

State of Arkansas Construction Assistance Revolving Loan Fund Program

Accountants' Report and Financial Statements

June 30, 2004 and 2003



**State of Arkansas Construction Assistance
Revolving Loan Fund Program
June 30, 2004 and 2003**

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

This discussion and analysis is designed to assist the reader in focusing on significant issues and activities and to identify any significant changes in the financial position of the Construction Assistance Revolving Loan Fund Program (the "Program"). Readers are encouraged to consider the information presented in conjunction with the financial statements as a whole, which follow this section of the report.

Discussion of Financial Statements

The basic financial statements include three required statements: the statement of net assets, the statement of revenues, expenses and changes in net assets and the statement of cash flows. Comparative totals as of and for the year ended June 30, 2003, are also presented. These comparative totals are intended to facilitate an enhanced understanding of the Program's financial position and results of operations for the current fiscal year in comparison to the prior fiscal year. Additional information, following the Notes to the 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)*

	2004	2003
Total assets	\$ <u>282,981</u>	\$ <u>282,437</u>
Current liabilities	5,539	5,782
Noncurrent liabilities	<u>91,013</u>	<u>99,650</u>
Total liabilities	<u>96,552</u>	<u>105,432</u>
Total net assets – restricted for program requirements	\$ <u>186,429</u>	\$ <u>177,005</u>

The program's total assets increased slightly to \$283.0 million, from \$282.4 million at June 30, 2003. Investments increased \$5.4 million due to the purchase of securities totaling \$6.4 million for the fees and expense fund and the debt service reserve. The loan balance decreased \$6.8 million, primarily due to a loan prepayment from the Nature Conservancy, totaling \$5.3 million. The Program funded \$4.4 million of the \$49.1 million in new loans approved during the year as well as \$4.8 million related to existing loans. Environmental Protection Agency ("EPA") grants comprised 82% of the \$9.2 million in loans funded during the year. The Program issued loans to various cities across the State of Arkansas, for which the construction period is typically two years.

The Program's total liabilities decreased 8% to \$96.6 million, from \$105.4 million at June 30, 2003. The decrease is primarily attributed to scheduled bond redemptions of \$4.2 million and bond calls, from available cash on hand, of \$2.3 million. In addition, the Program redeemed \$39.2 million in bonds during the year through the issuance of \$35.9 million in refunding bonds. This resulted in a net present value benefit of \$2.2 million for the Program.

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

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

(In thousands)

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

Operating revenue and federal grants totaled \$15.8 million and \$18.6 million for fiscal years ended June 30, 2004 and June 30, 2003, respectively. The change of \$2.8 million is primarily attributed to the decline in the federal grants of \$2.1 million as well as a decrease in investment income of \$785 thousand. Revenues from investments were \$972 thousand and \$1.9 million for fiscal years ending June 30, 2004 and June 30, 2003, respectively. The average return on cash, cash equivalents and investments was 1.30% at June 30, 2004, compared with 2.20% at June 30, 2003.

Operating expenses and transfers out declined by \$209 thousand from the fiscal year ended June 30, 2003, to the fiscal year ended June 30, 2004. This is primarily attributed to the decline in interest on bonds, due to a bond refunding and bond redemptions during the year. Program administration expenses totaled \$266 thousand and \$292 thousand for the fiscal years ended June 30, 2004 and June 30, 2003, 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 Soil and Water Conservation Commission 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.

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

The net assets of the Program increased from \$177.0 million at June 30, 2003 to \$186.4 million at June 30, 2004. The bond resolution and the Program restrict all of the net assets.

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

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, 2004 and 2003, 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, 2004 and 2003, 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, 2004 and 2003, 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 3, 2004, on our consideration of the Program's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

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

/s/ **BKD, LLP**

Little Rock, Arkansas
September 3, 2004

**State of Arkansas Construction Assistance
Revolving Loan Fund Program
Statements of Net Assets
June 30, 2004 and 2003**

In thousands

	<u>2004</u>	<u>2003</u>
Current Assets		
Cash and cash equivalents	\$ 77,369	\$ 75,476
Accrued interest receivable		
Investments	204	193
Loans	224	285
Accounts receivable		
Borrowers	68	75
Environmental Protection Agency	<u>66</u>	<u>—</u>
Total current assets	<u>77,931</u>	<u>76,029</u>
Noncurrent Assets		
Investments – restricted	18,233	12,809
Loans receivable – restricted		
Construction	184,310	185,789
Nature Conservancy	1,177	6,500
Wetlands Mitigation	200	200
Other assets	<u>1,130</u>	<u>1,110</u>
Total noncurrent assets	<u>205,050</u>	<u>206,408</u>
Total assets	<u>282,981</u>	<u>282,437</u>
Current Liabilities		
Accounts payable	438	288
Accrued interest payable	481	424
Bonds payable - current portion	<u>4,620</u>	<u>5,070</u>
Total current liabilities	<u>5,539</u>	<u>5,782</u>
Noncurrent Liabilities		
Deferred fees	2,386	2,736
Bonds payable, net of unamortized premium (discount)	<u>88,627</u>	<u>96,914</u>
Total noncurrent liabilities	<u>91,013</u>	<u>99,650</u>
Total liabilities	<u>96,552</u>	<u>105,432</u>
Net Assets		
Restricted for program requirements	<u>\$ 186,429</u>	<u>\$ 177,005</u>

**State of Arkansas Construction Assistance
Revolving Loan Fund Program**
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2004 and 2003

In thousands

	2004	2003
Operating Revenues		
Interest on investments	\$ 972	\$ 1,886
Interest on loans	5,539	5,633
Financing fees	1,928	1,889
Net decrease in the fair value of investments	<u>(115)</u>	<u>(299)</u>
Total operating revenues	<u>8,324</u>	<u>9,109</u>
Operating Expenses		
Program administration	266	292
Bond interest	5,042	5,235
Amortization of bond issuance costs	123	117
Amortization of bond discounts	<u>125</u>	<u>164</u>
Total operating expenses	<u>5,556</u>	<u>5,808</u>
Operating Income	2,768	3,301
Nonoperating Revenue		
Federal grants	<u>7,464</u>	<u>9,522</u>
Income Before Transfers Out	10,232	12,823
Transfers Out	<u>(808)</u>	<u>(765)</u>
Change in Net Assets	9,424	12,058
Net Assets, Beginning of Year	<u>177,005</u>	<u>164,947</u>
Net Assets, End of Year	<u>\$ 186,429</u>	<u>\$ 177,005</u>

**State of Arkansas Construction Assistance
Revolving Loan Fund Program
Statements of Cash Flows
Years Ended June 30, 2004 and 2003**

In thousands

	<u>2004</u>	<u>2003</u>
Operating Activities		
Interest received on investments	\$ 1,180	\$ 1,955
Interest received on loans	5,601	5,706
Financing fee income received	1,585	1,556
Loan disbursements	(9,234)	(11,397)
Principal repayments on loans	16,035	12,959
Cash paid for interest	(5,030)	(5,254)
Cash paid for program administration	(299)	(256)
Cash paid for arbitrage rebate	(16)	—
Net cash provided by operating activities	<u>9,822</u>	<u>5,269</u>
Noncapital Financing Activities		
Proceeds from bond issuance	37,521	—
Repayment of long-term debt	(45,999)	(4,840)
Transfers out	(808)	(765)
Nonoperating grants received	7,397	9,522
Cash paid for bond issuance costs	(503)	—
Net cash (used in) provided by noncapital financing activities	<u>(2,392)</u>	<u>3,917</u>
Investing Activities		
Proceeds from sale of investments	878	10,500
Purchase of investments	(6,415)	(4,020)
Net cash (used in) provided by investing activities	<u>(5,537)</u>	<u>6,480</u>
Increase in Cash and Cash Equivalents	1,893	15,666
Cash and Cash Equivalents, Beginning of Year	<u>75,476</u>	<u>59,810</u>
Cash and Cash Equivalents, End of Year	<u>\$ 77,369</u>	<u>\$ 75,476</u>

**State of Arkansas Construction Assistance
Revolving Loan Fund Program
Statements of Cash Flows (Continued)
Years Ended June 30, 2004 and 2003**

In thousands

	2004	2003
Reconciliation of Operating Income to Net Cash Provided By		
Operating Activities		
Operating income	\$ 2,768	\$ 3,301
Adjustments to reconcile net income to net cash provided by operating activities		
Accrued interest paid on new bond issuance	(45)	—
Premium paid on bond redemption	18	—
Items not requiring (providing) operating activities cash flows		
Amortization of bond issuance costs	123	117
Amortization of bond discounts	107	164
Amortization of deferred financing fees	(350)	(348)
Net depreciation of investments	115	299
Changes in		
Accrued interest receivable		
Investments	(11)	85
Loans	61	74
Accounts receivable	7	15
Loans receivable	6,802	1,562
Accounts payable	150	(1)
Accrued interest payable	57	(18)
Other assets	20	19
Net cash provided by operating activities	\$ 9,822	\$ 5,269

State of Arkansas Construction Assistance Revolving Loan Fund Program

Notes to Financial Statements

June 30, 2004 and 2003

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

Nature of Operations and Reporting Entity

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

As of July 2001, Arkansas Soil and Water Conservation Commission ("ASWCC") became the lead agency for the Program. As lead agency, ASWCC is responsible for performing technical project reviews, monitoring construction, and coordinating the total management of the Program.

Arkansas Development Finance Authority ("ADFA") serves as financial manager for the Program under an interagency agreement. ADFA is responsible for investing and disbursing funds as authorized by the lead agency, servicing loans, preparing and submitting monthly financial reports and annual financial statements, and procuring auditing services. ADFA is reimbursed for Program administration costs through a calculation based on loans outstanding in accordance with an interagency agreement with ASWCC. The amount paid to ADFA for administration costs for the years ending June 30, 2004 and 2003 were \$186 thousand and \$192 thousand, respectively.

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounting Method

The Program utilizes the proprietary fund method of accounting whereby operating revenues and expenses are distinguished from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating items. All revenues and expenses are recognized on the accrual basis. Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Program has elected not to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989, unless the GASB specifically adopts such FASB Statements or Interpretations. The Program first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

State of Arkansas Construction Assistance Revolving Loan Fund Program

Notes to Financial Statements June 30, 2004 and 2003

Cash Equivalents

The Program considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2004 and 2003, cash equivalents of \$77.3 million and \$75.4 million, respectively, consisted primarily of money market mutual funds with variable interest rates.

Investments and Investment Income

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

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

Bond Issuance Costs and Discounts and Premiums

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

Financing Fees

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

State of Arkansas Construction Assistance Revolving Loan Fund Program

Notes to Financial Statements

June 30, 2004 and 2003

Note 2: Deposits and Investments

Deposits

At June 30, 2004 and 2003, the carrying value and the bank balance of the Program's deposits were as follows:

<i>In thousands</i>	2004	2003
Insured (FDIC) or collateralized with securities held by Program or Program's agent in the Program's name	\$ <u>5,173</u>	\$ <u>3,078</u>
Carrying value	\$ <u>5,173</u>	\$ <u>3,078</u>

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

Included in cash equivalents on the Program's balance sheet is a "Fees and Expenses" fund with a balance of approximately \$4.3 million and \$6.3 million at June 30, 2004 and 2003, respectively. This account contains fees charged on loans of the Program, as allowed by the Environmental Protection Agency ("EPA"). These funds may be used at the discretion of ASWCC to fund expenses of the Program.

Investments

Arkansas statutes authorize the Program to invest in direct obligations of the U.S. Government; obligations on which the principal and interest are fully guaranteed, or are fully secured, insured, or covered by commitments or agreements to purchase by the U.S. Government; obligations of agencies and instrumentalities created by act of the United States Congress and authorized thereby to issue securities or evidence of indebtedness, regardless of guarantee of repayment by the U.S. Government; obligations of political subdivisions of the United States; certain obligations issued by the State Board of Education; short-term warrants of political subdivisions of the State of Arkansas and municipalities; the sale of federal funds with a maturity of not more than one business day; demand, savings or time deposits fully insured by a federal deposit insurance agency; repurchase agreements that are fully insured by obligations of the U.S. Government, any U.S. State or any political subdivision thereof; securities of, or other interest in, any open-end type investment company or investment trust registered under the Investment Company Act of 1940, and which is considered a money market fund, provided that the portfolio is limited principally to U.S. Government obligations and the investment company or trust takes delivery of collateral either directly or through an authorized custodian; and bank certificates of deposit.

**State of Arkansas Construction Assistance
Revolving Loan Fund Program
Notes to Financial Statements
June 30, 2004 and 2003**

The Program's investment in common trust funds/money markets and guaranteed investment contracts are not classified by custodial credit risk category as they are not evidenced by securities in physical or book entry form.

The Program's investments consisted of:

<i>In thousands</i>		2004	2003
Investment Type	Category 1	Fair/Carrying Value	Fair/Carrying Value
Categorized			
U.S. agencies obligations	\$ 11,720	\$ 11,720	\$ 6,296
Uncategorized			
Guaranteed investment contracts	6,513	6,513	6,513
Money market mutual funds	<u>72,196</u>	<u>72,196</u>	<u>72,398</u>
	<u>\$ 90,429</u>	<u>\$ 90,429</u>	<u>\$ 85,207</u>

Summary of Carrying Values

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

<i>In thousands</i>	2004	2003
Carrying value		
Deposits	\$ 5,173	\$ 3,078
Investments	<u>90,429</u>	<u>85,207</u>
	<u>\$ 95,602</u>	<u>\$ 88,285</u>
Included in the following statement of net assets captions		
Cash and cash equivalents	\$ 77,369	\$ 75,476
Investments – restricted	<u>18,233</u>	<u>12,809</u>
	<u>\$ 95,602</u>	<u>\$ 88,285</u>

**State of Arkansas Construction Assistance
Revolving Loan Fund Program
Notes to Financial Statements
June 30, 2004 and 2003**

Note 3: Loans Receivable

The Program originates loans with Arkansas municipalities for financing the construction of wastewater treatment facilities. The loans are payable in semi-annual installments. At June 30, 2004 and 2003, such loans had a carrying value of approximately \$185.7 million and \$192.5 million, respectively, of which approximately \$22.0 million and \$18.6 million, respectively, are for projects still under construction. The loans bear interest ranging from 2.25% to 4.0%, and are collateralized by special assessments, by user charges, or by sales and use tax bonds issued by the municipalities.

Through the years ended June 30, 2004 and 2003, \$313.2 million and \$270.6 million, respectively, in cumulative loans had been approved for funding. At June 30, 2004 and 2003, \$49.1 million and \$8.3 million, respectively, remained encumbered and awaiting disbursement to loan recipients.

Note 4: Bonds Payable

Bonds payable are as follows at June 30:

<i>In thousands</i>					
Series	Interest Rate Range	Final Maturity Dates		2004	2003
1993-A					
Serial	4.95% - 5.30%	12/1/2007	\$	—	\$ 2,950
1993-B					
Serial	4.70% - 5.00%	6/1/2015		—	40,185
1995-A					
Serial	5.10% - 5.30%	12/1/2007		2,170	2,700
1996-A					
Serial	5.00% - 5.20%	12/1/2006		1,640	2,225
1999-A					
Serial	3.70% - 4.60%	12/1/2013		7,950	8,580
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		21,125	21,845
Term 1	5.50%	12/1/2013		3,170	3,170
Term 2	5.50%	12/1/2014		3,360	3,360
Term 3	5.50%	12/1/2015		4,840	4,840
Term 4	5.50%	12/1/2018		1,750	1,750
Term 5	5.50%	12/1/2019		1,345	1,345
2004-A					
Serial	2.00% - 5.00%	6/1/2015		27,205	—
Term 1	5.00%	12/1/2012		3,435	—
Term 2	5.00%	12/1/2013		3,290	—
Term 3	5.00%	12/1/2014		1,925	—
				<u>93,530</u>	<u>103,275</u>
	Unamortized discount			<u>(283)</u>	<u>(1,291)</u>
				<u>\$ 93,247</u>	<u>\$ 101,984</u>

**State of Arkansas Construction Assistance
Revolving Loan Fund Program
Notes to Financial Statements
June 30, 2004 and 2003**

Activity in bonds payable for 2004 was as follows:

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

Activity in bonds payable for 2003 was as follows:

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

**State of Arkansas Construction Assistance
Revolving Loan Fund Program
Notes to Financial Statements
June 30, 2004 and 2003**

Annual debt service requirements to maturity for bonds payable are as follows. The principal amount shown differs from the amount on the balance sheet due to unamortized discounts of approximately \$283,000.

In thousands

	Principal	Interest
Year ending June 30		
2005	\$ 4,620	\$ 4,377
2006	4,955	4,093
2007	5,180	3,893
2008	5,810	3,678
2009	6,525	3,426
2010 – 2014	36,210	12,659
2015 – 2019	25,610	3,841
2020 – 2022	4,620	340
	93,530	36,307
Unamortized discounts	(283)	—
	\$ 93,247	\$ 36,307

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

In prior years, the Program defeased certain bonds by placing proceeds of new bonds in irrevocable trusts to provide for all future debt service payments of old bonds. Accordingly, those trust account assets and the liability for the defeased bonds are not included in these financial statements. Bonds with total outstanding amounts of approximately \$23.8 million were considered defeased at June 30, 2004 and 2003, respectively.

Note 5: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Economic Dependency

The Program is economically dependent upon revenue from the Environmental Protection Agency. During 2004 and 2003, the Program received 47% and 51%, respectively, of total revenue in the form of federal grants.

**State of Arkansas Construction Assistance
Revolving Loan Fund Program
Notes to Financial Statements
June 30, 2004 and 2003**

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, 2004 and 2003, 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, 2004**

<i>In thousands</i>	<u>Revolving Loan Fund</u>	<u>Fees and Expenses</u>	<u>Total</u>
Current Assets			
Cash and cash equivalents	\$ 73,068	\$ 4,301	\$ 77,369
Accrued interest receivable			
Investments	139	65	204
Loans	224	—	224
Accounts receivable			
Borrowers	—	68	68
Environmental Protection Agency	—	66	66
Total current assets	<u>73,431</u>	<u>4,500</u>	<u>77,931</u>
Noncurrent Assets			
Investments – restricted	12,656	5,577	18,233
Loans receivable – restricted			
Construction	184,310	—	184,310
Nature Conservancy	1,177	—	1,177
Wetlands Mitigation	200	—	200
Other assets	<u>1,130</u>	<u>—</u>	<u>1,130</u>
Total noncurrent assets	<u>199,473</u>	<u>5,577</u>	<u>205,050</u>
Total assets	<u>272,904</u>	<u>10,077</u>	<u>282,981</u>
Current Liabilities			
Accounts payable	248	190	438
Accrued interest payable	481	—	481
Bonds payable - current portion	<u>4,620</u>	<u>—</u>	<u>4,620</u>
Total current liabilities	<u>5,349</u>	<u>190</u>	<u>5,539</u>
Noncurrent Liabilities			
Deferred fees	193	2,193	2,386
Bonds payable, net of unamortized premium (discount)	<u>88,627</u>	<u>—</u>	<u>88,627</u>
Total noncurrent liabilities	<u>88,820</u>	<u>2,193</u>	<u>91,013</u>
Total liabilities	<u>94,169</u>	<u>2,383</u>	<u>96,552</u>
Net Assets			
Restricted for program requirements	<u>\$ 178,735</u>	<u>\$ 7,694</u>	<u>\$ 186,429</u>

**State of Arkansas Construction Assistance
Revolving Loan Fund Program**
Combining Statement of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2004

<i>In thousands</i>	Revolving Loan Fund	Fees and Expenses	Total
Operating Revenues			
Interest on investments	\$ 741	\$ 231	\$ 972
Interest on loans	5,539	—	5,539
Financing fees	43	1,885	1,928
Net increase (decrease) in the fair value of investments	<u>29</u>	<u>(144)</u>	<u>(115)</u>
Total operating revenues	<u>6,352</u>	<u>1,972</u>	<u>8,324</u>
Operating Expenses			
Program administration	12	254	266
Bond interest	5,042	—	5,042
Amortization of bond issuance costs	123	—	123
Amortization of bond discounts	<u>125</u>	<u>—</u>	<u>125</u>
Total operating expenses	<u>5,302</u>	<u>254</u>	<u>5,556</u>
Operating Income	1,050	1,718	2,768
Nonoperating Revenue			
Federal grants	<u>7,464</u>	<u>—</u>	<u>7,464</u>
Income Before Transfers Out	8,514	1,718	10,232
Transfers Out	<u>(733)</u>	<u>(75)</u>	<u>(808)</u>
Change in Net Assets	7,781	1,643	9,424
Net Assets, Beginning of Year	<u>170,954</u>	<u>6,051</u>	<u>177,005</u>
Net Assets, End of Year	<u>\$ 178,735</u>	<u>\$ 7,694</u>	<u>\$ 186,429</u>

**State of Arkansas Construction Assistance
Revolving Loan Fund Program
Combining Statement of Cash Flows
Year Ended June 30, 2004**

<i>In thousands</i>	Revolving Loan Fund	Fees and Expenses	Total
Operating Activities			
Interest received on investments	\$ 971	\$ 209	\$ 1,180
Interest received on loans	5,601	—	5,601
Financing fee income received	—	1,585	1,585
Loan disbursements	(9,234)	—	(9,234)
Principal repayments on loans	16,035	—	16,035
Cash paid for interest	(5,030)	—	(5,030)
Cash paid for program administration	(42)	(257)	(299)
Cash paid for arbitrage rebate	(16)	—	(16)
	<u>8,285</u>	<u>1,537</u>	<u>9,822</u>
Net cash provided by operating activities			
Noncapital Financing Activities			
Proceeds from bond issuance	37,521	—	37,521
Repayment of long-term debt	(45,999)	—	(45,999)
Transfers out	(666)	(142)	(808)
Nonoperating grants received	7,397	—	7,397
Cash paid for bond issuance costs	(503)	—	(503)
	<u>(2,250)</u>	<u>(142)</u>	<u>(2,392)</u>
Net cash used in noncapital financing activities			
Investing Activities			
Proceeds from sale of investments	378	500	878
Purchase of investments	(2,472)	(3,943)	(6,415)
	<u>(2,094)</u>	<u>(3,443)</u>	<u>(5,537)</u>
Net cash used in investing activities			
Increase (Decrease) in Cash and Cash Equivalents	3,941	(2,048)	1,893
Cash and Cash Equivalents, Beginning of Year	<u>69,127</u>	<u>6,349</u>	<u>75,476</u>
Cash and Cash Equivalents, End of Year	<u>\$ 73,068</u>	<u>\$ 4,301</u>	<u>\$ 77,369</u>

**State of Arkansas Construction Assistance
Revolving Loan Fund Program
Combining Statement of Cash Flows (Continued)
Year Ended June 30, 2004**

<i>In thousands</i>	Revolving Loan Fund	Fees and Expenses	Total
Reconciliation of Operating Income to Net Cash Provided By Operating Activities			
Operating income	\$ 1,050	\$ 1,718	\$ 2,768
Adjustments to reconcile net income to net cash provided by operating activities			
Accrued interest paid on new bond issuance	(45)	—	(45)
Premium paid on bond redemption	18	—	18
Items not requiring (providing) operating activities cash flows			
Amortization of bond issuance costs	123	—	123
Amortization of bond discounts	107	—	107
Amortization of deferred financing fees	(43)	(307)	(350)
Net depreciation (appreciation) of investments	(28)	143	115
Changes in			
Accrued interest receivable			
Investments	11	(22)	(11)
Loans	61	—	61
Accounts receivable	—	7	7
Loans receivable	6,802	—	6,802
Accounts payable	152	(2)	150
Accrued interest payable	57	—	57
Other assets	20	—	20
Net cash provided by operating activities	\$ 8,285	\$ 1,537	\$ 9,822