

**STATE OF ARKANSAS CONSTRUCTION ASSISTANCE
REVOLVING LOAN FUND PROGRAM**

June 30, 2023 and 2022

**Combined Financial Statements
And
Supplementary Information**

With

Independent Auditor's Report



Table of Contents

	<u>Page</u>
Independent Auditor’s Report.....	1 – 4
Management’s Discussion and Analysis	5 – 9
Combined Financial Statements	
Combined Statements of Net Position.....	10
Combined Statements of Revenues, Expenses, and Changes in Net Position.....	11
Combined Statements of Cash Flows.....	12
Notes to Combined Financial Statements.....	13 – 23
Supplementary Information	
Combining Statement of Net Position as of June 30, 2023	24
Combining Statement of Revenues, Expenses, and Changes in Net Position for the Year Ended June 30, 2023	25
Combining Statement of Cash Flows for the Year Ended June 30, 2023	26
Compliance and Internal Control Section	
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	27 – 28
Independent Auditor’s Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance in Accordance With the Uniform Guidance.....	29 – 30
Schedule of Findings and Questioned Costs for the Year Ended June 30, 2023	31
Summary Schedule of Prior Audit Findings for the Year Ended June 30, 2023.....	32
Schedule of Expenditures of Federal Awards for the Year Ended June 30, 2023.....	33
Notes to Schedule of Expenditures of Federal Awards for the Year Ended June 30, 2023	34



Independent Auditor's Report

Commissioners of the Arkansas Natural
Resources Commission

Board of Directors
Arkansas Development Finance Authority
Little Rock, Arkansas

Report on the Audited Combined Financial Statements

Opinions

We have audited the combined financial statements of the State of Arkansas Construction Assistance Revolving Loan Fund Program, which comprise the combined statements of net position as of June 30, 2023 and 2022, and the related combined statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the combined financial statements.

In our opinion, the accompanying combined financial statements present fairly, in all material respects, the financial position of the State of Arkansas Construction Assistance Revolving Loan Fund Program as of June 30, 2023 and 2022, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audits of the Combined Financial Statements section of our report. We are required to be independent of the State of Arkansas Construction Assistance Revolving Loan Fund Program, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note 1.a., the accompanying combined financial statements present only the State of Arkansas Construction Assistance Revolving Loan Fund Program and do not purport to, and do not, present fairly the financial position of the State of Arkansas as of June 30, 2023 and 2022, and the changes in its financial position and its cash flows for the years then ended in accordance with GAAP. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of the combined financial statements in accordance with GAAP, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the combined financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the State of Arkansas Construction Assistance Revolving Loan Fund Program's ability to continue as a going concern for 12 months beyond the combined financial statements date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audits of the Combined Financial Statements

Our objectives are to obtain reasonable assurance about whether the combined financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the combined financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the combined financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the combined financial statements.
- Obtain an understanding of internal control relevant to the audits in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State of Arkansas Construction Assistance Revolving Loan Fund Program's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the combined financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the State of Arkansas Construction Assistance Revolving Loan Fund Program's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits, significant audit findings and certain internal control-related matters that we identified during the audits.

Required Supplementary Information

GAAP require that the management's discussion and analysis on pages 5 through 9 be presented to supplement the basic combined financial statements. Such information is the responsibility of management and, although not a part of the basic combined financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic combined financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic combined financial statements, and other knowledge we obtained during our audits of the basic combined financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming opinions on the combined financial statements that collectively comprise the State of Arkansas Construction Assistance Revolving Loan Fund Program's basic combined financial statements. The schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic combined financial statements. The supplementary information on pages 24 through 26 and the schedule of expenditures of federal awards on page 33 are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic combined financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic combined financial statements or to the basic combined financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the supplementary information and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic combined financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2023, on our consideration of the State of Arkansas Construction Assistance Revolving Loan Fund Program's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State of Arkansas Construction Assistance Revolving Loan Fund Program's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of Arkansas Construction Assistance Revolving Loan Fund Program's internal control over financial reporting and compliance.

Frost, PLLC

Certified Public Accountants

Little Rock, Arkansas
October 31, 2023

**STATE OF ARKANSAS CONSTRUCTION ASSISTANCE
REVOLVING LOAN FUND PROGRAM**

Management's Discussion and Analysis

For the Years Ended June 30, 2023 and 2022

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 State of Arkansas Construction Assistance Revolving Loan Fund Program (the "Program"). Readers are encouraged to consider the information presented in conjunction with the combined financial statements and notes as a whole, which follow this section of the report.

Discussion of Combined Financial Statements

The June 30, 2023 basic combined financial statements include three required statements: the combined statement of net position; the combined statement of revenues, expenses, and changes in net position; and the combined statement of cash flows. Comparative totals as of and for the years ended June 30, 2022 and 2021 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 Combined Financial Statements*, includes the combining statement of net position; the combining statement of revenues, expenses, and changes in net position; as well as the combining statement of cash flows. These combining statements detail the Revolving Loan Fund and the Fees and Expense Fund, which comprise the Program.

Condensed Financial Information – Combined Statements of Net Position

	<u>2023</u>	<u>2022</u>	<u>2021</u>
<i>(In thousands)</i>			
Total assets	\$ 475,794	\$ 450,429	\$ 433,212
Liabilities			
Current liabilities	<u>324</u>	<u>269</u>	<u>240</u>
Net position			
Restricted by bond resolution, enabling legislation, and Program requirements	<u>\$ 475,470</u>	<u>\$ 450,160</u>	<u>\$ 432,972</u>

The Program's total assets have increased over the past three years. At June 30, 2023, total assets increased \$25.4 million, which is primarily attributable to the increase of \$45.6 million in loans receivable - restricted, which is offset by a decrease of \$20.2 million in cash and cash equivalents. At June 30, 2022, total assets increased \$17.2 million, which is primarily attributable to the increase of \$45.6 million in loans receivable - restricted, which is offset by a decrease of \$29.1 million cash and cash equivalents. The Program has been able to revolve loan repayments to fund new loans over the last few years without having to leverage with bond proceeds.

**STATE OF ARKANSAS CONSTRUCTION ASSISTANCE
REVOLVING LOAN FUND PROGRAM**

Management’s Discussion and Analysis (cont.)

For the Years Ended June 30, 2023 and 2022

The following table reports loan activity for each year:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
<i>(In thousands)</i>			
Loan disbursements	\$ 70,774	\$ 57,796	\$ 45,414
Loan repayments	<u>25,135</u>	<u>12,220</u>	<u>13,604</u>
Net increase in loans receivable	<u>\$ 45,639</u>	<u>\$ 45,576</u>	<u>\$ 31,810</u>

The following table reflects the disbursement of funds to new and existing loan borrowers:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
<i>(In thousands)</i>			
New loans	\$ 101,750	\$ 58,791	\$ 82,659
Loan disbursements - new loans	22,572	4,640	7,291
Existing loans	\$ 204,084	\$ 255,919	\$ 340,267
Loan disbursements - existing loans	48,202	53,156	38,123

The Program continuously funds loans from Environmental Protection Agency (“EPA”) federal grant funds, state matching funds, and revolving Program funds. During the current fiscal year, the Program committed an additional \$101.8 million of Program and grant funds of which only \$22.6 million has been disbursed. The Program has disbursed \$48.2 million from Program funds, base federal grants, and state match funds to loans still in construction. During the prior fiscal year, the Program committed an additional \$58.8 million of Program and grant funds of which only \$4.6 million has been disbursed. The Program has disbursed \$53.2 million from Program funds, base federal grants, and state match funds to loans still in construction. The Program received federal subsidy in the form of an annual capitalization grant (Base). Per EPA guidelines and Arkansas Natural Resources Commission (“ANRC”) policy, all state match funds must be matched with federal dollars on or prior to the receipt of the federal funds and ANRC has chosen to fund loans with state match funds prior to utilizing the federal capitalization grant. The Program has available \$7.3 million and \$0.8 million of the federal fiscal years 2022 and 2021 Base grants, respectively, to utilize for additional subsidy and repayable loans.

The table below reflects the amounts used from each funding source for fiscal years 2023, 2022, and 2021:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
<i>(In thousands)</i>			
EPA federal base	\$ 12,481	\$ 7,924	\$ 6,016
State matching funds	3,243	2,079	2,079
Revolving Program funds	<u>55,050</u>	<u>47,793</u>	<u>37,319</u>
	<u>\$ 70,774</u>	<u>\$ 57,796</u>	<u>\$ 45,414</u>

**STATE OF ARKANSAS CONSTRUCTION ASSISTANCE
REVOLVING LOAN FUND PROGRAM**

7

Management's Discussion and Analysis (cont.)

For the Years Ended June 30, 2023 and 2022

Also, the Program utilized its cash within the Program as an additional funding source, essentially revolving the assets. The Program was awarded funding from the Bipartisan Infrastructure Law/Infrastructure Investment Jobs Act for a general capitalization grant in the amount of \$11.6 million in November 2022; however, no grant funds were reported during this fiscal year. The funds will give the Program an additional funding source. An additional grant was awarded in July 2023 for \$612,000 for emerging contaminant funding.

The Program's total liabilities increased to \$324,000 at June 30, 2023 from \$269,000 at June 30, 2022. The increase for both years was due to the increase in the administrative fee to the Arkansas Development Finance Authority ("ADFA"). The administrative fee is based upon the outstanding loan balance at year-end.

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

	<u>2023</u>	<u>2022</u>	<u>2021</u>
<i>(In thousands)</i>			
Operating revenues			
Total interest income	\$ 7,203	\$ 6,123	\$ 5,226
Other	<u>3,757</u>	<u>3,566</u>	<u>3,065</u>
Total operating revenues	<u>10,960</u>	<u>9,689</u>	<u>8,291</u>
Operating expenses			
Program administration	684	418	477
Federal financial assistance - base federal grants	4,090	4,095	695
Bond interest	-	-	730
Amortization of bond premiums	<u>-</u>	<u>-</u>	<u>(1,044)</u>
Total operating expenses	<u>4,774</u>	<u>4,513</u>	<u>858</u>
Operating income	6,186	5,176	7,433
Base federal grants	16,888	12,437	7,109
Transfers in (out), net	<u>2,236</u>	<u>(425)</u>	<u>1,451</u>
Changes in net position	25,310	17,188	15,993
Net position - beginning of year	<u>450,160</u>	<u>432,972</u>	<u>416,979</u>
Net position - end of year	<u>\$ 475,470</u>	<u>\$ 450,160</u>	<u>\$ 432,972</u>

**STATE OF ARKANSAS CONSTRUCTION ASSISTANCE
REVOLVING LOAN FUND PROGRAM**

8

Management's Discussion and Analysis (cont.)

For the Years Ended June 30, 2023 and 2022

Total operating revenues have increased over the past three years. In the current fiscal year, the operating revenues increased \$1.3 million, which is primarily attributable due to the increase of \$1.7 million in interest on cash and investments net of decrease of \$584,000 in interest on loans. In the prior year, the operating revenues increased \$1.4 million, which is primarily attributable due to increases of \$827,000 in interest to loans and \$538,000 financing fee income. Interest on investments has increased in the fiscal year. Rates have significantly increased to 4.78% for money market mutual funds from 1.13% at June 30, 2022 even though the cash balance for the Program has declined. The Program monitors cash and investment yields and the cash needs of the Program to ensure liquidity and to maximize investment options.

Interest on loans has fluctuated over the past three years. Interest on loans decreased \$584,000 in fiscal year 2023 and increased \$827,000 in fiscal year 2022. The fluctuation is mainly caused by interest accruals recorded for loan disbursements which had not been completed in large municipalities as of the end of fiscal year 2022 which were then completed in fiscal year 2023. Financing fee income, which represents the up to 1% financing fee paid by the borrowers, has increased over the past three years. Financing fee income increased \$116,000 and \$538,000 during fiscal years 2023 and 2022, respectively. The current fiscal year increase declined from the prior year increase which was contributed to the accrual at year-end on loan disbursements funded after April payment date. The average return on loans was 1.33%, 1.69%, and 1.63% for the fiscal years ended June 30, 2023, 2022, and 2021, respectively.

Interest on investments was \$1.9 million, \$197,000, and \$127,000 for fiscal years ended June 30, 2023, 2022, and 2021, respectively. In fiscal year 2023, the increase mainly is due to interest rates increasing significantly. In fiscal year 2022, interest rates have gradually increased, but due to the lower cash balance, the Program has not experienced higher returns in interest. In fiscal year 2021, the interest rate of money market funds continued to remain at low rates. The Program maintains liquidity to fund projects as needed. An investment option the Program utilizes is the State Treasury Money Management Trust Fund (MMTF). The Program has \$14.2 million invested in the MMTF at fiscal year-end 2023, which is reported as a part of cash and cash equivalents. The yield as of June 30, 2023 and 2022 was 5.08% and 0.62%, respectively. The average return on cash, cash equivalents and investments was 3.24%, 0.21%, and 0.10% for the fiscal years ended June 30, 2023, 2022, and 2021, respectively.

Total operating expenses increased \$261,000 and \$3.7 million in fiscal years 2023 and 2022, respectively, which is primarily attributable to an increase in federal financial assistance - base federal grants. Federal financial assistance - base federal grants fluctuates with the volume of principal forgiveness loans available for funding and the rate at which the borrowers request reimbursement. During fiscal years 2023 and 2022, the Program forgave principal of \$4.1 million each year. Program administration expenses totaled \$684,000, \$419,000, and \$477,000 for the fiscal years ended June 30, 2023, 2022, and 2021, respectively. These expenses included amounts paid for audit expense, trustee fees, legal fees, membership fees to national water related authorities, loan reporting software costs and the administrative fee paid to ADFA.

In fiscal year 2023, base federal grants increased \$4.5 million, which is primarily due to increase in loan fundings. The Program has approximately \$8.2 million in 2022 and 2021 base grant awards available for funding. In fiscal year 2022, base federal grants revenue increased \$5.3 million, which was primarily due to an increase in disbursements for principal forgiveness loans. The Program has approximately \$17.4 million in fiscal years 2020 and 2021 grant awards available for funding. The loans of the Program have approximately a two to five-year construction period in which many existing loans are being funded. The Program receives base federal grant revenue for reimbursement of the Program's expenses.

**STATE OF ARKANSAS CONSTRUCTION ASSISTANCE
REVOLVING LOAN FUND PROGRAM**

Management’s Discussion and Analysis (cont.)

For the Years Ended June 30, 2023 and 2022

Information regarding when base federal grant awards were expended for construction draws and principal forgiveness loans is as follows:

Federal Award Year	Beginning <u>Balance</u>	<u>Amount Expended In</u>		
		<u>2023</u>	<u>2022</u>	<u>2021</u>
		<i>(In thousands)</i>		
2018	\$ 10,080	\$ -	\$ -	\$ 6,145
2019	9,978	-	9,412	566
2020	9,980	7,388	2,592	-
2021	9,978	9,183	15	-
2022	18,443	-	-	-
	<u>\$ 58,459</u>	<u>\$ 16,571</u>	<u>\$ 12,019</u>	<u>\$ 6,711</u>

Transfers in and out are comprised of transfers to or from other state programs or agencies. The current fiscal year transfers in (out), net of \$2.2 million which comprised of \$3.2 million from the ANRC Water, Waste Disposal and Pollution Abatement Facilities General Obligation Bond Fund Program to fund the Program’s state match, which is offset by transfers out of \$1.0 million to ANRC for administrative expenses. In the prior fiscal year, the Program had transfers in (out), net of \$425,000 which was transfer out to ANRC for administrative expenses. The funding source for the administrative expenses is the 4% set aside of the EPA base capitalization grant along with other funds deposited into the Fees and Expense Fund.

The net position of the Program increased \$42.5 million in the past two years. The bond resolutions and the Program restrict all of the net position.

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

On August 30, 2023, a bond issue entitled the ADFA Revolving Loan Fund Revenue Bonds, Series 2023 was completed to assist the Program to meet liquidity needs. A portion of the bond issue attributable to the Program was comprised of \$72.6 million par bonds issued at a premium of \$8.1 million with a 5% interest rate and a final maturity of June 1, 2043.

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’s Chief Financial Officer by telephoning 501.682.5900 or by contacting the ANRC Water Development Section Manager at 501.682.1611.

**STATE OF ARKANSAS CONSTRUCTION ASSISTANCE
REVOLVING LOAN FUND PROGRAM**

10

Combined Statements of Net Position

June 30, 2023 and 2022

(In Thousands)

	<u>2023</u>	<u>2022</u>
<u>Assets</u>		
Current assets		
Cash and cash equivalents	\$ 55,606	\$ 75,811
Accrued interest receivable		
Cash	231	56
Loans	181	501
Accounts receivable		
Borrowers	177	291
Environmental Protection Agency	-	49
Investments	<u>2,296</u>	<u>2,057</u>
Total current assets	<u>58,491</u>	<u>78,765</u>
Noncurrent assets		
Loans receivable - restricted		
Construction loans	416,969	371,330
Wetlands mitigation	<u>334</u>	<u>334</u>
Total noncurrent assets	<u>417,303</u>	<u>371,664</u>
Total assets	475,794	450,429
 <u>Liabilities and Net Position</u>		
Current liabilities		
Accounts payable	<u>324</u>	<u>269</u>
Net position		
Restricted by bond resolution, enabling legislation, and Program requirements	<u>\$ 475,470</u>	<u>\$ 450,160</u>

The accompanying notes are an integral part of these combined financial statements.

**STATE OF ARKANSAS CONSTRUCTION ASSISTANCE
REVOLVING LOAN FUND PROGRAM**

11

Combined Statements of Revenues, Expenses, and Changes in Net Position

For the Years Ended June 30, 2023 and 2022

(In Thousands)

	<u>2023</u>	<u>2022</u>
Operating revenues		
Interest on cash and investments	\$ 1,861	\$ 197
Interest on loans	5,342	5,926
Financing fee income	3,716	3,600
Other income	-	3
Net appreciation (depreciation) of investments	41	(37)
Total operating revenues	<u>10,960</u>	<u>9,689</u>
Operating expenses		
Program administration	684	418
Federal financial assistance - base federal grants	4,090	4,095
Total operating expenses	<u>4,774</u>	<u>4,513</u>
Operating income	6,186	5,176
Nonoperating revenue		
Base federal grants	<u>16,888</u>	<u>12,437</u>
Income before transfers in (out), net	23,074	17,613
Transfers in (out), net	<u>2,236</u>	<u>(425)</u>
Changes in net position	25,310	17,188
Net position - beginning of year	<u>450,160</u>	<u>432,972</u>
Net position - end of year	<u>\$ 475,470</u>	<u>\$ 450,160</u>

The accompanying notes are an integral part of these combined financial statements.

**STATE OF ARKANSAS CONSTRUCTION ASSISTANCE
REVOLVING LOAN FUND PROGRAM**

12

Combined Statements of Cash Flows

For the Years Ended June 30, 2023 and 2022

(In Thousands)

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities		
Financing fee income received	\$ 3,829	\$ 3,373
Other income	-	3
Cash paid for program administration	<u>(628)</u>	<u>(389)</u>
Net cash provided by operating activities	<u>3,201</u>	<u>2,987</u>
Cash flows from noncapital financing activities		
Nonoperating grants received	16,937	12,425
Transfers in (out), net	<u>2,236</u>	<u>(425)</u>
Net cash provided by noncapital financing activities	<u>19,173</u>	<u>12,000</u>
Cash flows from investing activities		
Interest received on cash and investments	1,686	150
Interest received on loans	5,662	5,502
Purchase of investments	(2,881)	(2,507)
Proceeds from maturities of investments	2,683	2,466
Loan disbursements	(70,774)	(57,796)
Principal payments on loans	25,135	12,220
Federal grant funds expended	<u>(4,090)</u>	<u>(4,095)</u>
Net cash used by investing activities	<u>(42,579)</u>	<u>(44,060)</u>
Net decrease in cash and cash equivalents	(20,205)	(29,073)
Cash and cash equivalents - beginning of year	<u>75,811</u>	<u>104,884</u>
Cash and cash equivalents - end of year	<u>\$ 55,606</u>	<u>\$ 75,811</u>
Reconciliation of changes in net position to net cash provided by operating activities		
Operating income	\$ 6,186	\$ 5,176
Adjustments to reconcile operating income of changes in net position to net cash provided by operating activities		
Interest on cash and investments	(1,861)	(197)
Interest on loans	(5,342)	(5,926)
Net (appreciation) depreciation of investments	(41)	37
Federal grants expended	4,090	4,095
Changes in operating assets and liabilities		
Accounts receivable - borrowers	114	(227)
Accounts payable	<u>55</u>	<u>29</u>
Net cash provided by operating activities	<u>\$ 3,201</u>	<u>\$ 2,987</u>

The accompanying notes are an integral part of these combined financial statements.

**STATE OF ARKANSAS CONSTRUCTION ASSISTANCE
REVOLVING LOAN FUND PROGRAM**

13

Notes to Combined Financial Statements

June 30, 2023 and 2022

1. Nature of Operations and Summary of Significant Accounting Policies

- a. **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 (“EPA”) and state matching funds on a ratio of five federal dollars to one state dollar.

As of July 2001, the Arkansas Natural Resources Commission (“ANRC”) became the lead agency for the Program (previously led by Arkansas Department of Environmental Quality). Effective July 1, 2019, ANRC is a division of the Arkansas Department of Agriculture and is still the lead agency for the Program. 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”), which as of July 1, 2019 is a division of the Arkansas Department of Commerce, 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 combined financial statements and procuring audit services. ADFA is reimbursed for the Program’s administration costs through a calculation based on loans outstanding in accordance with the interagency agreement. The amounts incurred to ADFA for administration costs were approximately \$292,000 and \$265,000 for the years ended June 30, 2023 and 2022, respectively, and are included in the Program’s administration expenses.

The Arkansas Agriculture Water Quality Loan Program (“AAWQLP”) is accounted for within the Program. Under the AAWQLP, the 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, antipollution 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, 2023 and 2022, the AAWQLP had \$4.3 million and \$4.0 million, respectively, in deposits and investments with various financial institutions.

- b. **Estimates** – The preparation of combined 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 combined 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.

**STATE OF ARKANSAS CONSTRUCTION ASSISTANCE
REVOLVING LOAN FUND PROGRAM**

14

Notes to Combined Financial Statements

June 30, 2023 and 2022

1. Nature of Operations and Summary of Significant Accounting Policies (cont.)

- c. **Measurement focus and basis of accounting** – 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 combined statements of revenues, expenses, and changes in net position. 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.

- d. **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, 2023 and 2022, cash equivalents of approximately \$55.6 million and \$75.8 million, respectively, consisted primarily of money market mutual funds with variable interest rates and the State Treasurer Money Management Trust Fund (“MMTF”), which is recorded at fair value.

Included in cash equivalents on the Program’s combined statements of net position is the Fees and Expense Fund with a balance of approximately \$20.6 million and \$17.5 million at June 30, 2023 and 2022, respectively. This fund contains fees charged on loans of the Program as allowed by the EPA, federal grant administration set aside funds and interest earnings of the fund. These funds may be used at the discretion of the ANRC to fund expenses of the Program.

- e. **Investments** – Investments are carried at fair value. Fair value is determined using quoted market prices. Investment income is related to interest earned on cash, cash equivalents, and investments.
- f. **Bond premiums** – 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 premiums. There were no bonds payable outstanding during the years ended June 30, 2023 or 2022.
- g. **Financing fees** – The Program receives up to a 1% annual financing fee from borrowers as part of the contractual payment.
- h. **Net position restricted by bond resolution, enabling legislation and Program requirements** – Net position restricted by bond resolution, enabling legislation and Program requirements represent funds restricted due to the specific provisions of the Program.
- i. **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 Combined Financial Statements

June 30, 2023 and 2022

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 105% of the amount of the deposits as directed in the State Board of Finance Cash Management of Funds Rule 2012-A.

At June 30, 2023 and 2022, \$0.9 million of the Program's deposits (and carrying value) of \$2.0 million were exposed to custodial credit risk as follows:

<i>(In thousands)</i>	<u>2023</u>	<u>2022</u>
Uninsured and collateral held by Pledging		
Financial Institution agent in the Program's name	\$ 934	\$ 919

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; guaranteed investment contracts; and bank certificates of deposit.

**STATE OF ARKANSAS CONSTRUCTION ASSISTANCE
REVOLVING LOAN FUND PROGRAM**

Notes to Combined Financial Statements

June 30, 2023 and 2022

2. Deposits and Investments (cont.)

At June 30, 2023 and 2022, the Program had the following investments, State Treasurer MMTF, and maturities:

	Maturities in Years				<u>Total</u>
	<u>Less than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>More than 10</u>	
<i>(In thousands)</i>					
<u>June 30, 2023</u>					
U.S. agencies obligations	\$ 2,296	\$ -	\$ -	\$ -	\$ 2,296
Money market mutual funds	39,424	-	-	-	39,424
State Treasurer MMTF	<u>14,209</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,209</u>
	<u>\$ 55,929</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 55,929</u>
<i>(In thousands)</i>					
<u>June 30, 2022</u>					
U.S. agencies obligations	\$ 2,057	\$ -	\$ -	\$ -	\$ 2,057
Money market mutual funds	44,478	-	-	-	44,478
State Treasurer MMTF	<u>29,371</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>29,371</u>
	<u>\$ 75,906</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 75,906</u>

- a. **Interest rate risk** – As a means of limiting its exposure to fair value losses due to rising interest rates, the Program limits the maturity of investments to expected cash flow needs of the Program. The Program has also begun investing in an internal governmental investment pool administrated by the State of Arkansas. The Program may request withdrawal of its funds with one business days’ notice.
- b. **Credit risk** – Credit risk is the risk the issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2023 and 2022, all the Program’s investments in U.S. agencies are directly guaranteed by the U.S. government. The Program’s investments in money market mutual funds, or investments of those funds, were rated “AAAm” or “AAA” by Standard & Poor’s and “Aaa-mf” or “Aaa” by Moody’s Investors Service.
- c. **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 is not classified by custodial credit risk category, as they are not evidenced by securities in physical or book entry form.

**STATE OF ARKANSAS CONSTRUCTION ASSISTANCE
REVOLVING LOAN FUND PROGRAM**

17

Notes to Combined Financial Statements

June 30, 2023 and 2022

2. Deposits and Investments (cont.)

- d. **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:

<u>Issuer</u>	2023		2022	
	<u>Fair Value</u>	<u>Percentage</u>	<u>Fair Value</u>	<u>Percentage</u>
<i>(In thousands)</i>				
State Treasurer MMTF	\$ 14,209	25%	\$ 29,371	39%

Summary of Carrying Values

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

	<u>2023</u>	<u>2022</u>
<i>(In thousands)</i>		
Carrying value		
Deposits	\$ 1,973	\$ 1,962
Investments and State Treasurer MMTF	55,929	75,906
	\$ 57,902	\$ 77,868

Included in the following combined statements of net position captions:

	<u>2023</u>	<u>2022</u>
<i>(In thousands)</i>		
Cash and cash equivalents	\$ 55,606	\$ 75,811
Investments	2,296	2,057
	\$ 57,902	\$ 77,868

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 semiannual installments. At June 30, 2023 and 2022, such loans had a carrying value of approximately \$417.3 million and \$371.7 million, respectively, of which approximately \$105.2 million and \$59.0 million, respectively, are for projects still under construction. The loans bear interest ranging from 0.00% to 2.25% and are collateralized by special assessments, user charges or sales and use tax bonds issued by the municipalities, sewer improvement districts and water facilities board.

**STATE OF ARKANSAS CONSTRUCTION ASSISTANCE
REVOLVING LOAN FUND PROGRAM**

18

Notes to Combined Financial Statements

June 30, 2023 and 2022

3. Loans Receivable (cont.)

In fiscal year 2010, the Program funded loans with American Recovery and Reinvestment Act (“ARRA”) federal funds. As of June 30, 2023, the Program’s current loan balance of ARRA loans was \$1.0 million, which was funded with ARRA and other program funds. This balance is included in loans receivable - restricted on the accompanying combined statements of net position.

During the years ended June 30, 2023 and 2022, \$1.11 billion and \$1.01 billion, respectively, in cumulative loans had been approved for funding. At June 30, 2023 and 2022, \$177.4 million and \$146.5 million, respectively, remained encumbered and awaiting disbursement to loan recipients.

4. Fair Value of Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- **Level I** – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- **Level II** – Quoted prices in markets that are not active or inputs, which are observable, either directly or indirectly, for substantially the full term of the asset or liability.
- **Level III** – Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

**STATE OF ARKANSAS CONSTRUCTION ASSISTANCE
REVOLVING LOAN FUND PROGRAM**

Notes to Combined Financial Statements

June 30, 2023 and 2022

4. Fair Value of Financial Instruments (cont.)

Recurring Measurements

The following table presents the fair value measurements of assets recognized on the accompanying combined financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall:

	<u>Fair Value</u>	Quoted Prices in Active Markets for Identical Assets <u>(Level I)</u>	Significant Other Observable Inputs <u>(Level II)</u>	Significant Unobservable Inputs <u>(Level III)</u>
<i>(In thousands)</i>				
<u>June 30, 2023</u>				
U.S. agencies obligations	\$ 2,296	\$ -	\$ -	\$ 2,296
State Treasurer MMTF	<u>14,209</u>	<u>-</u>	<u>14,209</u>	<u>-</u>
	<u>\$ 16,505</u>	<u>\$ -</u>	<u>\$ 14,209</u>	<u>\$ 2,296</u>
 <u>June 30, 2022</u>				
U.S. agencies obligations	\$ 2,057	\$ -	\$ -	\$ 2,057
State Treasurer MMTF	<u>29,371</u>	<u>-</u>	<u>29,371</u>	<u>-</u>
	<u>\$ 31,428</u>	<u>\$ -</u>	<u>\$ 29,371</u>	<u>\$ 2,057</u>

The following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized on the accompanying combined financial statements, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the years ended June 30, 2023 or 2022.

Notes to Combined Financial Statements

June 30, 2023 and 2022

4. **Fair Value of Financial Instruments (cont.)**

Where quoted market prices are available in an active market, securities are classified within Level I of the valuation hierarchy. The Program's investments were not classified as Level I securities at June 30, 2023 or 2022. Level II securities include the State Treasurer MMTF and U.S. Treasury notes. If quoted market prices are not available, then fair values are estimated by an independent third party pricing service using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. For these investments, the inputs used by the pricing service to determine fair value may include one, or a combination of observable inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data market research publications. The fair value of State Treasurer MMTF is calculated by the internal governmental investment pool. All these types of the Program's investments are classified within Level II of the valuation hierarchy. In certain cases where Level I or Level II inputs are not available, securities are classified within Level III of the hierarchy. The Program has classified one investment as Level III. The Program has a relationship with AgriBank in where the Program purchases a Federal Farm Credit Bank bond. This investment is marketed only to the Program and the Program has concluded the fair market value to be equal to the par amount.

The fair value amounts in the previous table do not reflect all investments included in the amounts presented in the combined statements of net position. Governmental Accounting Standards Board Statement No. 72, "Fair Value Measurement and Application," provides certain exceptions for money market mutual funds.

5. **Concentrations**

Economic Dependency

The Program's federal revenue is dependent upon the amount of annual federal grants awarded and the amounts available for disbursement. The amount awarded varies from year to year and does have an impact on the Program's total revenue. For the years ended June 30, 2023 and 2022, the Program received 61% and 56%, respectively, of total revenue in the form of federal grants. As of June 30, 2023 and 2022, the Program has \$19.8 million and \$17.4 million, respectively, of the federal fiscal years 2022, 2021, 2020, and 2019 grants remaining to disburse.

Principal Forgiveness Loans

In fiscal year 2013, the Program began funding principal forgiveness ("PF") loans with base federal capitalization grant funds. The EPA requires, as part of the base capitalization grant requirements, that a percentage of the grant be available as subsidy to eligible borrowers. States are required to provide a minimum amount of 10% additional subsidization for fiscal years 2020 - 2022 base grants. In the federal fiscal year 2022, the Bipartisan Infrastructure Law ("BIL")/Infrastructure Investment Jobs Act created additional funding for the Program. For fiscal year 2022, BIL General ("Gen") capitalization grant, a minimum of 49% additional subsidy is required for disadvantaged communities. For fiscal year 2022, BIL Emerging Contaminants ("EC") capitalization grant, 100% must go to disadvantaged communities.

**STATE OF ARKANSAS CONSTRUCTION ASSISTANCE
REVOLVING LOAN FUND PROGRAM**

21

Notes to Combined Financial Statements

June 30, 2023 and 2022

5. Concentrations (cont.)

The amendments to the Clean Water Act, also known as the Water Resources Reform and Development Act (“WRRDA”) signed into law by President Obama on June 10, 2014, provide an additional 30% available for additional subsidization (WRRDA Sec. 603 (i)) and applies to amounts received by the state in capitalization grants for fiscal years beginning after September 30, 2014. Going forward, there is no minimum additional subsidy requirement that CWSRFs must comply with per the amendments.

The 2016 through the 2020 Cap Grant conditions has a minimum for additional subsidy. In addition to the additional subsidy that can be used at a state’s discretion as described in the WRRDA, the recipient agrees to use 10% of the funds available in the capitalization grant to provide additional subsidy to eligible recipients.

Affordability Criteria/Additional Subsidization

The Federal Water Pollution Control Act section 603(i)(2) requires states to develop affordability criteria that will assist them in identifying applicants that would have difficulty financing projects without additional subsidization. Arkansas provides additional subsidization in the form of principal forgiveness.

ANRC has developed the following affordability criteria to determine if a project is eligible for additional subsidization funds for the Clean Water Revolving Loan Fund (“CWRLF”):

1. The current utility rates or proposed utility rates for 4,000 gallons of water on an annual basis are at least 1.5% of the Median Household Income (“MHI”) for the project area.
2. If 51% of the customers who benefit from a project are either low or moderate income as defined by the U.S. Department of Housing and Urban Development’s Community Block Grant Program; and have 1.25% of MHI.

Once a project has been determined to be eligible for additional subsidization from the CWRLF, additional priority will be given to projects that meet the Green standards set by ANRC. ANRC has allocated approximately \$435.3 million for projects or project components eligible for additional subsidization.

**STATE OF ARKANSAS CONSTRUCTION ASSISTANCE
REVOLVING LOAN FUND PROGRAM**

Notes to Combined Financial Statements

June 30, 2023 and 2022

5. Concentrations (cont.)

The chart below shows the minimum and maximum allowed for PF loans:

Federal Fiscal Year	<u>Grant Award Amount</u>	<u>PF Minimum Amount</u>	<u>PF Maximum Amount</u>	<u>Program Allocation Amount</u>	<u>Cumulative Disbursements</u>	<u>PF Amount Remaining to Fund</u>
	<i>(In thousands)</i>					
2019-Base	\$ 10,394	\$ 1,039	\$ 4,158	\$ 4,158	\$ 4,158	\$ -
2020-Base	10,394	1,039	4,158	3,118	2,530	1,628
2021-Base	10,394	1,039	3,118	3,118	471	3,686
2022-Base	7,570	757	2,271	3,028	-	3,028
2022-BIL Gen	11,642	-	5,705	4,098	-	4,098
2022-BIL EC	612	612	612	-	-	-
					<u>\$ 7,159</u>	<u>\$ 12,440</u>

The EPA has financially and programmatically closed all Cap grants through the 2019 Cap Grant. The Program has allocated the maximum amount for federal fiscal years 2020, 2021, and 2022 base capitalization grants are presented above. The Program has the option to spend up to the maximum amount for each base capitalization grant. In March 2023, the EPA allowed ANRC to obtain unallocated subsidy funds from closed grants. ANRC was able to reclaim \$13.0 million in unused subsidy and allocated most of that in June 2023.

The Program forgives the loans as the construction draws are disbursed. In fiscal years 2023 and 2022, the Program expensed \$4.1 million in PF loans.

Contingencies

The Program is partially capitalized by state funds and a federal grant program, which are governed by various rules and regulations of the grantor agency. Costs charged to the respective grant programs are subject to audit and adjustments by the grantor agency; therefore, to the extent 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 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 on the accompanying combined financial statements for such a contingency.

**STATE OF ARKANSAS CONSTRUCTION ASSISTANCE
REVOLVING LOAN FUND PROGRAM**

23

Notes to Combined Financial Statements

June 30, 2023 and 2022

6. Subsequent Events

On August 30, 2023, a bond issue entitled the ADFFA Revolving Loan Fund Revenue Bonds, Series 2023 was completed to assist the Program to meet liquidity needs. A portion of the bond issue attributable to the Program was comprised of \$72.6 million par bonds issued at a premium of \$8.1 million with a 5% interest rate and a final maturity of June 1, 2043.

The Program evaluated the events and transactions subsequent to its June 30, 2023 combined statement of net position date and determined there were no additional significant events, other than disclosed above, to report through October 31, 2023, which is the date the Program issued its combined financial statements.

**STATE OF ARKANSAS CONSTRUCTION ASSISTANCE
REVOLVING LOAN FUND PROGRAM**

24

Combining Statement of Net Position

June 30, 2023

(In Thousands)

<u>Assets</u>	<u>Revolving Loan Fund</u>	<u>Fees and Expense</u>	<u>Total</u>
Current assets			
Cash and cash equivalents	\$ 34,961	\$ 20,645	\$ 55,606
Accrued interest receivable			
Cash	146	85	231
Loans	181	-	181
Accounts receivable			
Borrowers	-	177	177
Investments	<u>2,296</u>	<u>-</u>	<u>2,296</u>
Total current assets	<u>37,584</u>	<u>20,907</u>	<u>58,491</u>
Noncurrent assets			
Loans receivable - restricted			
Construction loans	416,969	-	416,969
Wetlands mitigation	<u>-</u>	<u>334</u>	<u>334</u>
Total noncurrent assets	<u>416,969</u>	<u>334</u>	<u>417,303</u>
Total assets	454,553	21,241	475,794
 <u>Liabilities and Net Position</u> 			
Current liabilities			
Accounts payable	<u>32</u>	<u>292</u>	<u>324</u>
Net position			
Restricted by bond resolution, enabling legislation, and Program requirements	<u>\$ 454,521</u>	<u>\$ 20,949</u>	<u>\$ 475,470</u>

See independent auditor's report.

**STATE OF ARKANSAS CONSTRUCTION ASSISTANCE
REVOLVING LOAN FUND PROGRAM**

25

Combining Statement of Revenues, Expenses, and Changes in Net Position

For the Year Ended June 30, 2023

(In Thousands)

	<u>Revolving Loan Fund</u>	<u>Fees and Expense</u>	<u>Total</u>
Operating revenues			
Interest on cash and investments	\$ 1,164	\$ 697	\$ 1,861
Interest on loans	5,342	-	5,342
Financing fee income	-	3,716	3,716
Net appreciation of investments	<u>16</u>	<u>25</u>	<u>41</u>
Total operating revenues	<u>6,522</u>	<u>4,438</u>	<u>10,960</u>
Operating expenses			
Program administration	-	684	684
Federal financial assistance - base federal grants	<u>4,090</u>	<u>-</u>	<u>4,090</u>
Total operating expenses	<u>4,090</u>	<u>684</u>	<u>4,774</u>
Operating income	2,432	3,754	6,186
Nonoperating revenue			
Base federal grants	<u>16,571</u>	<u>317</u>	<u>16,888</u>
Income before transfers in (out), net	19,003	4,071	23,074
Transfers in (out), net	<u>3,246</u>	<u>(1,010)</u>	<u>2,236</u>
Changes in net position	22,249	3,061	25,310
Net position - beginning of year	<u>432,272</u>	<u>17,888</u>	<u>450,160</u>
Net position - end of year	<u>\$ 454,521</u>	<u>\$ 20,949</u>	<u>\$ 475,470</u>

See independent auditor's report.

**STATE OF ARKANSAS CONSTRUCTION ASSISTANCE
REVOLVING LOAN FUND PROGRAM**

26

Combining Statement of Cash Flows

For the Year Ended June 30, 2023

(In Thousands)

	<u>Revolving Loan Fund</u>	<u>Fees and Expense</u>	<u>Total</u>
Cash flows from operating activities			
Financing fee income received	\$ -	\$ 3,829	\$ 3,829
Cash received (paid) for program administration	<u>30</u>	<u>(658)</u>	<u>(628)</u>
Net cash provided by operating activities	<u>30</u>	<u>3,171</u>	<u>3,201</u>
Cash flows from noncapital financing activities			
Nonoperating grants received	16,571	366	16,937
Transfers in (out), net	<u>3,246</u>	<u>(1,010)</u>	<u>2,236</u>
Net cash provided (used) by noncapital financing activities	<u>19,817</u>	<u>(644)</u>	<u>19,173</u>
Cash flows from investing activities			
Interest received on cash and investments	1,064	622	1,686
Interest received on loans	5,662	-	5,662
Purchase of investments	(2,881)	-	(2,881)
Proceeds from maturities of investments	2,658	25	2,683
Loan disbursements	(70,774)	-	(70,774)
Principal payments on loans	25,135	-	25,135
Federal grant funds expended	<u>(4,090)</u>	<u>-</u>	<u>(4,090)</u>
Net cash (used) provided by investing activities	<u>(43,226)</u>	<u>647</u>	<u>(42,579)</u>
Net (decrease) increase in cash and cash equivalents	(23,379)	3,174	(20,205)
Cash and cash equivalents - beginning of year	<u>58,340</u>	<u>17,471</u>	<u>75,811</u>
Cash and cash equivalents - end of year	<u>\$ 34,961</u>	<u>\$ 20,645</u>	<u>\$ 55,606</u>
Reconciliation of changes in net position to net cash provided by operating activities			
Operating income	\$ 2,432	\$ 3,754	\$ 6,186
Adjustments to reconcile operating income of changes in net position to net cash provided by operating activities			
Interest on cash and investments	(1,164)	(697)	(1,861)
Interest on loans	(5,342)	-	(5,342)
Net appreciation of investments	(16)	(25)	(41)
Federal grants expended	4,090	-	4,090
Changes in operating assets and liabilities			
Accounts receivable - borrowers	-	114	114
Accounts payable	<u>30</u>	<u>25</u>	<u>55</u>
Net cash provided by operating activities	<u>\$ 30</u>	<u>\$ 3,171</u>	<u>\$ 3,201</u>

See independent auditor's report.

**Independent Auditor’s Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance With *Government Auditing Standards***

Commissioners of the Arkansas Natural
Resources Commission

Board of Directors
Arkansas Development Finance Authority
Little Rock, Arkansas

We have audited, 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, the combined financial statements of the State of Arkansas Construction Assistance Revolving Loan Fund Program, which comprise the combined statement of net position as of June 30, 2023, and the related combined statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the combined financial statements, and have issued our report thereon dated October 31, 2023, which contained an “emphasis of matter” paragraph regarding a definition of the reporting entity.

Internal Control Over Financial Reporting

In planning and performing our audit of the combined financial statements, we considered the State of Arkansas Construction Assistance Revolving Loan Fund Program’s internal control over financial reporting (“internal control”) as a basis for designing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State of Arkansas Construction Assistance Revolving Loan Fund Program’s internal control. Accordingly, we do not express an opinion on the effectiveness of the State of Arkansas Construction Assistance Revolving Loan Fund Program’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s combined financial statements will not be prevented or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Arkansas Construction Assistance Revolving Loan Fund Program's combined financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the combined financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Frost, PLLC

Certified Public Accountants

Little Rock, Arkansas
October 31, 2023

**Independent Auditor’s Report on Compliance for Each
Major Federal Program and Report on Internal Control
Over Compliance in Accordance With the Uniform Guidance**

Commissioners of the Arkansas Natural
Resources Commission

Board of Directors
Arkansas Development Finance Authority
Little Rock, Arkansas

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the State of Arkansas Construction Assistance Revolving Loan Fund Program’s compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on each of the State of Arkansas Construction Assistance Revolving Loan Fund Program’s major federal programs for the year ended June 30, 2023. The State of Arkansas Construction Assistance Revolving Loan Fund Program’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

In our opinion, the State of Arkansas Construction Assistance Revolving Loan Fund Program complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (“GAAS”); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (“*Government Auditing Standards*”); and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (“Uniform Guidance”). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor’s Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the State of Arkansas Construction Assistance Revolving Loan Fund Program and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the State of Arkansas Construction Assistance Revolving Loan Fund Program’s compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the State of Arkansas Construction Assistance Revolving Loan Fund Program's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the State of Arkansas Construction Assistance Revolving Loan Fund Program's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the State of Arkansas Construction Assistance Revolving Loan Fund Program's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the State of Arkansas Construction Assistance Revolving Loan Fund Program's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the State of Arkansas Construction Assistance Revolving Loan Fund Program's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the State of Arkansas Construction Assistance Revolving Loan Fund Program's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Frost, PLLC

Certified Public Accountants

**STATE OF ARKANSAS CONSTRUCTION ASSISTANCE
REVOLVING LOAN FUND PROGRAM**

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2023

Section I – Summary of Auditor’s Results

Combined Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None Reported

Noncompliance material to combined financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None Reported

Type of auditor’s report issued on compliance for major federal programs. Unmodified

Are any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes No

Identification of major federal programs:

Federal Assistance Listing (“FAL”) Number(s) and Name of Federal Program or Cluster

Capitalization Grants for Clean Water State Revolving Funds	66.458
---	--------

Dollar threshold used to distinguish between type A and type B programs:	\$ 750,000
--	------------

Auditee qualified as a low-risk auditee? Yes No

**STATE OF ARKANSAS CONSTRUCTION ASSISTANCE
REVOLVING LOAN FUND PROGRAM**

Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2023

<u>Reference Number</u>	<u>Summary of Finding</u>	<u>Status</u>
-------------------------	---------------------------	---------------

No matters were reported in the June 30, 2022 Schedule of Findings and Questioned Costs.

STATE OF ARKANSAS CONSTRUCTION ASSISTANCE
REVOLVING LOAN FUND PROGRAM

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2023

(In Thousands)

<u>Federal Grantor/Pass-Through Grantor Program or Cluster Title</u>	<u>FAL Number</u>	<u>Provided to Subrecipients</u>	<u>Total Federal Expenditures</u>
U.S. Environmental Protection Agency/Capitalization Grants for Clean Water State Revolving Funds (Clean Water State Revolving Fund Cluster)	66.458	<u>\$ 16,571</u>	<u>\$ 16,888</u>

The accompanying notes are an integral part of the schedule of expenditures of federal awards.

**STATE OF ARKANSAS CONSTRUCTION ASSISTANCE
REVOLVING LOAN FUND PROGRAM**

34

Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2023

1. The accompanying schedule of expenditures of federal awards (“SEFA”) includes the federal award activity of the State of Arkansas Construction Assistance Revolving Loan Fund Program under programs of the federal government for the year ended June 30, 2023. The information in the SEFA is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (“Uniform Guidance”). Because the SEFA presents only a selected portion of the operations of the State of Arkansas Construction Assistance Revolving Loan Fund Program, it is not intended to and does not present the net position, changes in net position or cash flows of the State of Arkansas Construction Assistance Revolving Loan Fund Program.
2. Expenditures reported on the SEFA are reported on the accrual basis of accounting. Disbursements are recognized following, as applicable, the cost principles contained in the U.S. Office of Management and Budget’s Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The State of Arkansas Construction Assistance Revolving Loan Fund Program has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.
3. Expenditures reflected in FAL 66.458, Capitalization Grants for the Clean Water State Revolving Funds, include loans to municipalities and other public entities for construction of water treatment facilities. The funding source for these loans includes federal grant funds, state match funds, bond funds, and revolving program funds. The funds are disbursed to the subrecipients after expenses have been incurred as forgiveness of principal and repayable loans. The State of Arkansas Construction Assistance Revolving Loan Fund Program’s outstanding loan receivable balance from subrecipients from all funding sources was \$417.3 million for the year ended June 30, 2023. During fiscal year 2023, approximately \$4.1 million of loans were forgiven. Total federal disbursements totaled approximately \$16.6 million during fiscal year 2023, which represented funding for principal forgiveness and repayable loans.