
Carrying value		
Deposits	$ 14,141	$ 15,332
Investments	73,311	81,021
	$ 87,452	$ 96,353
Included in the following statement of net assets captions		
Cash and cash equivalents	$ 59,535	$ 65,368
Investments – current portion	17,054	26,162
Investments – restricted	10,863	4,823
	$ 87,452	$ 96,353

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, 2010 and 2009, such loans had a carrying value of approximately $246.0 million and $232.0 million, respectively, of which approximately $60.1 million and $38.2 million, respectively, are for projects still under construction. The loans bear interest ranging from 0.0% 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.

In fiscal year 2010, the Program began funding loans with American Recovery and Reinvestment Act (ARRA) federal funds. As of June 30, 2010, the Program had funded $3.7 million in ARRA loans.

Through the years ended June 30, 2010 and 2009, $452.2 million and $441.0 million, respectively, in cumulative loans had been approved for funding. At June 30, 2010 and 2009, $26.8 million and $51.1 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	2010	2009
2001-A				
Serial	4.10% – 5.50%	12/1/2017	$ 11,335	$ 13,920
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	3.13% – 5.00%	6/1/2015	11,400	14,805
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
2009-A				
Serial	2.50%-4.00%	6/1/2018	12,060	13,280
			57,910	65,120
	Unamortized discounts and premiums		203	269
			$ 58,113	$ 65,389

Activity in bonds payable for 2010 was as follows:

(In thousands)	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due within One Year
2001-A	$ 28,385	$ —	$ (2,585)	$ 25,800	$ 2,725
2004-A	23,455	—	(3,405)	20,050	3,530
2009-A	13,280	—	(1,220)	12,060	1,290
Total bonds payable	$ 65,120	$ 0	$ (7,210)	$ 57,910	$ 7,545

The principal amount shown above differs from the amount on the statement of net assets due to unamortized discounts and premiums of approximately $203,000.

Activity in bonds payable for 2009 was as follows:

(In thousands)	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due within One Year
1999-A	$ 15,415	$ —	$ (15,415)	$ —	$ —
2001-A	30,835	—	(2,450)	28,385	2,585
2004-A	26,715	—	(3,260)	23,455	3,405
2009-A	—	13,280	—	13,280	1,220
Total bonds payable	$ 72,965	$ 13,280	$ (21,125)	$ 65,120	$ 7,210

The principal amount shown above differs from the amount on the statement of net assets due to unamortized discounts and premiums of approximately $269,000.

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

(In thousands)	Principal	Interest
Fiscal Year ending June 30,		
2011	$ 7,545	$ 2,642
2012	7,645	2,323
2013	7,845	1,951
2014	7,900	1,568
2015	11,565	1,221
2016-2020	15,410	1,428
	57,910	11,133
Unamortized discounts and premiums	203	—
	$ 58,113	$ 11,133

During the fiscal year 2009, ADFA issued $13.3 million in 2009 Series A Refunding bonds for the benefit of the Program. The proceeds of the bonds, along with other available funds, were used to current refund all outstanding 1999 Series A bonds on June 10, 2009, and to pay underwriters compensation and other costs of issuance. The refunding resulted in an economic gain of $2.1 million to the Program.

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 has been economically dependent upon revenue from EPA. The impact of the revenue varies from year to year, and, for the year ended June 30, 2010, the Program received 65% of total revenue in the form of federal grants. This is an increase from prior year's percentage of 32%, primarily due to the Program receiving ARRA grant funds totaling $12.7 million. As of June 30, 2010, all of the Base federal revenue available had been disbursed to the Program.

The Program recognizes that the goal of the ARRA grants is to expeditiously fund eligible projects that simultaneously will create jobs, promote economic recovery, and generate long term benefits from infrastructure investment. The ARRA guidelines require that not less than 50% of assistance provided be additional subsidies in the form of principal forgiveness loans. ARRA also requires that, to the extent there are sufficient eligible project applications, not less than 20% of the funds be used for a Green Project Reserve. Projects must be one of the following: water or energy efficient, green infrastructure, or other environmentally innovative activities. The Program has $12.9 million in ARRA federal revenue to be disbursed in future fiscal years.

Contingencies

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

In conjunction with the issuance of tax-exempt bonds, the Internal Revenue Code of 1986 establishes rules and regulations for arbitrage rebates. The Program has made provisions for revenues above the rebate limit, which must be remitted to the Federal Government.

Supplementary Information

State of Arkansas Construction Assistance Revolving Loan Fund Program

Combining Statement of Net Assets

June 30, 2010

(In thousands)	Revolving Loan Fund	Fees and Expenses	Total
Current Assets			
Cash and cash equivalents	$ 52,753	$ 6,782	$ 59,535
Accrued interest receivable			
Investments	53	17	70
Loans	388	—	388
Accounts receivable			
Borrowers	—	186	186
Investment – current portion	17,054	—	17,054
Total current assets	70,248	6,985	77,233
Noncurrent Assets			
Investments – restricted	7,838	3,025	10,863
Loans receivable – restricted			
Construction	245,903	—	245,903
Wetlands mitigation	184	—	184
Other assets	436	—	436
Total noncurrent assets	254,361	3,025	257,386
Total assets	324,609	10,010	334,619
Current Liabilities			
Accounts payable	63	208	271
Accrued interest payable	225	—	225
Bonds payable – current portion	7,545	—	7,545
Total current liabilities	7,833	208	8,041
Noncurrent Liabilities			
Deferred fees	26	766	792
Bonds payable, net of unamortized premiums (discounts)	50,568	—	50,568
Total noncurrent liabilities	50,594	766	51,360
Total liabilities	58,427	974	59,401
Net Assets			
Restricted for program requirements	$ 266,182	$ 9,036	$ 275,218

State of Arkansas Construction Assistance Revolving Loan Fund Program

Combining Statement of Revenues, Expenses and Changes in Net Assets

Year Ended June 30, 2010

(In thousands)	Revolving Loan Fund	Fees and Expenses	Total
Operating Revenues			
Interest on investments	$ 460	$ 77	$ 537
Interest on loans	5,849	—	5,849
Financing fees	18	2,510	2,528
Net appreciation of investments	136	25	161
Other	4	—	4
Total operating revenues	6,467	2,612	9,079
Operating Expenses			
Program administration	10	278	288
Federal financial assistance	8,985	—	8,985
Bond interest	2,891	—	2,891
Amortization of bond issuance costs	110	—	110
Amortization of bond discounts and premiums	(66)	—	(66)
Total operating expenses	11,930	278	12,208
Operating (Loss) Income	(5,463)	2,334	(3,129)
Nonoperating Revenue			
Federal grants	4,220	177	4,397
American Recovery and Reinvestment Act federal grants	12,731	—	12,731
Total nonoperating revenue	16,951	177	17,128
Income Before Transfers In (Out)	11,488	2,511	13,999
Transfers In (Out)	880	(1,960)	(1,080)
Change in Net Assets	12,368	551	12,919
Net Assets, Beginning of Year	253,814	8,485	262,299
Net Assets, End of Year	$ 266,182	$ 9,036	$ 275,218

State of Arkansas Construction Assistance Revolving Loan Fund Program

Combining Statement of Cash Flows

Year Ended June 30, 2010

(In thousands)	Revolving Loan Fund	Fees and Expenses	Total
Operating Activities			
Interest received on investments	$ 254	$ 60	$ 314
Interest received on loans	5,776	—	5,776
Financing fee income received	—	2,248	2,248
Loan disbursements	(35,471)	—	(35,471)
Principal repayments on loans	21,412	—	21,412
Cash paid for interest	(2,919)	—	(2,919)
Federal grant funds expended	(8,985)	—	(8,985)
Cash paid for program administration	(4)	(272)	(276)
Net cash (used in) provided by operating activities	(19,937)	2,036	(17,901)
Noncapital Financing Activities			
Repayment of long-term debt	(7,210)	—	(7,210)
Transfers in (out)	880	(1,960)	(1,080)
Nonoperating grants received	16,951	177	17,128
Net cash provided by (used in) noncapital financing activities	10,621	(1,783)	8,838
Investing Activities			
Proceeds from maturities of investments	33,425	5,000	38,425
Purchase of investments	(27,195)	(8,000)	(35,195)
Net cash provided by (used in) investing activities	6,230	(3,000)	3,230
Decrease in Cash and Cash Equivalents	(3,086)	(2,747)	(5,833)
Cash and Cash Equivalents, Beginning of Year	55,839	9,529	65,368
Cash and Cash Equivalents, End of Year	$ 52,753	$ 6,782	$ 59,535

State of Arkansas Construction Assistance Revolving Loan Fund Program

Combining Statement of Cash Flows (Continued)

Year Ended June 30, 2010

(In thousands)	Revolving Loan Fund	Fees and Expenses	Total
Reconciliation of Operating Income to Net Cash Provided By Operating Activities			
Operating (loss) income	$ (5,463)	$ 2,334	$ (3,129)
Items not requiring (providing) operating activities cash flows			
Amortization of bond issuance costs	110	—	110
Amortization of bond discounts and premiums	(66)	—	(66)
Amortization of deferred financing fees	(19)	(203)	(222)
Net (appreciation) depreciation of investments	(136)	(25)	(161)
Changes in			
Accrued interest receivable			
Investments	(24)	(18)	(42)
Loans	(72)	—	(72)
Accounts receivable – borrowers	—	(57)	(57)
Loans receivable	(14,059)	—	(14,059)
Accounts payable	(191)	5	(186)
Accrued interest payable	(28)	—	(28)
Other assets	11	—	11
Net cash (used in) provided by operating activities	$ (19,937)	$ 2,036	$ (17,901)