STATE OF ARKANSAS SAFE DRINKING WATER REVOLVING LOAN FUND PROGRAM

June 30, 2024 and 2023

Combined Financial Statements
And
Supplementary Information

With

Independent Auditor's Report

FROST, PLLC
Certified Public Accountants

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Certified Public Accountants

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, 2024 and 2023, 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, 2024 and 2023, 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 ("GAS")*, 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, 2024 and 2023, 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 *GAS* 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 *GAS*, 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 requires that the management's discussion and analysis on pages 4 through 8 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 21 through 24 and the schedule of expenditures of federal awards on page 32 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 *GAS*

In accordance with *GAS*, we have also issued our report dated November 14, 2024, 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 *GAS* 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 14, 2024

Management's Discussion and Analysis

For the Years Ended June 30, 2024 and 2023

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, 2024 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, 2023 and 2022 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

(In thousands)	2024	2023	2022
Total assets	$ 367,041	$ 316,186	$ 304,100
Liabilities			
Current liabilities	3,766	614	443
Noncurrent liabilities	34,885	-	-
Total liabilities	38,651	614	443
Net position			
Restricted by bond resolution and Program administration	$ 328,390	$ 315,572	$ 303,657

The Program's total assets have increased over the past three years. At June 30, 2024, total assets increased $50.9 million from June 30, 2023, which is primarily attributable to cash and cash equivalents increasing $49.8 million due to the issuance of bonds, loan prepayments, and interest earnings. 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. The Program issued bonds of $36.6 million with a premium of $3.7 million on August 30, 2023 for an additional funding source to fund new loans.

The following table reports loan activity for each year:

(In thousands)	2024	2023	2022
Loan disbursements	$ 31,219	$ 13,477	$ 34,748
Loan repayments	30,232	25,947	21,198
Net increase (decrease) in loans receivable	$ 987	$ (12,470)	$ 13,550

Grants from the Environmental Protection Agency ("EPA") comprised 0%, 0%, and 14% of the funding source of the repayable loan disbursements for fiscal years ended June 30, 2024, 2023, and 2022, 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, 2024, the Program had $29.4 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, 2024, 2023, and 2022 as follows:

(In thousands)	2024	2023	2022
EPA federal base	$ -	$ -	$ 4,849
Revolving Program funds	8,316	9,676	26,522
Bond funds	18,216	-	-
State matching funds	4,687	3,801	3,377
	$ 31,219	$ 13,477	$ 34,748

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, including the bond proceeds received in fiscal 2024.

In addition to the Base grants, the Program was awarded funding from the Bipartisan Infrastructure Law/Infrastructure Investment Jobs Act ("BIL/IIJA") for general ("Gen") capitalization grants in the amount of $54.8 million for grant fiscal years 2023 and 2022; however, no grant funds were reported during this fiscal year for loan fundings. The funds will give the Program an additional funding source. Also from BIL/IIJA, the following additional grants were awarded in grant fiscal years 2023 and 2022 for grants in the amount of $20.5 million for emerging contaminant ("EC") funding, and a 2022 grant in the amount of $42.7 million for lead service line replacement ("LSL") funding. The BIL/IIJA requires 49% of these awards to be additional subsidization in the form of principal forgiveness or grants for Gen capitalization and LSL awards and 100% for EC awards. This additional subsidization must be provided to eligible assistance recipients who meet the Program's disadvantaged community criteria. In August 2024 and September 2024, additional EC grant awards of $612,000 and $1.4 million, respectively, were transferred to the Program from the State of Arkansas Construction Assistance Revolving Loan Fund Program.

Management's Discussion and Analysis (cont.)

For the Years Ended June 30, 2024 and 2023

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 $17.2 million in fiscal year 2024, $13.4 million in fiscal year 2023, and $9.9 million in fiscal year 2022.

The Program maintains liquidity for funding loans. The Program invested excess funds in money market mutual funds and the State Treasury Money Management Trust Fund ("MMTF") from time to time to allow for re-evaluation of the Program's liquidity needs. The State Treasury 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 $38.7 million at June 30, 2024 from $614,000 at June 30, 2023. The increase is primarily due to the issuance of bonds as an additional funding source for the loan volume.

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

(In thousands)	2024	2023	2022
Operating revenues			
Total interest income	$ 9,453	$ 5,736	$ 2,820
Other income	1,306	1,830	1,968
Total operating revenues	10,759	7,566	4,788
Operating expenses			
Program administration	1,131	215	309
Federal financial assistance - base federal grants	3,400	283	5,798
Bond interest	1,523	-	-
Amortization of bond premiums	(405)	-	-
Total operating expenses	5,649	498	6,107
Operating income (loss)	5,110	7,068	(1,319)
Base federal grants	6,607	3,955	14,337
BIL/IIJA federal grants	1,042	-	-
Transfers in (out), net	59	892	(3,568)
Changes in net position	12,818	11,915	9,450
Net position - beginning of year	315,572	303,657	294,207
Net position - end of year	$ 328,390	$ 315,572	$ 303,657

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 $9.5 million for the year ended June 30, 2024. The increase in fiscal year 2024 of $3.7 million is due to the increase of $4.5 million in interest earned on cash offset by a decline of $0.8 million in interest earned from loans. The Program monitors its investments and earnings to provide additional income for the Program. At fiscal year-ends 2024 and 2023, the State Treasury MMTF interest rate was 5.37% and 5.08%, respectively, with an average of 5.35% for fiscal 2024. The Program considers the $62.6 million in State Treasury 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 2024 was 4.98%; whereas the average yields for fiscal years 2023 and 2022 were 3.66% and 0.24%, respectively.

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 0.69%, 1.23%, and 1.36% for the fiscal years June 30, 2024, 2023, and 2022, 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 $524,000 in other income which was due to a decrease in financing fee income of $523,000. In the prior fiscal year, other income decreased $138,000 due to a decrease in financing fee income of $305,000, which is offset by a net appreciation of investments of $168,000. 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 increased significantly to $5.6 million for the year ended June 30, 2024. In the current year, the increase of $5.2 million is due to the increase in federal financial assistance - base federal grants of $3.1 million and the increase in bond interest expense of $1.5 million due to the issuance of the bonds in August 2023. In fiscal year 2023, the decrease of $5.6 million in operating expenses is primarily due to the decrease in federal financial assistance - base federal grants. 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, 2024 and 2023, the Program has awarded principal forgiveness loans to multiple borrowers and has forgiven $3.4 million and $0.3 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.

Base and BIL/IIJA federal grant revenue increased $3.7 million for fiscal year 2024, which comprises of draws for loans and administrative expenses. Base federal grant revenue for construction draws for principal forgiveness loans increased by $3.1 million this fiscal year. No federal grant funds were disbursed for repayable loans this fiscal year or the prior year. 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 Arkansas Department of Health ("ADH") incur administration expenses and are reimbursed using base and BIL/IIJA 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.

Management's Discussion and Analysis (cont.)

For the Years Ended June 30, 2024 and 2023

For the fiscal years 2024 and 2023, the Program's transfers in (out), net were $59,000 in and $0.9 million in, 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:

(In thousands)	2024	2023	2022
ANRC - state match	$ 3,706	$ 4,815	$ -
ADH	(3,127)	(3,298)	(3,283)
ANRC - administration	(520)	(625)	(285)
Transfers in (out), net	$ 59	$ 892	$ (3,568)

The net position of the Program increased $24.7 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.

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.

STATE OF ARKANSAS SAFE DRINKING WATER
REVOLVING LOAN FUND PROGRAM

Combined Statements of Net Position

June 30, 2024 and 2023

(In Thousands)

	2024	2023
Assets		
Current assets		
Cash and cash equivalents	$ 159,509	$ 109,721
Accrued interest receivable		
Cash	704	456
Loans	31	141
Accounts receivable		
Borrowers	41	103
Environmental Protection Agency	429	425
Total current assets	160,714	110,846
Noncurrent assets		
Loans receivable - restricted		
Construction	206,327	205,340
Total assets	$ 367,041	$ 316,186
Liabilities and Net Position		
Current liabilities		
Accounts payable	$ 617	$ 614
Accrued interest payable	144	-
Current portion of bonds payable	3,005	-
Total current liabilities	3,766	614
Noncurrent liabilities		
Bonds payable including unamortized premiums of $3,310 and $0 in fiscal 2024 and 2023, respectively, net of current portion	34,885	-
Total liabilities	38,651	614
Net position		
Restricted by bond resolution and Program administration	$ 328,390	$ 315,572

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

STATE OF ARKANSAS SAFE DRINKING WATER
REVOLVING LOAN FUND PROGRAM

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

For the Years Ended June 30, 2024 and 2023

(In Thousands)

	2024	2023
Operating revenues		
Interest on cash and investments	$ 8,095	$ 3,604
Interest on loans	1,358	2,132
Financing fee income	1,202	1,725
Net appreciation of investments	104	105
Total operating revenues	10,759	7,566
Operating expenses		
Program administration	1,131	215
Federal financial assistance - base federal grants	3,400	283
Bond interest	1,523	-
Amortization of bond premiums	(405)	-
Total operating expenses	5,649	498
Operating income	5,110	7,068
Nonoperating revenue		
Base federal grants	6,607	3,955
BIL/IIJA federal grants	1,042	-
Total nonoperating revenue	7,649	3,955
Income before transfers in, net	12,759	11,023
Transfers in, net	59	892
Change in net position	12,818	11,915
Net position - beginning of year	315,572	303,657
Net position - end of year	$ 328,390	$ 315,572

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

STATE OF ARKANSAS SAFE DRINKING WATER
REVOLVING LOAN FUND PROGRAM

Combined Statements of Cash Flows

For the Years Ended June 30, 2024 and 2023

(In Thousands)

	2024	2023
Cash flows from operating activities		
Financing fee income received	$ 1,264	$ 1,841
Cash paid for program administration	(744)	(186)
Net cash provided by operating activities	520	1,655
Cash flows from noncapital financing activities		
Proceeds from issuance of bonds payable	40,360	-
Repayments of bonds payable	(2,065)	-
Cash paid for interest	(1,379)	-
Cash paid for bond issuance costs	(360)	-
Transfers in, net	37	1,034
Nonoperating grants received	7,646	3,845
Net cash provided by noncapital financing activities	44,239	4,879
Cash flows from investing activities		
Interest received on cash and investments	7,847	3,203
Interest received on loans	1,465	2,228
Principal repayments on loans	30,232	25,947
Loan disbursements	(31,219)	(13,477)
Federal grant funds expended	(3,400)	(283)
Change in market value of investments	104	105
Net cash provided by investing activities	5,029	17,723
Net increase in cash and cash equivalents	49,788	24,257
Cash and cash equivalents - beginning of year	109,721	85,464
Cash and cash equivalents - end of year	$ 159,509	$ 109,721
Reconciliation of changes in net position to net cash provided by operating activities		
Operating income	$ 5,110	$ 7,068
Adjustments to reconcile operating income of changes in net position to net cash provided by operating activities		
Interest on cash and investments	(8,095)	(3,604)
Interest on loans	(1,358)	(2,132)
Bond interest	1,523	-
Amortization of bond premiums	(405)	-
Bond issuance costs	360	-
Net appreciation of investments	(104)	(105)
Federal grants expended	3,400	283
Changes in operating assets and liabilities		
Accounts receivable - borrowers	62	117
Accounts payable	27	28
Net cash provided by operating activities	$ 520	$ 1,655

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

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 administrated 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 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 $142,000 and $144,000 for the years ended June 30, 2024 and 2023, 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.

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. **Recently issued accounting pronouncements** – Governmental Accounting Standards Board ("GASB") Statement No. 102, "Certain Risk Disclosures." The objective of this statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. The requirements of this statement will improve financial reporting by providing users of the combined financial statements with essential information that currently is not often provided. The disclosures will provide users with timely information regarding certain concentrations or constraints and related events that have occurred or have begun to occur that make a government vulnerable to a substantial

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

impact. As a result, users will have better information with which to understand and anticipate certain risks to a government's financial condition. The requirements of this statement are effective for fiscal years beginning after June 15, 2024 with earlier adoption encouraged. The Program has not determined the impact, if any, that this statement could have on its combined financial statements.

GASB Statement No. 103, "Financial Reporting Model Improvements." The objective of this statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision-making and assessing a government's accountability. For governments engaged in business-type activities, the primary impact of this statement will be changes to the combined statement of revenues, expenditures, and changes in net position ("SRECNP"). This statement not only changes the required sections and subtotals to be included in the SRECNP but creates new definitions for subsidies and operating and nonoperating revenues and expenses. Upon adoption, the new definitions may cause reclassifications of revenues and expenses within the SRECNP. This statement also impacts other financial statement presentation requirements, including major component units, unusual or infrequent items, and management's discussion and analysis. This statement is effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter with earlier adoption encouraged. The Program has not determined the impact, if any, this statement could have on its combined financial statements.

e. **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, 2024 and 2023, cash equivalents of approximately $159.5 million and $109.7 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.

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 year ended June 30, 2023. See Note 4 for further information.

g. **Financing fees** – The Program receives up to a 1% annual financing fee from borrowers as part of their 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.

2. <u>Deposits</u>

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, 2024 and 2023, none of the Program's deposits were exposed to custodial credit risk.

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.

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 invests 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, 2024 and 2023, the Program did not have any direct investments in U.S. agencies obligations. The Program's amounts 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. The Program had no investments as of June 30, 2024 or 2023.

2. **Deposits (cont.)**

Summary of Carrying Values

The carrying values of money market mutual funds and the State Treasury Money Management Trust Fund ("MMTF") are included in the combined statements of net position as follows:

	2024	2023
(In thousands)		
Carrying values		
Money market mutual funds	$ 97,342	$ 50,871
State Treasury MMTF	62,167	58,850
Cash and cash equivalents	$ 159,509	$ 109,721

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, 2024 and 2023, such loans had a carrying value of approximately $206.3 million and $205.3 million, respectively. The loans bear interest at 0.0% to 2.9% 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. At June 30, 2024 and 2023, the Program's outstanding loan balance for ARRA loans totaled $11.8 million and $11.9 million, respectively, which is included in loans receivable - restricted - construction on the accompanying combined statements of net position.

During the years ended June 30, 2024 and 2023, approximately $674.8 million and $508.8 million, respectively, in cumulative loans had been approved for funding. At June 30, 2024 and 2023, approximately $264.5 million and $131.6 million, respectively, remained encumbered and awaiting disbursement to loan recipients.

4. Bonds Payable

Bonds payable consist of the following:

Series	Interest Rate Range	Final Maturity Date	2024 (In thousands)	2023 (In thousands)
2023 Serial	5.0%	June 1, 2043	$ 34,580	$ -
	Unamortized premiums		3,310	-
	Net bonds payable		$ 37,890	$ -

Activity in bonds payable at June 30, 2024 consist of the following:

(In thousands)	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due within One Year
2023 Serial	$ -	$ 36,645	$ (2,065)	$ 34,580	$ 3,005

The principal amount shown above differs from the amount on the combined statements of net position due to unamortized premiums of approximately $3.3 million at June 30, 2024. The Program had no unamortized premiums at June 30, 2023.

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

	Principal (In thousands)	Interest (In thousands)
Fiscal Year Ending June 30,		
2025	$ 3,005	$ 1,729
2026	3,135	1,579
2027	3,240	1,422
2028	3,225	1,260
2029	3,025	1,099
2030 - 2034	9,735	3,613
2035 - 2039	6,225	1,542
2040 - 2043	2,990	356
	34,580	12,600
Unamortized premiums	3,310	-
	$ 37,890	$ 12,600

4. **Bonds Payable (cont.)**

During fiscal 2024, ADFA issued approximately $36.6 million in Revolving Loan Fund Revenue Bond, Series 2023 for the benefit of the Program. The proceeds from the issuance of the bonds, along with other funds, will be used to fund, in whole or in part, Drinking Water State Revolving Fund ("DWSRF") loans and to pay underwriters compensation and other costs of issuance.

5. **Concentrations**

Economic Dependency

The Program is economically dependent upon revenue from the Environmental Protection Agency ("EPA"). For the years ended 2024 and 2023, the Program received approximately 42% and 34%, 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 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.

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 $6.1 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.

5. **Concentrations (cont.)**

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 years 2022 and 2023, 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 2023, BIL Emerging Contaminants ("EC") capitalization grant, 100% must go to disadvantaged communities.

To be a disadvantaged community, as defined in the annual IUP:

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.

Notes to Combined Financial Statements

June 30, 2024 and 2023

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
				(In thousands)			
2010-Reopened	$ 8,920	$ 8,920	$ -	$ -	$ 6,709	$ -	$ 2,211
2011-Reopened	7,979	7,979	-	-	7,249	-	730
2012-Reopened	94	94	-	-	-	-	94
2013-Reopened	1,251	1,251	-	-	-	-	1,251
2014-Reopened	63	63	-	-	-	-	63
2015-Reopened	32	32	-	-	-	-	32
2020-Base	16,566	2,319	993	5,798	8,117	2,736	5,381
2021-Base	16,551	2,317	994	5,793	8,110	1,613	6,497
2022-Base	10,543	1,476	1,265	3,690	3,164	-	3,164
2022-BIL Gen	27,070	-	13,264	13,264	13,264	-	13,264
2022-BIL EC	11,367	-	11,367	11,367	10,773	15	10,758
2022-BIL LSL	42,653	-	20,890	20,890	12,880	12	12,868
2022-Base	5,912	828	709	2,069	2,562	-	2,562
2023-BIL Gen	25,209	-	12,352	12,352	7,651	-	7,651
2023-BIL EC	9,147	-	9,147	9,147	6,206	-	6,206
						$ 4,376	$ 72,732

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, 2022, and 2023 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 2024 and 2023, the Program expensed $3.4 million and $283,000, 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.

5. **Concentrations (cont.)**

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).

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.

6. **Subsequent Events Evaluation Date**

The Program evaluated the events and transactions subsequent to its June 30, 2024 combined statement of net position date and determined there were no significant events to report through November 14, 2024, 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, 2024

(In Thousands)

Assets	Small System Technical Assistance	Well Head Protection	Capacity Development	State Program Management	Fees and Expense	Revolving Loan Fund	Total
Current assets							
Cash and cash equivalents	$ -	$ -	$ -	$ -	$ 14,442	$ 145,067	$ 159,509
Accrued interest receivable							
Cash	-	-	-	-	61	643	704
Loans	-	-	-	-	-	31	31
Accounts receivable							
Borrowers	-	-	-	-	41	-	41
Environmental Protection Agency	71	80	133	117	28	-	429
Total current assets	71	80	133	117	14,572	145,741	160,714
Noncurrent assets							
Loans receivable - restricted							
Construction	-	-	-	-	-	206,327	206,327
Total assets	$ 71	$ 80	$ 133	$ 117	$ 14,572	$ 352,068	$ 367,041
Liabilities and Net Position							
Current liabilities							
Accounts payable	$ 71	$ 80	$ 133	$ 117	$ 184	$ 32	$ 617
Accrued interest payable	-	-	-	-	-	144	144
Current portion of bonds payable	-	-	-	-	-	3,005	3,005
Total current liabilities	71	80	133	117	184	3,181	3,766
Noncurrent liabilities							
Bonds payable including unamortized premiums of $3,310, net of current portion	-	-	-	-	-	34,885	34,885
Total liabilities	71	80	133	117	184	38,066	38,651
Net position							
Restricted by bond resolution and Program administration	$ -	$ -	$ -	$ -	$ 14,388	$ 314,002	$ 328,390

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, 2024

(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	$ -	$ -	$ -	$ 3	$ 697	$ 7,395	$ 8,095
Interest on loans	-	-	-	-	-	1,358	1,358
Financing fee income	-	-	-	-	1,202	-	1,202
Net appreciation of investments	-	-	-	-	14	90	104
Total operating revenues	-	-	-	3	1,913	8,843	10,759
Operating expenses							
Program administration	-	-	-	-	771	360	1,131
Federal financial assistance - base federal grants	-	-	-	-	-	3,400	3,400
Bond interest	-	-	-	-	-	1,523	1,523
Amortization of bond premiums	-	-	-	-	-	(405)	(405)
Total operating expenses	-	-	-	-	771	4,878	5,649
Operating income	-	-	-	3	1,142	3,965	5,110
Nonoperating revenue							
Base federal grants	-	678	841	1,268	420	3,400	6,607
BIL/IIJA federal grants	220	-	-	117	705	-	1,042
Total nonoperating revenue	220	678	841	1,385	1,125	3,400	7,649
Income before transfers in (out), net	220	678	841	1,388	2,267	7,365	12,759
Transfers (out) in, net	(220)	(678)	(841)	(1,388)	(520)	3,706	59
Changes in net position	-	-	-	-	1,747	11,071	12,818
Net position - beginning of year	-	-	-	-	12,641	302,931	315,572
Net position - end of year	$ -	$ -	$ -	$ -	$ 14,388	$ 314,002	$ 328,390

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, 2024

(In Thousands)

	Small System Technical Assistance	Well Head Protection	Capacity Development	State Program Management	Fees and Expense	Revolving Loan Fund	Total
Cash flows from operating activities							
Financing fee income received	$ -	$ -	$ -	$ -	$ 1,264	$ -	$ 1,264
Cash paid for program administration	-	-	-	-	(733)	(11)	(744)
Net cash provided (used) by operating activities	-	-	-	-	531	(11)	520
Cash flows from noncapital financing activities							
Proceeds from issuance of bonds payable	-	-	-	-	-	40,360	40,360
Repayments of bonds payable	-	-	-	-	-	(2,065)	(2,065)
Cash paid for interest	-	-	-	-	-	(1,379)	(1,379)
Cash paid for bond issuance costs	-	-	-	-	-	(360)	(360)
Transfers (out) in, net	(149)	(699)	(893)	(1,410)	(521)	3,709	37
Nonoperating grants received	149	699	893	1,407	1,098	3,400	7,646
Net cash (used) provided by noncapital financing activities	-	-	-	(3)	577	43,665	44,239
Cash flows from investing activities							
Interest received on cash and investments	-	-	-	3	688	7,156	7,847
Interest received on loans	-	-	-	-	-	1,465	1,465
Principal repayments on loans	-	-	-	-	-	30,232	30,232
Loan disbursements	-	-	-	-	-	(31,219)	(31,219)
Federal grant funds expended	-	-	-	-	-	(3,400)	(3,400)
Change in market value of investments	-	-	-	-	15	89	104
Net cash provided by investing activities	-	-	-	3	703	4,323	5,029
Net increase in cash and cash equivalents	-	-	-	-	1,811	47,977	49,788
Cash and cash equivalents - beginning of year	-	-	-	-	12,630	97,091	109,721
Cash and cash equivalents - end of year	$ -	$ -	$ -	$ -	$ 14,441	$ 145,068	$ 159,509

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, 2024

(In Thousands)

	Small System Technical Assistance	Well Head Protection	Capacity Development	State Program Management	Fees and Expense	Revolving Loan Fund	Total
Reconciliation of changes in net position to net cash provided (used) by operating activities							
Operating income	$ -	$ -	$ -	$ 3	$ 1,142	$ 3,965	$ 5,110
Adjustments to reconcile operating income of changes in net position to net cash provided (used) by operating activities							
Interest on cash and investments	-	-	-	(3)	(697)	(7,395)	(8,095)
Interest on loans	-	-	-	-	-	(1,358)	(1,358)
Bond interest	-	-	-	-	-	1,523	1,523
Amortization of bond premiums	-	-	-	-	-	(405)	(405)
Bond issuance costs	-	-	-	-	-	360	360
Net appreciation of investments	-	-	-	-	(15)	(89)	(104)
Federal grants expended	-	-	-	-	-	3,400	3,400
Changes in operating assets and liabilities							
Accounts receivable - borrowers	-	-	-	-	62	-	62
Accounts payable	-	-	-	-	39	(12)	27
Net cash provided (used) by operating activities	$ -	$ -	$ -	$ -	$ 531	$ (11)	$ 520

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 the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards (“GAS”)* 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, 2024, 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 14, 2024, which contained an “emphasis of matter” paragraph regarding a definition of the reporting entity.

Report on 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 audit 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 State of Arkansas Safe Drinking Water Revolving Loan Fund Program'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 or significant deficiencies may exist that were not identified.

Report on 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 *GAS.*

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 State of Arkansas Safe Drinking Water Revolving Loan Fund Program's internal control or on compliance. This report is an integral part of an audit performed in accordance with *GAS* in considering the State of Arkansas Safe Drinking Water Revolving Loan Fund Program's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Frost, PLLC

Certified Public Accountants

Little Rock, Arkansas
November 14, 2024

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, 2024. 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, 2024.

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 ("GAS")*, issued by the Comptroller General of the United States; 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, *GAS*, 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, *GAS,* 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.

<u>Report on Internal Control Over Compliance</u>

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 14, 2024

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2024

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	__X__ No
• Significant deficiency(ies) identified?	_____ Yes	__X__ None Reported
Noncompliance material to combined financial statements noted?	_____ Yes	__X__ No

Federal Awards

Internal control over major programs:

• Material weakness(es) identified?	_____ Yes	__X__ No
• Significant deficiency(ies) identified?	_____ Yes	__X__ 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	__X__ 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?	__X__ Yes	_____ No

STATE OF ARKANSAS SAFE DRINKING WATER REVOLVING LOAN FUND PROGRAM

Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2024

Reference Number	Summary of Finding	Status

No matters were reported in the June 30, 2023 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, 2024

(In Thousands)

Federal Grantor/Pass-Through Grantor Program or Cluster Title	FAL Number	Provided to Subrecipients	Total Federal Expenditures
U.S. Environmental Protection Agency/Capitalization Grants for Drinking Water State Revolving Funds (Drinking Water State Revolving Fund Cluster)	66.468	$ 3,400	$ 7,649

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

Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2024

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, 2024. 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 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 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 $206.3 million for the year ended June 30, 2024. There were no federal loan disbursements for repayable loans during fiscal year 2024. Total loans forgiven totaled $3.4 million during fiscal year 2024. For the year ended June 30, 2024, the State of Arkansas Safe Drinking Water Revolving Loan Fund Program received $4.2 million in federal funds for administrative costs, which were disbursed to the administration agencies.