

**STATE OF ARKANSAS SAFE DRINKING WATER  
REVOLVING LOAN FUND PROGRAM**

**June 30, 2023 and 2022**

**Combined Financial Statements  
And  
Supplementary Information**

**With**

**Independent Auditor's Report**



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## **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 Safe Drinking Water 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 Safe Drinking Water 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 Safe Drinking Water 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 Safe Drinking Water 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 Safe Drinking Water 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 Safe Drinking Water 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 Safe Drinking Water 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 Safe Drinking Water 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 22 through 25 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 November 6, 2023, on our consideration of the State of Arkansas Safe Drinking Water 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 Safe Drinking Water 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 Safe Drinking Water Revolving Loan Fund Program's internal control over financial reporting and compliance.

*Frost, PLLC*

Certified Public Accountants

Little Rock, Arkansas  
November 6, 2023

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**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 Safe Drinking Water 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, the Fees and Expense Set Aside, the Small System Technical Assistance Set Aside, the Well Head Protection Set Aside, the Capacity Development Set Aside and the State Program Management Set Aside, 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	\$ 316,186	\$ 304,100	\$ 294,596
Liabilities			
Current liabilities	<u>614</u>	<u>443</u>	<u>389</u>
Net position			
Restricted by bond resolution, enabling legislation, and Program requirements	<u>\$ 315,572</u>	<u>\$ 303,657</u>	<u>\$ 294,207</u>

The Program's total assets have increased over the past three years. At June 30, 2023, total assets increased \$12.1 million from June 30, 2022, which is primarily attributable to cash and cash equivalents increasing \$24.3 million offset by a \$12.5 million decrease in loans receivable - restricted. At June 30, 2022, total assets increased \$9.5 million from June 30, 2021 which is primarily attributable to the increase in loans receivable - restricted, which is offset by a decrease in cash and cash equivalents.

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**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	\$ 13,477	\$ 34,748	\$ 47,139
Loan repayments	<u>25,947</u>	<u>21,198</u>	<u>14,489</u>
Net (decrease) increase in loans receivable	<u>\$ (12,470)</u>	<u>\$ 13,550</u>	<u>\$ 32,650</u>

Grants from the Environmental Protection Agency (“EPA”) comprised 0%, 40%, and 22% of the funding source of the repayable loan disbursements for fiscal years ended June 30, 2023, 2022, and 2021, respectively. Per EPA guidelines, federal grants are allocated between repayable and principal forgiveness loans and administrative costs. Depending on funds available, the amount funded from EPA base federal grants will fluctuate. At June 30, 2023, the Program had \$28.5 million available to fund repayable and principal forgiveness loans. The table below reflects the amounts used from each funding source to fund repayable loans for fiscal years June 30, 2023, 2022, and 2021 as follows:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
<i>(In thousands)</i>			
EPA federal base	\$ -	\$ 4,849	\$ 2,858
Revolving Program funds	9,676	26,522	40,968
State matching funds	<u>3,801</u>	<u>3,377</u>	<u>3,313</u>
	<u>\$ 13,477</u>	<u>\$ 34,748</u>	<u>\$ 47,139</u>

The Program utilized EPA federal grants to fund loans, along with other funding sources. The Program’s loan activity has begun to increase with the funding of several water meter projects to municipalities, water user associations and public facilities boards. The Program has several funding sources to meet the increasing loan activity.

In addition to the Base grants, the Program was awarded funding from the Bipartisan Infrastructure Law/Infrastructure Investment Jobs Act for a general capitalization grant in the amount of \$27.1 million in November 2022; however, no grant funds were reported during this fiscal year. The funds will give the Program an additional funding source. Also from this Act, the following additional grants were awarded in July and August 2023, respectively; 1) a grant in the amount of \$11.4 million for emerging contaminant funding, and 2) a grant in the amount of \$42.7 million for lead service line replacement funding.

The Program’s loan repayments have increased over the past three years, which consists of the scheduled loan repayments and loan prepayments. The Program received prepayments from repayable loans totaling \$13.4 million in fiscal year 2023, \$9.9 million in fiscal year 2022, and \$3.4 million in fiscal year 2021.



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**Management's Discussion and Analysis (cont.)**

**For the Years Ended June 30, 2023 and 2022**

The Program maintains liquidity for funding loans. The Program invested excess funds in money market mutual funds and the State Treasurer Money Management Trust Fund ("MMTF") from time to time to allow for re-evaluation of the Program's liquidity needs. The MMTF has a rate of return higher than a money market mutual fund and the funds are available within one business days' notice. The Program evaluates its liquidity needs and investment options.

The Program's total liabilities increased to \$614,000 at June 30, 2023 from \$443,000 at June 30, 2022. In fiscal year 2023, \$142,000 of the \$171,000 increase is primarily due to the increase in the administrative fees paid to the Arkansas Department of Health ("ADH"). ADH receives reimbursement based on actual costs incurred for administrating the Program.

**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	\$ 5,736	\$ 2,820	\$ 2,666
Other income	<u>1,830</u>	<u>1,968</u>	<u>1,691</u>
Total operating revenues	<u>7,566</u>	<u>4,788</u>	<u>4,357</u>
Operating expenses			
Program administration	215	309	385
Federal financial assistance - base federal grants	283	5,798	4,493
Bond interest	-	-	549
Amortization of bond premiums	<u>-</u>	<u>-</u>	<u>(786)</u>
Total operating expenses	<u>498</u>	<u>6,107</u>	<u>4,641</u>
Operating income (loss)	7,068	(1,319)	(284)
Base federal grants	3,955	14,337	11,177
Transfers in (out), net	<u>892</u>	<u>(3,568)</u>	<u>(305)</u>
Changes in net position	11,915	9,450	10,588
Net position - beginning of year	<u>303,657</u>	<u>294,207</u>	<u>283,619</u>
Net position - end of year	<u>\$ 315,572</u>	<u>\$ 303,657</u>	<u>\$ 294,207</u>

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**Management's Discussion and Analysis (cont.)**

**For the Years Ended June 30, 2023 and 2022**

Total interest income has increased over the past three years. Included in total interest income is interest earned on cash and interest earned on loans, which has increased to \$5.7 million for the year ended June 30, 2023. The increase in fiscal year 2023 of \$2.9 million is due to the increase of \$3.4 million in interest earned on cash offset by a decline of \$0.5 million in interest earned from loans. The Program monitors its investments and earnings to provide additional income for the Program. At fiscal year-ends 2023 and 2022, the MMTF interest rate was 5.08% and 0.62%, respectively. The Program considers the \$58.9 million in MMTF as cash and cash equivalents. These funds yield a slightly higher rate of return than the Program's other money market mutual fund rates. The average yield on cash, cash equivalents and investments for fiscal year 2023 was 3.66%; whereas the average yields for fiscal years 2022 and 2021 were 0.24% and 0.14%, respectively.

The interest on loans has fluctuated over the past three years. The Program is continuously making loans with interest rates between 0.00% and 2.90%. The average return on loans is 1.02%, 1.23%, and 1.36%, for the fiscal years 2023, 2022, and 2021, respectively.

Other income includes financing fee income and the net appreciation (depreciation) of investments. In the current fiscal year, the Program had a decrease of \$138,000 in other income which was due to a decrease in financing fee income of \$307,000, which was offset by an increase in the net appreciation of investments of \$169,000. In the prior fiscal year, other income increased \$275,000 due to an increase in financing fee income of \$340,000, which is offset by a net depreciation of investments of \$65,000. Net appreciation (depreciation) of investments is the change in the market value of the portfolio. Financing fee represents servicing fees, ranging from 0% to 1%, charged on the outstanding loan balances in the portfolio.

Total operating expenses have fluctuated over the past three years and have declined significantly to \$498,000 for the year ended June 30, 2023. The decrease of \$5.6 million in operating expenses in the current fiscal year is primarily due to the decrease in federal financial assistance - base federal grants. In fiscal year 2022, the increase of \$1.5 million, to \$6.1 million, was primarily due to the increase of \$1.3 million in the federal financial assistance - base federal grants, along with an increase of \$161,000 in the bond interest expense, the amortization of bond premiums, and administrative expenses. In fiscal year 2012, the Program began funding principal forgiveness loans from the Base Capitalization Grant as required by EPA. Each construction draw is forgiven at the time of the draw. The Program is required by state law to use only federal grant funds to make principal forgiveness loans. For the years ended June 30, 2023 and 2022, the Program has awarded principal forgiveness loans to multiple borrowers and has forgiven \$0.3 million and \$5.8 million, respectively. The federal financial assistance - base federal grants expense is based upon the loans available to be funded and the rate at which the borrower completes their project.

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**Management’s Discussion and Analysis (cont.)**

**For the Years Ended June 30, 2023 and 2022**

Base federal grant revenue decreased \$10.3 million for fiscal year 2023, which comprises of draws for loans and administrative expenses. Base federal grant revenue for construction draws for principal forgiveness loans declined by \$5.5 million this fiscal year. No federal grant funds were disbursed for repayable loans this fiscal year which represents a decline of \$4.8 million from prior year ended June 30, 2022. Base grant revenue increased \$3.2 million for fiscal year 2022 but decreased \$10.1 million in fiscal year 2021. Federal funding on construction loans is based upon the loans available for funding and the rate at which the borrower completes their project; therefore, fluctuations can occur. Arkansas Natural Resources Commission (“ANRC”) and ADH incur administration expenses and are reimbursed using base federal grant revenue for administrating the Program. The Program primarily used federal grants for funding loans and paying expenses. These funds were drawn down from the federal government as the municipalities, ANRC, or ADH, incurred expenses. There was no significant change in federal funding for administrative expenses this fiscal year.

For the fiscal years 2023 and 2022, the Program’s transfers in (out), net were \$0.9 million in and \$3.6 million (out), respectively. As funds are available, the Program receives transfers in from the ANRC Water, Waste Disposal and Pollution Abatement Facilities General Obligation Bond Fund Program, which represents the state matching funds for the Program. Transfers out are transfers to state agencies for Program administration expenses. The details of transfers in and out are presented in the following table:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
<i>(In thousands)</i>			
ANRC - state match	\$ 4,815	\$ -	\$ 3,282
ADH	(3,298)	(3,283)	(3,137)
ANRC - administration	<u>(625)</u>	<u>(285)</u>	<u>(450)</u>
Transfers in (out), net	<u>\$ 892</u>	<u>\$ (3,568)</u>	<u>\$ (305)</u>

The net position of the Program increased \$21.4 million in the past two years. The bond resolution and the Program guidelines 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 \$36.6 million par bonds issued at a premium of \$3.7 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 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.

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**Combined Statements of Net Position**

**June 30, 2023 and 2022**

**(In Thousands)**

<u>Assets</u>	<u>2023</u>	<u>2022</u>
Current assets		
Cash and cash equivalents	\$ 109,721	\$ 85,464
Accrued interest receivable		
Cash	456	54
Loans	141	237
Accounts receivable		
Borrowers	103	220
Environmental Protection Agency	<u>425</u>	<u>315</u>
Total current assets	110,846	86,290
Noncurrent assets		
Loans receivable - restricted		
Construction	<u>205,340</u>	<u>217,810</u>
Total assets	316,186	304,100
<u>Liabilities and Net Position</u>		
Current liabilities		
Accounts payable	<u>614</u>	<u>443</u>
Net position		
Restricted by bond resolution, enabling legislation, and Program requirements	<u>\$ 315,572</u>	<u>\$ 303,657</u>

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

**STATE OF ARKANSAS SAFE DRINKING WATER  
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**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	\$ 3,604	\$ 205
Interest on loans	2,132	2,615
Financing fee income	1,725	2,030
Other income	-	2
Net appreciation (depreciation) of investments	105	(64)
Total operating revenues	<u>7,566</u>	<u>4,788</u>
Operating expenses		
Program administration	215	309
Federal financial assistance - base federal grants	283	5,798
Total operating expenses	<u>498</u>	<u>6,107</u>
Operating income (loss)	7,068	(1,319)
Nonoperating revenue		
Base federal grants	<u>3,955</u>	<u>14,337</u>
Income before transfers in (out), net	11,023	13,018
Transfers in (out), net	<u>892</u>	<u>(3,568)</u>
Change in net position	11,915	9,450
Net position - beginning of year	<u>303,657</u>	<u>294,207</u>
Net position - end of year	<u>\$ 315,572</u>	<u>\$ 303,657</u>

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

**STATE OF ARKANSAS SAFE DRINKING WATER  
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**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	\$ 1,841	\$ 1,872
Other income	-	2
Cash paid for program administration	<u>(186)</u>	<u>(299)</u>
Net cash provided by operating activities	<u>1,655</u>	<u>1,575</u>
Cash flows from noncapital financing activities		
Transfers in (out)	1,034	(3,524)
Nonoperating grants received	<u>3,845</u>	<u>14,324</u>
Net cash provided by noncapital financing activities	<u>4,879</u>	<u>10,800</u>
Cash flows from investing activities		
Interest received on cash and investments	3,203	159
Interest received on loans	2,228	2,428
Principal repayments on loans	25,947	21,198
Loan disbursements	(13,477)	(34,748)
Federal grant funds expended	(283)	(5,798)
Change in market value of investments	<u>105</u>	<u>(64)</u>
Net cash provided (used) by investing activities	<u>17,723</u>	<u>(16,825)</u>
Net increase (decrease) in cash and cash equivalents	24,257	(4,450)
Cash and cash equivalents - beginning of year	<u>85,464</u>	<u>89,914</u>
Cash and cash equivalents - end of year	<u>\$ 109,721</u>	<u>\$ 85,464</u>
Reconciliation of changes in net position to net cash provided by operating activities		
Operating income (loss)	\$ 7,068	\$ (1,319)
Adjustments to reconcile operating income (loss) of changes in net position to net cash provided by operating activities		
Interest on cash and investments	(3,604)	(204)
Interest on loans	(2,132)	(2,615)
Net (appreciation) depreciation of investments	(105)	64
Federal grants expended	283	5,798
Changes in operating assets and liabilities		
Accounts receivable - borrowers	117	(159)
Accounts payable	<u>28</u>	<u>10</u>
Net cash provided by operating activities	<u>\$ 1,655</u>	<u>\$ 1,575</u>

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

**STATE OF ARKANSAS SAFE DRINKING WATER  
REVOLVING LOAN FUND PROGRAM**

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**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** – Act 772 of 1997, as amended, authorized the establishment of a fund known as the Safe Drinking Water Fund (the “Program”), an enterprise fund of the State of Arkansas, to be maintained and administered by the Arkansas Natural Resources Commission (“ANRC”). The Program is to be capitalized with federal grants, state matching grants, other grants, proceeds of bonds issued by the Arkansas Development Finance Authority (“ADFA”) or ANRC for the Program and loan repayments utilized to administer the program. These funds may be loaned for water system projects, pledged, and used to pay debt service and related costs, used to, and are included to, pay the Program’s administrative expenses and provide technical assistance for the Program and used for other purposes related to the Program.

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 combined financial statements and procuring audit services. ADFA is reimbursed for Program administration costs through a calculation based on loans outstanding in accordance with the interagency agreement. The amounts incurred to ADFA for administration costs were \$144,000 and \$155,000 for the years ended June 30, 2023 and 2022, respectively, and are included in the Program’s administration expenses.

- 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.
- 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 \$109.7 million and \$85.5 million, respectively, consisted of money market mutual funds with variable interest rates and an internal governmental investment pool administered by the State of Arkansas. The maturity of the funds is considered to be less than three months because they are redeemable in full immediately.

Notes to Combined Financial Statements

June 30, 2023 and 2022

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

- e. **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.
- f. **Financing fees** – The Program receives up to a 1% annual financing fee from borrowers as part of their monthly payment.
- g. **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.
- h. **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.

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.

At June 30, 2023 and 2022, none of the Program's deposits were exposed to custodial credit risk.

*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 SAFE DRINKING WATER  
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 and maturities:

	Maturities in Years				Total
	<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>					
Money market mutual funds	\$ 50,871	\$ -	\$ -	\$ -	\$ 50,871
State Treasurer Money Management Trust Fund ("MMTF")	58,850	-	-	-	58,850
	<u>\$ 109,721</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 109,721</u>
<u>June 30, 2022</u>					
Money market mutual funds	\$ 28,643	\$ -	\$ -	\$ -	\$ 28,643
State Treasurer MMTF	56,821	-	-	-	56,821
	<u>\$ 85,464</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 85,464</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 the expected cash flow needs of the Program. The Program invests in an internal governmental investment pool administered 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, the Program did not have any direct investments in U.S. agencies obligations. 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. **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	\$ 58,850	54%	\$ 56,821	66%

**STATE OF ARKANSAS SAFE DRINKING WATER  
REVOLVING LOAN FUND PROGRAM**

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**Notes to Combined Financial Statements**

**June 30, 2023 and 2022**

**2. Deposits and Investments (cont.)**

*Summary of Carrying Values*

The carrying values of money market mutual funds and State Treasurer MMTF are included in the combined statements of net position as follows:

<i>(In thousands)</i>	<u>2023</u>	<u>2022</u>
Carrying value		
Cash and cash equivalents	<u>\$ 109,721</u>	<u>\$ 85,464</u>

Included in the following combined statements of net position captions:

<i>(In thousands)</i>	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	<u>\$ 109,721</u>	<u>\$ 85,464</u>

**3. Loans Receivable**

The Program originates loans with Arkansas municipalities for financing the construction of drinking water treatment facilities. These loans are payable in semiannual installments. At June 30, 2023 and 2022, such loans had a carrying value of approximately \$205.3 million and \$217.8 million, respectively. The loans bear interest at 0.0% to 2.90% and are collateralized by special assessments, user charges or sales and use tax bonds issued by the municipalities.

In fiscal 2010, the Program funded loans with American Recovery and Reinvestment Act (“ARRA”) federal funds, along with other funding sources. As of June 30, 2023, and 2022, the Program’s outstanding loan balance for ARRA loans totaled \$11.9 million and \$15.5 million, respectively, which is included in loans receivable - restricted - construction in the accompanying combined statements of net position.

During the years ended June 30, 2023, and 2022, approximately \$508.8 million and \$382.9 million, respectively, in cumulative loans had been approved for funding. As of June 30, 2023, and 2022, approximately \$131.6 million and \$18.6 million, respectively, remained encumbered and awaiting disbursement to loan recipients.

**STATE OF ARKANSAS SAFE DRINKING WATER  
REVOLVING LOAN FUND PROGRAM**

**Notes to Combined Financial Statements**

**June 30, 2023 and 2022**

**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).

*Recurring Measurements*

The following table presents the fair value measurements of assets recognized in 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>				
State Treasurer MMTF	\$ 58,850	\$ -	\$ 58,850	\$ -
<u>June 30, 2022</u>				
State Treasurer MMTF	\$ 56,821	\$ -	\$ 56,821	\$ -

The following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in 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. 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 did not have any Level III securities at June 30, 2023 nor 2022.

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 is economically dependent upon revenue from the Environmental Protection Agency ("EPA"). For the years ended 2023 and 2022, the Program received approximately 34% and 75%, respectively, of total revenue in the form of federal grants.

*Program Set Asides*

As shown in the supplemental information, the Program has five set aside funds. These set aside funds make up 31% of the annual capitalization grant awarded each year. These funds are used to provide for reimbursement of expenses of the Program. Through federal regulations, the EPA has allowed states to redirect, and reserve set asides as needed to ensure proper management of funds.

Section 1452 of the EPA Federal Guidelines for the Implementation of Drinking Water State Revolving Loan Fund ("DWSRF") indicates a state may reserve the right to redirect unused set aside funds as eligible expenditures of the Program. Only the State Program Management and Small System Technical Assistance set asides may be reclaimed in future grant years. All others set asides are not eligible to be reclaimed.

**STATE OF ARKANSAS SAFE DRINKING WATER  
REVOLVING LOAN FUND PROGRAM**

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**Notes to Combined Financial Statements**

**June 30, 2023 and 2022**

**5. Concentrations (cont.)**

The Code of Federal Regulations section 40 CFR 3540, regarding the DWSRF, states a state may reserve or “bank” set aside funds at the time of the grant application. The intent is that the authority for a set aside activity from one year can be used in a future year when the amount available in that future year is not enough to accomplish the set aside activity. Each set aside activity has specific eligible costs associated with it. Reserved authority in a set aside activity can only be used for that same set aside activity in the future. For each grant application, the state has to demonstrate to EPA that the funds requested for each set aside activity can be used within a two-year period. If this results in the state having additional authority for that activity that they cannot use within the two-year period, they can reserve that additional authority for some unspecified future grant. The amount of authority reserved for each set aside activity will be reported in the Intended Use Plan (“IUP”) for that fiscal year and every succeeding IUP until the authority is used. When the state wants to use the authority that has been reserved, the state must demonstrate to EPA that all of the authority in the future grant and the additional reserved authority can be expended within the two-year period. The management of the Program is aware if future federal capitalization grants are not made available, the reserved authority is lost. Currently, the Arkansas Department of Health has reserved authority of \$11.8 million in the Small System Technical Assistance and the State Program Management set aside with the caveat that those redirected funds may be reclaimed as set aside funds in future federal grants.

*Principal Forgiveness Loans*

In fiscal year 2012, the Program began funding principal forgiveness (“PF”) loans with base federal 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. The percentage was changed to be not less than 20%, but not greater than 30% of the federal fiscal years 2012 through 2018 grants. Starting with the 2019 grants, a minimum of 6%, but not greater than 35%, of the grant must be provided as subsidization be in the form of a loan with principal forgiveness or negative interest to disadvantaged communities. Beginning with the 2020 capitalization grants, the minimum subsidy was changed to 14%. 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 and lead service line replacement (“LSL”), 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.

To be a disadvantaged community, as defined in the annual Intended Use Plan:

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.

**STATE OF ARKANSAS SAFE DRINKING WATER  
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	Base Capitalization Grant Award	PF Minimum Amount	DV PF Minimum Amount	PF Maximum Amount	Program Allocation Amount	Cumulative Disbursements	PF Remaining to Disburse
<i>(In thousands)</i>							
2019	\$ 16,555	\$ 993	\$ -	\$ 5,794	\$ 4,305	\$ 59	\$ -
2020	16,566	2,319	993	5,798	3,313	1,339	1,974
2021	16,551	2,317	994	5,793	3,310	354	2,956
2022-Base	10,543	1,476	1,265	3,690	5,166	-	5,166
2022-BIL Gen	27,070	-	13,264	13,264	13,624	-	13,264
2022-BIL EC	11,367	-	11,367	11,367	9,944	-	9,944
2022-BIL LSL	42,653	-	20,900	20,900	-	-	-
						<u>\$ 1,752</u>	<u>\$ 33,304</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 \$18.4 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 \$283,000 and \$5.8 million, respectively, in PF loans.

Since the American Recovery and Reinvestment Act (“ARRA”), annual federal appropriations laws have required states to provide a minimum amount of additional subsidization for DWSRF projects. Prior to ARRA, a state could, and still can, establish at its discretion disadvantaged community criteria and provide additional subsidization in the form of PF or negative interest rate loans to a water system that the state designates as serving a disadvantaged community. A state may use those same criteria in determining priority for additional subsidy to a water system as required by annual federal appropriations laws.

A state may use its additional subsidy authority under the disadvantaged community program in combination (additively) with additional subsidy authority provided through annual federal appropriations law. Additional subsidization can take the form of PF (the most commonly used form), negative interest rate loans or grants (except for designated disadvantaged community programs).

**STATE OF ARKANSAS SAFE DRINKING WATER  
REVOLVING LOAN FUND PROGRAM**

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**Notes to Combined Financial Statements**

**June 30, 2023 and 2022**

**5. Concentrations (cont.)**

*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 in the accompanying combined financial statements for such a contingency.

**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 \$36.6 million par bonds issued at a premium of \$3.7 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 November 6, 2023, which is the date the Program issued its combined financial statements.

**STATE OF ARKANSAS SAFE DRINKING WATER REVOLVING LOAN FUND PROGRAM**

**Combining Statement of Net Position**

**June 30, 2023**

**(In Thousands)**

<u>Assets</u>	<u>Small System Technical Assistance</u>	<u>Well Head Protection</u>	<u>Capacity Development</u>	<u>State Program Management</u>	<u>Fees and Expense</u>	<u>Revolving Loan Fund</u>	<u>Total</u>
Current assets							
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ 12,630	\$ 97,091	\$ 109,721
Accrued interest receivable							
Cash	-	-	-	-	52	404	456
Loans	-	-	-	-	-	141	141
Accounts receivable							
Borrowers	-	-	-	-	103	-	103
Environmental Protection Agency	-	101	185	139	-	-	425
Total current assets	-	101	185	139	12,785	97,636	110,846
Noncurrent assets							
Loans receivable - restricted							
Construction	-	-	-	-	-	205,340	205,340
Total assets	-	101	185	139	12,785	302,976	316,186
 <u>Liabilities and Net Position</u>							
Current liabilities							
Accounts payable	-	101	185	139	144	45	614
Net position							
Restricted by bond resolution, enabling legislation, and Program requirements	\$ -	\$ -	\$ -	\$ -	\$ 12,641	\$ 302,931	\$ 315,572

See independent auditor's report.



**STATE OF ARKANSAS SAFE DRINKING WATER REVOLVING LOAN FUND PROGRAM**

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

**For the Year Ended June 30, 2023**

**(In Thousands)**

	Small System Technical Assistance	Well Head Protection	Capacity Development	State Program Management	Fees and Expense	Revolving Loan Fund	Total
Operating revenues							
Interest on cash and investments	\$ -	\$ -	\$ -	\$ -	\$ 423	\$ 3,181	\$ 3,604
Interest on loans	-	-	-	-	-	2,132	2,132
Financing fee income	-	-	-	-	1,725	-	1,725
Net appreciation of investments	-	-	-	-	14	91	105
Total operating revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,162</u>	<u>5,404</u>	<u>7,566</u>
Operating expenses							
Program administration	-	-	-	-	215	-	215
Federal financial assistance - base federal grants	-	-	-	-	-	283	283
Total operating expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>215</u>	<u>283</u>	<u>498</u>
Operating income	-	-	-	-	1,947	5,121	7,068
Nonoperating revenue							
Base federal grants	<u>-</u>	<u>681</u>	<u>1,422</u>	<u>1,193</u>	<u>376</u>	<u>283</u>	<u>3,955</u>
Income before transfers in (out), net	-	681	1,422	1,193	2,323	5,404	11,023
Transfers in (out), net	<u>-</u>	<u>(681)</u>	<u>(1,422)</u>	<u>(1,193)</u>	<u>(626)</u>	<u>4,814</u>	<u>892</u>
Changes in net position	-	-	-	-	1,697	10,218	11,915
Net position - beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,944</u>	<u>292,713</u>	<u>303,657</u>
Net position - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,641</u>	<u>\$ 302,931</u>	<u>\$ 315,572</u>

See independent auditor's report.

**STATE OF ARKANSAS SAFE DRINKING WATER REVOLVING LOAN FUND PROGRAM**

**Combining Statement of Cash Flows**

**For the Year Ended June 30, 2023**

**(In Thousands)**

	Small System Technical <u>Assistance</u>	Well Head <u>Protection</u>	Capacity <u>Development</u>	State Program <u>Management</u>	Fees and <u>Expense</u>	Revolving <u>Loan Fund</u>	<u>Total</u>
Cash flows from operating activities							
Financing fee income received	\$ -	\$ -	\$ -	\$ -	\$ 1,841	\$ -	\$ 1,841
Cash (paid) received for program administration	-	-	-	-	(228)	42	(186)
Net cash provided by operating activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,613</u>	<u>42</u>	<u>1,655</u>
Cash flows from noncapital financing activities							
Transfers (out) in	-	(622)	(1,388)	(1,144)	(626)	4,814	1,034
Nonoperating grants received	-	622	1,388	1,144	408	283	3,845
Net cash (used) provided by noncapital financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(218)</u>	<u>5,097</u>	<u>4,879</u>
Cash flows from investing activities							
Interest received on cash and investments	-	-	-	-	379	2,824	3,203
Interest received on loans	-	-	-	-	-	2,228	2,228
Principal repayments on loans	-	-	-	-	-	25,947	25,947
Loan disbursements	-	-	-	-	-	(13,477)	(13,477)
Federal grant funds expended	-	-	-	-	-	(283)	(283)
Change in market value of investments	-	-	-	-	14	91	105
Net cash provided by investing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>393</u>	<u>17,330</u>	<u>17,723</u>
Net increase in cash and cash equivalents	-	-	-	-	1,788	22,469	24,257
Cash and cash equivalents - beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,842</u>	<u>74,622</u>	<u>85,464</u>
Cash and cash equivalents - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,630</u>	<u>\$ 97,091</u>	<u>\$ 109,721</u>

See independent auditor's report.

**STATE OF ARKANSAS SAFE DRINKING WATER REVOLVING LOAN FUND PROGRAM**

**Combining Statement of Cash Flows (cont.)**

**For the Year Ended June 30, 2023**

**(In Thousands)**

	Small System Technical <u>Assistance</u>	Well Head <u>Protection</u>	Capacity <u>Development</u>	State Program <u>Management</u>	Fees and <u>Expense</u>	Revolving <u>Loan Fund</u>	<u>Total</u>
Reconciliation of changes in net position to net cash provided by operating activities							
Operating income	\$ -	\$ -	\$ -	\$ -	\$ 1,947	\$ 5,121	\$ 7,068
Adjustments to reconcile operating income of changes in net position in net cash provided by operating activities							
Interest on cash and investments	-	-	-	-	(423)	(3,181)	(3,604)
Interest on loans	-	-	-	-	-	(2,132)	(2,132)
Net appreciation of investments	-	-	-	-	(14)	(91)	(105)
Federal grants expended	-	-	-	-	-	283	283
Changes in operating assets and liabilities							
Accounts receivable - borrowers	-	-	-	-	117	-	117
Accounts payable	-	-	-	-	(14)	42	28
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Net cash provided by operating activities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,613</u>	<u>\$ 42</u>	<u>\$ 1,655</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 Safe Drinking Water 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 November 6, 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 Safe Drinking Water 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 Safe Drinking Water Revolving Loan Fund Program’s internal control. Accordingly, we do not express an opinion on the effectiveness of the State of Arkansas Safe Drinking Water 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 Safe Drinking Water 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  
November 6, 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 Safe Drinking Water 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 Safe Drinking Water Revolving Loan Fund Program’s major federal programs for the year ended June 30, 2023. The State of Arkansas Safe Drinking Water 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 Safe Drinking Water 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 Safe Drinking Water 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 Safe Drinking Water 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 Safe Drinking Water 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 Safe Drinking Water 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 Safe Drinking Water 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 Safe Drinking Water 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 Safe Drinking Water 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 Safe Drinking Water 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.

## **Report on Internal Control Over Compliance**

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Frost, PLLC*

Certified Public Accountants

Little Rock, Arkansas  
November 6, 2023



STATE OF ARKANSAS SAFE DRINKING WATER  
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 Drinking Water State Revolving Funds 66.468

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

STATE OF ARKANSAS SAFE DRINKING WATER  
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 Drinking Water State Revolving Funds (Drinking Water State Revolving Fund Cluster)	66.468	<u>\$ 283</u>	<u>\$ 3,955</u>

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

**STATE OF ARKANSAS SAFE DRINKING WATER  
REVOLVING LOAN FUND PROGRAM**

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**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 Safe Drinking Water 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 Safe Drinking Water 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 Safe Drinking Water 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 in 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 Safe Drinking Water 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 66.468, Capitalization Grants for Drinking Water State Revolving Funds, include loans to counties, municipalities, and other tax-exempt water system entities for construction of new water systems, expansion, or repair of existing water systems and/or consolidation of new or existing water systems. 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 Safe Drinking Water Revolving Loan Fund Program’s outstanding loan receivable balance from subrecipients from all funding sources was \$205.3 million for the year ended June 30, 2023. There were no federal loan disbursements for repayable loans during fiscal year 2023. Total loans forgiven totaled \$283,000 during fiscal year 2023. For the year ended June 30, 2023, the State of Arkansas Safe Drinking Water Revolving Loan Fund Program received \$3.7 million in federal funds for administrative costs, which were disbursed to the administration agencies.