

ARKANSAS DEVELOPMENT FINANCE AUTHORITY



FALL RETREAT 2026

The Stonebreaker Hotel
Fayetteville, Arkansas



THURSDAY · OCTOBER 15, 2026

ADFA BOARD COMMITTEE MEETINGS

10:00 AM · The Barn on Markham Hill

**ARKANSAS DEVELOPMENT FINANCE AUTHORITY
BOARD COMMITTEE MEETINGS**

**The Stonebreaker Hotel,
In The Barn on Markham Hill,
Fayetteville, AR**

Thursday, October 15, 2026

10:00 AM

These Committees may go into Closed Session for the purpose of the preliminary review of certain applications and all supporting documentation pursuant to §15-5-409(b) and §15-5-207(c).

CALL TO ORDER

I. ROLL CALL AND NOTE OF ABSENCES

II. PRESIDENT'S REMARKS TAB 1

ACTIVITY REPORTS

NO ACTION NEEDED

**I. REPORT: Funds Available for Commitment as of September 30, 2026 –
FOR INFORMATION ONLY..... TAB 2**

II. REPORTS: Development Finance – FOR INFORMATION ONLY TAB 3

- Bond Guaranty Fund
- Arkansas Venture Capital Investment Trust

BOARD AUDIT COMMITTEE	(Committee of the Full Board - Kirkley Thomas, Audit Liaison)
THURSDAY, OCTOBER 15, 2026	TO FOLLOW

**I. MINUTES: Audit Committee Meeting – July 16, 2026 –
Presented by Kirkley Thomas, Audit Liaison TAB 4**

**II. PRESENTATION: Fiscal Year 2026 Discussion Drafts by Frost, PLLC – Committee
to Consider Approval of the Reports – Presented by Brian Ettehad and Daniel
Meador, Frost, PLLC – *The Following Should Be Voted on Separately:***

- Arkansas Development Finance Authority TAB 5
- Construction Assistance Revolving Loan Fund Program TAB 6
- Safe Drinking Water Revolving Loan Fund Program TAB 7

**III. REVIEW: Arkansas Institutional Fund (AIF) Audit Report – Fiscal Year 2026 –
Presented by Megan Summitt TAB 8**

- I. **MINUTES:** Housing Review Committee Meeting – August 20, 2026 –
Presented by Rod Coleman, Committee Chair TAB 9
- II. **ACTION MEMO:** Non Congregate Shelter (NCS) Applications -
Presented by Lori Brockway TAB 10
- III. **REPORTS:** Federal Housing Programs – **FOR INFORMATION ONLY** –
Presented by Lori Brockway TAB 11
 - HOME Activities Report
 - NHTF Activities Report
 - HOME-ARP Activities Report
 - ESG Activities Report
 - CDBG-DR Activities Report
- IV. **REPORT:** Compliance Monitoring Activities: July through September 2026 –
FOR INFORMATION ONLY –
Presented by Tammy White TAB 12

- I. **MINUTES:** Operations Committee Meeting – July 16, 2026 –
Presented by Carey Smith, Committee Chair TAB 13
- II. **DISCUSSION:** Operating Results and General Fund Review as of June 30, 2026 –
Presented by Kristy Cunningham TAB 14
- III. **ACTION MEMO:** Land Option Contract -
Presented by Jake Bleed TAB 15
- IV. **UPDATE:** Private Activity Bond Volume Cap – **FOR INFORMATION ONLY** –
Presented by Jake Bleed TAB 16

LUNCHEON

12:00 PM

THE BARN ON MARKHAM HILL

NO BUSINESS WILL BE CONDUCTED DURING THIS TIME.

ADJOURNMENT:

The next regular ADFA Board of Directors meeting is scheduled for
Thursday, December 3, 2026, ADFA, Arkansas Department of Commerce,
1 Commerce Way, Little Rock, Arkansas.

TAB 1

TAB 2

**Arkansas Development Finance Authority
Funds Available for Commitment
9/30/2026**

Category	Program	Available to Commit
Housing:		
***	HOME Investment Partnership (HOME):	\$ 25,432,849.46
	Applications received but not approved:	
	1-2026 Application-non-competitive, HOME-only	\$ 1,300,000.00
	1-2026 Application-non-competitive, 4% LIHTC	\$ 2,175,000.00
	Grand total applications=	\$ 3,475,000.00
***	HOME Investment Partnership-American Rescue Plan (HOME-ARP):	\$ 6,382,683.29
	Applications received but not approved:	
	2-2026 Applications-Non-Congregate Shelter	\$ 7,146,870.38
***	National Housing Trust Fund (NHTF):	\$ 3,069,148.81
***	Emergency Shelter Grant Program (HESG):	\$ 2,954,694.11
***	CDBG-Disaster Credits (CDBG-Disaster Credits): (2019 grant award)	\$ 8,493,000.00
***	CDBG-Disaster Credits (CDBG-Disaster Credits): (2025 grant award)	\$ 56,095,600.00
***	Financing Adj. Factor/New Below Market Interest Rate (FAF/NBMIR)	\$ 5,616,117.67
***	Tax Credit Assistance Program (TCAP)	\$ 3,497,819.73

**Arkansas Development Finance Authority
Funds Available for Commitment
9/30/2026**

Category	Program	Available to Commit
***	Affordable Housing Assistance Program (fka DHS-Assisted Living Incentive Fund)	\$ 2,101,847.69
***	Mortgage Settlement Funds (MSF):	\$ 3,469,613.85
Total Funds Available for Housing		\$ 117,113,374.61
Economic Development:		
***	Venture Capital Investment Trust and Recycled Funds (unrestricted)	\$ 2,003,047.80
Student Loan Programs:		
***	ALSA Funds allocated for Loan Programs (including new and refinancing loans)	\$ 80,000,000.00
	Less: Total Direct Student Loans and Job Training Certificate Loans	\$ (49,100,737.00)
	Total Funds Available for Student Loan Programs	\$ 30,899,263.00
Down Payment Assistance Programs:		
***	General Funds allocated for Down Payment Assistance loans	\$ 60,000,000.00
	Less: Total Down Payment Assistance loans serviced by US Bank and ServiSolutions	\$ (49,659,274.44)
	Total Funds Available for Down Payment Assistance Loan Program	\$ 10,340,725.56
Grand Total		\$ 160,356,410.97

TAB 3

BOND GUARANTY FUND REPORT

**ADFA Bond Guaranty Fund Data
As of September 30, 2026**

	Total Guaranty			
Bond Balances:				
IDB's	16,670,000			
City/Co Issues	5,383,636			
Total Bond Balances->	22,053,636			
Less Guaranty by WFF	(698,000)			
Direct/Interim Loan Balances:	ADFA's Share	Total O/S	ADFA	% Guaranteed by AEDC
Sage V Foods	297,761	297,761	100%	0%
Bradley County Econ Dev Corp	946,471	946,471	100%	0%
Total Direct Loans Only->	1,244,232	1,244,232		
Commitments that are unfunded:	ADFA's Share	Total Approved Date Approved	ADFA	% Guaranteed by AEDC/Other
Total Commitments yet to fund->	-			
Total Bonds, Direct Loans and Unfunded->	22,599,868			
Contingent Guarantees				
Total Contingent Guarantees->	-			
Total of all guarantees->	22,599,868			

Bond Guaranty Reserve Fund	At Cost	Market Value
Federated Treasury MMF	3,966,491	3,966,491
State Treasury MMTF	8,965,069	8,965,069
US Government Agencies	4,822,931	4,612,952
Portfolio Totals->	17,754,491	17,544,512

Coverage Ratios:		
Leverage (total guarantees/portfolio totals)	1.273	1.288
Reserve % of Total Guarantees (portfolio totals/total guarantees)	78.56%	77.63%

Additional sources of cash flows that could be credited to the guaranty fund: (No outstanding Bonds on Projects listed below)

	Total Due	Est of Expected Annual Payment	Periodic Payment
Texas CLT (1)	115,248		TBD
Arklam (2)	1,178,831		TBD
J&E Foods (3)	1,000,000		
	<u>2,294,079</u>	<u>-</u>	

- (1) - Terms to be established at AEDC Commission meeting; still in negotiations
(2) - Litigation Pending
(3) - REO

VENTURE CAPITAL
Arkansas Investments
by Funds

ARKANSAS VENTURE CAPITAL INVESTMENT TRUST
Cash Activity Report
Quarter Ended June 30, 2026

	"AVC" ARKANSAS VENTURE CAPITAL DEVELOPMENT FUND	"AVD" ARKANSAS VENTURE DEVELOPMENT FUND	"AIF" ARKANSAS INSTITUTIONAL FUND
Beginning Bank Balance, 4/1/2026	\$ 1,074,962	\$ 336,085	\$ 471,108
Net Transfers*	\$ -	897,400	-
Inflows:			
Other Deposits**	\$ 43,320	-	149,976
Interest Earnings (bank account)	\$ 5,328	1,635	2,592
Outflows:			
Other Expenses***	\$ 75,000	-	-
Payments to Cimarron	-	-	-
Investments:			
Venture Center Arkansas Fund		397,500	
High Street Equity Partners	-	500,000	
Ending Bank Account Balance	\$ 1,048,610	\$ 337,620	\$ 623,676
Transfers Due for SSBCI Investments	0	5,042,600	
Less Capital Calls Due on Investments****	460,679	5,220,823	-
Less Restricted for SSBCI 2.0 Only*****	372,668	-	-
Available Balance	\$ 215,263	\$ 159,397	\$ 623,676

*Net transfers from SSBCI 2.0 are recorded when funds are received.

**Other Deposits include \$43,320 distribution from Tristar Technology Fund II, and a \$149,976 bond guaranty fee refund from ADFA.

*** Other Expenses include a quarterly admin fee for the 3rd and 4th quarters - \$37,500 each quarter for a total of \$75,000.

****Commitments are to be funded with cash on hand & SSBCI. There are no outstanding commitments for AIF.

*****SSBCI funds were Transferred In before it was determined the investment did not qualify per SSBCI guidelines, in addition, a "matching" issue was found after SSBCI funds were transferred. These funds are restricted for use on a SSBCI qualifying investment.

ARKANSAS VENTURE CAPITAL INVESTMENT TRUST
Investment Report
As of June 30, 2026

COMPANY/FUND NAME	Total Funded	Unfunded	Return of Capital (1)	Recognized Losses	Current Balance	Income or Gain (1)
3E Software, Inc	200,000	-	200,000	-	-	1,800,000
Acumen Brands	816,667	-	566,667	250,000	-	1,016,123
Agricultural Foods Systems	15,000	-	-	15,000	-	-
AgRobotics	200,000	-	-	200,000	-	-
Angel Eye Health	100,000	-	-	-	100,000	-
Apptegy	300,000	-	300,000	-	-	150,000
Ascendant Diagnostics	300,000	-	-	-	300,000	-
Bear State Technologies	45,000	-	-	45,000	-	-
Bio Detection Instruments	70,000	-	-	70,000	-	-
Biologics MD	145,494	-	-	-	145,494	-
Black Oak Analytics, Inc	300,000	-	-	-	300,000	-
BlueInGreen	1,010,000	-	930,082	79,918	(0)	-
BlueOak Arkansas	3,000,000	-	-	3,000,000	-	121,693
Bond.AI	120,000	-	-	-	120,000	-
Btiques	50,000	-	-	50,000	-	-
Cardio Wise	500,000	-	-	-	500,000	-
Collinear Networks, Inc	1,000,000	-	-	1,000,000	-	-
Diamond State Ventures	41,379	-	41,379	-	-	215,821
Energy Design Group Enterprises	542,000	-	-	542,000	-	-
Engine	100,000	-	-	100,000	-	-
Eyeanalyze, Inc.	60,000	-	20,000	40,000	-	-
FI Works	150,000	-	-	-	150,000	-
Greenwave Brands, Inc	500,000	-	-	-	500,000	-
Hayseed Ventures	500,000	-	20,055	479,945	-	307,137
Info Assembly	50,000	-	5,150	44,850	-	-
Innovis Labs / Overwatch	50,000	-	-	50,000	-	-
Jones Innovative Medical Solutions (5)	42,857	-	-	-	42,857	-
K12 Protection Solutions	400,000	-	-	-	400,000	-
Langhar	50,000	-	17,720	32,280	-	-
Lapovations	200,000	-	-	-	200,000	-

ARKANSAS VENTURE CAPITAL INVESTMENT TRUST
Investment Report
As of June 30, 2026

COMPANY/FUND NAME	Total Funded	Unfunded	Return of Capital (1)	Recognized Losses	Current Balance	Income or Gain (1)
Lineus Medical	999,986	14	-	749,990	249,996	-
Little Bird Systems	110,000	-	81,932	28,068	-	-
Merchant View/Movista	711,920	-	363,078	-	348,842	581,296
Minewhat, Inc.	50,000	-	-	50,000	-	-
NanoMech	3,350,000	-	-	3,350,000	-	-
Nanowatt Design Inc	150,000	-	-	150,000	-	-
NiteOwl EasyBins	400,000	-	-	400,000	-	-
Now Diagnostics	1,400,000	-	-	-	1,400,000	-
NowDiagnostics (6)	125,972	-	-	-	125,972	-
Nutraceutical Innovations	100,000	-	-	100,000	-	-
OsteoVantage	100,000	-	-	-	100,000	-
OURPharma	1,000,000	-	-	-	1,000,000	-
Pacific Gene Tech	800,000	-	-	600,000	200,000	-
Passenger Baggage Xpress (Loan)	18,000	-	-	18,000	-	-
Pathagility	90,000	-	-	-	90,000	1,269
PicaSolar	700,000	-	-	700,000	-	-
Poly Adaptive LLC	36,000	-	-	36,000	-	-
PrivacyStar	750,000	-	566,700	-	183,300	1,006,500
RX Results	200,000	-	-	199,999	1	-
RX Results-Loan (2)	200,000	-	100,000	173,713	1	65,845
SFC Fluidics	258,139	-	-	-	258,139	-
Shield Aerodynamics-Loan (2)	90,000	-	3,797	108,253	-	1,961
Simporter	349,824	-	-	-	349,824	-
Sniffle Health	150,000	-	-	-	150,000	-
Soul of the South Media Holdings	1,000,000	-	-	1,000,000	-	-
Stacksearch (dba Qbox)	50,000	-	-	50,000	-	-
Stage I Diagnostics	225,000	-	-	123,750	101,250	-
Stonehenge Technology Labs, Inc.	400,000	-	-	400,000	-	-
Texas CLT, LLC	250,000	-	170,139	79,861	(0)	74,450
TiFiber	158,333	-	-	158,333	-	-

ARKANSAS VENTURE CAPITAL INVESTMENT TRUST
Investment Report
As of June 30, 2026

COMPANY/FUND NAME	Total Funded	Unfunded	Return of Capital (1)	Recognized Losses	Current Balance	Income or Gain (1)
Vascugenix	200,000	-	-	-	200,000	-
Vivione Biosciences	195,083	-	-	195,083	-	-
Wiland	1,800,000	-	6,810	1,027,365	765,825	20,306
Total Direct Company Investment	27,276,654	14	3,393,509	15,697,408	8,281,501	5,362,401
Fulcrum Equity Partners (3)(4)	4,615,944	-	3,867,022	-	748,922	6,019,261
Fund for Arkansas Future I	100,000	-	35,431	64,569	-	31,801
Fund for Arkansas Future II	100,000	-	80,928	19,072	-	51,084
Memphis Biomedical Ventures	4,000,000	-	208,346	3,570,138	221,516	361,050
Meritus Ventures	2,000,000	-	-	2,000,000	-	-
Noro-Moseley VI	5,000,000	-	5,000,000	-	-	6,858,036
Noro-Moseley VII	5,000,000	-	3,683,469	-	1,316,531	3,716,078
Petra II	2,250,000	-	1,194,406	596,229	459,365	13,647,029
Prolog Ventures	4,481,521	-	1,502,491	2,979,030	-	203,125
SSM Ventures (4)	3,720,000	-	3,507,365	212,635	-	1,210,533
Technology Operators Fund (3)	4,068,351	-	2,210,788	1,534,266	323,297	2,214,224
Total AIF	35,335,816	-	21,290,246	10,975,939	3,069,631	34,312,221
ATX Seed Ventures II	250,000	-	9,699	-	240,301	151,481
Cadron Capital Partners	1,010,000	1,490,000	-	-	1,010,000	-
Kayne New Road Ventures II (3)(4)	4,825,521	178,223	943,429	-	3,882,092	340,658
NewRoad Ventures (6)	874,028	-	715,556	158,472	-	1,279,467
Recurring Capital Fund I LP	400,000	-	318,180	81,820	(0)	185,059
Venture Center Arkansas	1,657,500	552,500	-	-	1,657,500	-
High Street Equity Partners	500,000	1,500,000	-	-	500,000	-
2Twelve90	999,900	1,500,100	-	-	999,900	-
Total AVD	10,516,949	5,220,823	1,986,864	240,292	8,289,793	1,956,665
Adaptiiv Medical Technologies US, Inc.	839,335	160,665	-	-	839,335	-
Ark Investment Fund 2014 (5)	129,764	-	16,718	113,046	-	-

ARKANSAS VENTURE CAPITAL INVESTMENT TRUST
Investment Report
As of June 30, 2026

COMPANY/FUND NAME	Total Funded	Unfunded	Return of Capital (1)	Recognized Losses	Current Balance	Income or Gain (1)
Ark Investment Fund II, LLC	102,158	-	11,729	90,429	-	-
ARK Investment Fund, LLC	150,000	-	-	150,000	-	-
Fieldbook Studio, LLC	4,700,000	300,000	-	-	4,700,000	-
Fund for Arkansas Future II	500,000	-	72,730	427,270	-	587,332
Gravity Ventures III	247,471	-	-	-	247,471	-
TriStar Technology Fund II-UAMS	489,990	-	170,999	-	318,991	39,480
VIC Investor Network	125,000	-	-	-	125,000	-
Total AVC	7,283,718	460,665	272,176	780,745	6,230,797	626,812
Total Fund Investment	53,136,483	5,681,488	23,549,286	11,996,976	17,590,221	36,895,698
Total Company & Fund Investment	80,413,137	5,681,502	26,942,795	27,694,384	25,871,722	42,258,099

- (1) The return of principal and income or gain amounts are estimated until final documents are received or by evaluation based on year end results.
- (2) Past due interest was capitalized for these loans.
- (3) The total funded amount includes purchased interest for these investments
- (4) The total funded amount includes capital calls in lieu of distributions.
- (5) When fund dissolved \$42,857 investment (JIMS) was transferred directly to AVCIT in the AVC fund.
- (6) Due to NewRoad Ventures Winddown, \$125,972 in equity was received in NOW Diagnostics.

TAB 4

ARKANSAS DEVELOPMENT FINANCE AUTHORITY
ADFA BOARD - AUDIT COMMITTEE
JULY 16, 2026
DEPARTMENT OF COMMERCE, 1 COMMERCE WAY
CENTRAL HIGH/OLD MILL MEETING ROOM
LITTLE ROCK, AR

The Audit Committee is convened as a committee of the full Board.

ADFA Board Members Present: Rod Coleman, Chair; Jon Chadwell, Vice Chair; Martin Eggensperger; Andy Goodman; Alan McVey (Designee, Jim Hudson, Secretary, Department of Finance and Administration); Katelyn Martin; Russ Martin; Carey Smith; Kirkley Thomas; Kenneth Burleson (Designee for John Thurston, Treasurer, Office of Treasurer of State of Arkansas).

ADFA Board Members Absent: Hugh McDonald, Cabinet Secretary of Department of Commerce; and Denise Sweat.

ADFA Staff Present: Robert “Ro” Arrington, President, Arkansas Development Finance Authority; John Blackwell, Vice President of Tax Credits; Jake Bleed, General Counsel; Charles “Chuck” Cathey, Vice President, Development Finance; Kristy Cunningham, Chief Financial Officer; Ginger Burton Duncan, Director of Single Family Outreach; Paula Farthing, Loan Servicing Manager; Barlow Brenner, Intern; Blake Bumgardner, CDBG-DR Specialist; Luke Cooper, Finance Analyst; Sean Doolin, Assistant Controller; Tracy Grant, Assistant Controller; Lanita Hastings, Federal Housing Programs Grant Coordinator; Kimmy Helble, Executive Assistant to President; Amanda Hill, Federal Housing Program Coordinator; Hope Lewis, Controller; Julia Phelps, Senior Accountant; Drew Rogers, Attorney Specialist; Derrick Rose, Director of Communication; Todd Sprague, Loan Operations Coordinator; Megan Summitt, Internal Auditor; Tammy White, Compliance Manager; Tony Williams, Director, Arkansas Student Loan Authority; and Ashlyn Winters, Federal Housing Programs Finance Coordinator.

Others Present: Eric Munson, Bank of OZK; Lydia Alston and Casey Kleinhenz, Community Development of NWA; Bryn Meredith, MGM Development; Ted Fellman, Raymond James; Traci Williams, Rockwell Housing Solutions; Nona McVay, The McVay Firm.

Call to Order: Mr. Smith called the meeting to order at approximately 10:57 AM.

Discussion: Mr. Smith opened the discussion with a reminder that the full Board now performs as the Audit Committee, with Mr. Thomas serving as liaison between internal audit and the Board. Mr. Smith emphasized the importance of maintaining independence in Ms. Summitt's role, ensuring that she could communicate with ADFA staff without direct reporting requirements.

Ms. Summitt provided a summary of the role and responsibilities of internal audit at ADFA and highlighted her responsibilities in evaluating programs and identifying potential problems. Ms. Summitt noted that the Audit Committee must meet as a sub-committee or as a committee of the full Board.

Ms. Summitt added that though she did not report to the ADFA president, she has been blessed that the three presidents she had worked with at ADFA were transparent regarding ADFA functions and programs.

Mr. Martin suggested adding a column showing the last time a program was audited including category risks to the Auditable Areas and Audit Hours Allocation form that Ms. Summitt shared with the Board in her audit plan.

After a lengthy discussion focused on a plan of succession, Ms. Summitt stated that state internal auditors had previously been the backup should a need arise.

No action needed.

Review: Audit Plan for Fiscal Year 2027: Ms. Summitt stated there were three audits selected for fiscal year 2027; Payroll Department, HOME-ARP, and CDBG-DR. The CDBG-DR by federal requirements must be tested each year and this year will be its first audit.

Ms. Summitt noted there was one outstanding audit with the Loan Servicing department that is anticipated to be completed soon.

Ms. Summitt continued that some of her audit hours are for SEC Disclosures, and there were several federal audits that were not presented to the Board, including State Small Business Credit Initiative (SSBCI).

Mr. Kirkley stated that he appreciated the opportunity to work with Ms. Summitt and wanted to recognize her for her thorough work.

Mr. Thomas entertained a motion to approve the Audit Plan for Fiscal Year 2027.

Mr. Smith made a motion to approve.

Mr. Goodman seconded the motion. The motion passed.

Minutes: Mr. Smith presented the minutes from the May 21, 2026, Audit Committee meeting of the full Board, and entertained a motion to approve the minutes.

Mr. Thomas made a motion to approve the minutes.

Mr. Chadwell seconded the motion. The motion passed.

Adjournment: Mr. Smith concluded the Audit Committee meeting at approximately 11:29 AM and yielded the floor to Chairman Coleman.

Minutes approved and signed on this 16th day of July 2026.

Kirkley Thomas, Audit Committee Liaison

TAB 5

MEMORANDUM

To: ADFA Board Audit Committee

From: Megan Summitt, Internal Auditor

Date: October 6, 2026

Subject: Summary of the Fiscal Year 2026 Audits for Arkansas Development Finance Authority, Drinking Water Revolving Loan Fund Program, and the Construction Assistance Revolving Loan Fund Program

The Fiscal Year 2026 audits for Arkansas Development Finance Authority (ADFA), Drinking Water Revolving Loan Fund Program, and Construction Assistance Revolving Loan Fund Program are being presented for the committee's review and approval. The examination was performed by Frost PLLC with the lead auditors Brian Ettehad and Daniel Meador.

The 2026 Single Audit Compliance Supplement is still pending as of 10/6/2026 which prohibits Frost LLC from issuing a final opinion on the three audits being presented. OMB has released a final DRAFT version of the 2026 Supplement to the AICPA GAQC so that auditors can use it to begin planning their 2026 single audit engagements. In providing this draft, OMB has asked that it only be used for planning purposes as it has not yet received final clearance from OMB leadership. The AICPA GAQC has indicated that OMB staff do not expect any significant changes to result during the clearance process.

Frost reviewed the Financial Reporting, Compliance, and Major Federal Programs. There were no material weaknesses, nor any significant deficiencies noted during the audit review of ADFA.

The Drinking Water Revolving Loan Fund and the Construction Assistance Revolving Loan Fund Programs are awarded to Arkansas Natural Resources Commission (ANRC), a Division of the State of Arkansas Department of Agriculture from the Environmental Protection Agency (EPA). Loans are made by ANRC to the cities, municipalities, water associations, or water facilities to fund projects and other purposes. Through an interagency agreement with ANRC, ADFA administers the programs and services the repayments. There were no material weaknesses, nor any significant deficiencies noted during the audit reviews of the Drinking Water and Construction Assistance Revolving Loan Fund Programs.

Attached prior to each report are the letters from Frost PLLC to the Board of Directors.

Arkansas Development Finance Authority

Fiscal Year 2026 Discussion Draft

Communication With Those Charged With Governance

Board of Directors
Arkansas Development Finance Authority,
A Component Unit of the State of Arkansas
Little Rock, Arkansas

We have audited the combined financial statements of the Arkansas Development Finance Authority (the “Authority”), a component unit of the State of Arkansas, as of and for the year ended June 30, 2026, and have issued our report thereon dated ____, 2026. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated May 27, 2026, our responsibility, as described by professional standards, is to form and express an opinion about whether the combined financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the combined financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the combined financial statements are free of material misstatement. An audit of combined financial statements includes consideration of the system of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control over financial reporting. Accordingly, as part of our audit, we considered the system of internal control of the Authority solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and our network firms have complied with all relevant ethical requirements regarding independence.

Significant Risks Identified

We are required to communicate to you significant risks. A significant risk is an identified and assessed risk of material misstatement that, in the auditor's professional judgment, requires special audit consideration. We have identified the following significant risks:

- Improper revenue recognition is presumed, by auditing standards, to be a risk of fraud.
- Management override of internal controls – As presumed by auditing standards, management may be in a position to override internal controls leading to a risk of fraud.

We responded to these risks by performing procedures such as, but not limited to, (1) Specific journal entry testing; (2) Inquiry with management and others in the Authority; (3) Internal control evaluation; and (4) Specific testing of revenue transactions. Based on these tests, along with our other audit procedures, we found no adjustments required to be made with respect to these significant risk areas in order to keep the combined financial statements from being materially misstated.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Authority is included in Note 1 to the combined financial statements. As described in Note 1.c. to the combined financial statements, during the year, the Authority adopted Governmental Accounting Standards Board ("GASB") Statement No. 103, "Financial Reporting Model Improvements" and GASB Statement No. 104, "Disclosure of Certain Capital Assets." No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates and Related Disclosures

Accounting estimates and related disclosures are an integral part of the combined financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the combined financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the combined financial statements, and the processes used by management as the basis for their estimates, are as follows:

- Allowance for loan losses – Management’s estimate of the allowance for loan losses is based on management’s evaluation of the collectability of the loan portfolio, including the nature of the loan portfolio, credit concentrations, financial performance of the borrower, the financial strength of any guarantors, the value of any collateral which secures the respective loans, as well as overall and industry specific economic factors.
- Depreciation lives and methods – Management estimates useful lives of depreciable fixed assets based on historical replacement data and the assets’ current and expected use.
- Fair value of investments – Management estimates the fair value of investments based on information provided by financial institutions that oversee the investment activity.
- Pension and other postemployment benefit accruals – Projected pension and other postemployment benefit accruals are based on reports prepared by an independent actuary using plan provisions, participant data furnished by management, and actuarial assumptions regarding mortality, interest rates, plan expenses, and rates of disabilities and withdrawals.

We evaluated the factors and assumptions used to develop the estimates and determined they are reasonable in relation to the basic combined financial statements taken as a whole and in relation to the applicable opinion units.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the Authority’s combined financial statements relate to:

- Note 8 – Retirement Plan
- Note 9 – Postemployment Benefits Other Than Pensions
- Note 10 – Fair Value of Financial Instruments
- Note 12 – Change in Accounting Principle
- Note 13 – Subsequent Events

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards also require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances, or disclosures, and the combined financial statements as a whole and each applicable opinion unit. There were no such uncorrected misstatements noted during our audit.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. There were no such corrected misstatements noted during our audit.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the Authority's combined financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in the attached letter dated ____, 2026.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the Authority, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, significant events or transactions that occurred during the year, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Authority's auditors.

* * * * *

This report is intended solely for the information and use of the Board of Directors and management of the Authority, and is not intended to be, and should not be, used by anyone other than these specified parties.

We would like to thank all of the personnel of the Authority for their assistance during the audit. We appreciate the opportunity to present these comments and are available to discuss these matters further at your convenience.

Certified Public Accountants

Little Rock, Arkansas
____, 2026

A copy of the signed management representation letter will accompany this letter when finals are printed.

Arkansas Development Finance Authority

Fiscal Year 2026 Financial Statement

Discussion Draft



**ARKANSAS DEVELOPMENT FINANCE AUTHORITY,
A COMPONENT UNIT OF THE STATE OF ARKANSAS**

June 30, 2026

**Combined Financial Statements
And
Supplementary Information**

With

Independent Auditor's Report



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Independent Auditor's Report

Board of Directors
Arkansas Development Finance Authority,
A Component Unit of the State of Arkansas
Little Rock, Arkansas

Report on the Audit of the Combined Financial Statements

Opinions

We have audited the combined financial statements of the business-type activities and the aggregate discretely presented component unit of the Arkansas Development Finance Authority, a component unit of the State of Arkansas, as of and for the year ended June 30, 2026, and the related notes to the combined financial statements, which collectively comprise Arkansas Development Finance Authority's basic combined financial statements as listed in the table of contents.

In our opinion, the accompanying combined financial statements present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component unit of Arkansas Development Finance Authority, a component unit of the State of Arkansas, as of June 30, 2026, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Basis for Opinions

We conducted our audit 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 Audit of the Combined Financial Statements section of our report. We are required to be independent of Arkansas Development Finance Authority, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 Arkansas Development Finance Authority's ability to continue as a going concern for 12 months beyond the combined financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit 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. We did not audit the financial statements of the Arkansas Institutional Fund, LLC, which represents 13%, 12%, and 72% of the assets, net position, and total changes in net position, respectively, for the year ended June 30, 2026 of the aggregate financial statements of the Arkansas Venture Capital Investment Trust, which is an aggregate discretely presented component unit of the Arkansas Development Finance Authority. Those statements were audited by another auditor whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for such entities, is based solely on the reports of the other auditor. 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. The financial statements of Arkansas Institutional Fund, LLC, a blended component unit included in the financial statements of the aggregate discretely presented component unit, were not audited in accordance with GAS.

In performing an audit in accordance with GAAS and GAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- 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 audit 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 Arkansas Development Finance Authority'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 Arkansas Development Finance Authority'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 audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

GAAP requires that the management's discussion and analysis on pages 4 through 9, and other required supplementary information on pages 49 through 51 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 audit 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 audit was conducted for the purpose of forming opinions on the combined financial statements that collectively comprise Arkansas Development Finance Authority'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 are not a required part of the basic combined financial statements. Such information is the responsibility of management and was 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 audit 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 ____, 2026, on our consideration of Arkansas Development Finance Authority'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 Arkansas Development Finance Authority'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 Arkansas Development Finance Authority's internal control over financial reporting and compliance.

Certified Public Accountants

Little Rock, Arkansas
_____, 2026

Management's Discussion and Analysis

For the Year Ended June 30, 2026

As management of the Arkansas Development Finance Authority ("ADFA" or the "Authority"), we offer this narrative overview and analysis of the financial activities of the Authority for the year ended June 30, 2026. Comparative information from the previously issued combined financial statements for the year ending June 30, 2025, is also included. The purpose of management's discussion and analysis ("MD&A") is the help readers understand the Authority's financial position, results of operations, and changes in net position and why they have changed since the previous fiscal year. It contains information drawn from the report, accompanied by explanations informed by management's knowledge of the Authority's finances. Additionally, the Authority implemented *Governmental Accounting Standards Board ("GASB") Statement No. 103: Financial Reporting Model Improvements* in fiscal year 2026, and the MD&A and the accompanying combined financial statements, including 2025 comparative balances, reflect the corresponding change required by this statement.

If you have questions about this report or require further information, please refer to the Authority's website at <https://adfa.arkansas.gov>.

This MD&A 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 Authority. Readers are encouraged to consider the information presented in conjunction with the combined financial statements and notes as a whole. The Authority is a component unit of the State of Arkansas and follows enterprise fund reporting. Therefore, the combined financial statements are presented in a manner similar to that of a private business, using the economic resources measurement focus and the accrual basis of accounting.

Overview of the Combined Financial Statements

The 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. The combined statement of net position and the combined statement of revenues, expenses, and changes in net position are presented for all of the ADFA's programs in the combining statements of the Authority. ADFA has nine programs presented as supplementary information following the notes to combined financial statements: Single Family Housing Programs, Federal Housing Programs, Multi-Family Programs, Economic Development Bond Guaranty Program, State Facilities and Amendment 82 Programs, Other Economic Development Programs, Tobacco Settlement Revenue Bonds Program, Student Loan Programs, and General Fund Program. The Authority has one discretely presented component unit that is reported separately from the Authority's combined financial statements and is not included, herein, for the purposes of this MD&A.

The *Notes to the Combined Financial Statements* provide additional information that is essential for understanding financial data that may not be displayed on the face of the combined financial statements, and, as such, are an integral part of the Authority's basic combined financial statements.

**ARKANSAS DEVELOPMENT FINANCE AUTHORITY,
A COMPONENT UNIT OF THE STATE OF ARKANSAS**

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Management's Discussion and Analysis (cont.)

For the Year Ended June 30, 2026

Financial Summary

Condensed Combined Statements of Net Position

	Authority			Percentage
	<u>2026</u>	<u>2025</u>	<u>Change</u>	<u>Change</u>
<i>(In thousands)</i>				
Assets				
Current assets	\$ 553,209	\$ 392,644	\$ 160,565	40.9%
Capital assets, net	1,983	2,080	(97)	-4.7%
Other noncurrent assets	<u>873,910</u>	<u>747,483</u>	<u>126,427</u>	<u>16.9%</u>
Total assets	<u>1,429,102</u>	<u>1,142,207</u>	<u>286,895</u>	<u>25.1%</u>
Deferred outflow of resources	<u>1,097</u>	<u>1,254</u>	<u>(157)</u>	<u>-12.5%</u>
Liabilities				
Current liabilities	150,437	34,798	115,639	332.3%
Noncurrent liabilities	<u>741,375</u>	<u>576,358</u>	<u>165,017</u>	<u>28.6%</u>
Total liabilities	<u>891,812</u>	<u>611,156</u>	<u>280,656</u>	<u>45.9%</u>
Deferred inflow of resources	<u>1,653</u>	<u>1,483</u>	<u>170</u>	<u>11.5%</u>
Net position				
Investment in capital assets	1,983	2,080	(97)	-4.7%
Restricted expendable by bond resolution and programs	366,531	366,292	239	0.1%
Unrestricted	<u>168,220</u>	<u>162,450</u>	<u>5,770</u>	<u>3.6%</u>
Net position	<u>\$ 536,734</u>	<u>\$ 530,822</u>	<u>\$ 5,912</u>	<u>1.1%</u>

During fiscal year 2026, total assets increased approximately \$286.9 million to approximately \$1.43 billion primarily due to the increase in cash and cash equivalents and investments as discussed in our detailed analysis.

**ARKANSAS DEVELOPMENT FINANCE AUTHORITY,
A COMPONENT UNIT OF THE STATE OF ARKANSAS**

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Management's Discussion and Analysis (cont.)

For the Year Ended June 30, 2026

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

	Authority			Percentage
	<u>2026</u>	<u>2025</u>	<u>Change</u>	<u>Change</u>
<i>(In thousands)</i>				
Operating revenues				
Financing fee income	\$ 6,814	\$ 6,025	\$ 789	13.1%
Operating expenses				
Total administrative expenses	<u>8,431</u>	<u>7,694</u>	<u>737</u>	<u>9.6%</u>
Operating loss	<u>(1,617)</u>	<u>(1,669)</u>	<u>52</u>	<u>-3.1%</u>
Noncapital subsidies received (provided)				
Federal and other financial assistance	29,495	18,420	11,075	60.1%
Federal financial assistance program expense	(15,940)	(2,998)	(12,942)	431.7%
Transfers to other governments	<u>(22,028)</u>	<u>(5,374)</u>	<u>(16,654)</u>	<u>309.9%</u>
Total noncapital subsidies	<u>(8,473)</u>	<u>10,048</u>	<u>(18,521)</u>	<u>-184.3%</u>
Operating loss and noncapital subsidies	<u>(10,090)</u>	<u>8,379</u>	<u>(18,469)</u>	<u>-220.4%</u>
Nonoperating revenue (expense)				
Loan interest income, net of related premium/ discount	17,907	17,717	190	1.1%
Provision for loan losses	(199)	(2,675)	2,476	-92.6%
Loan servicing and other contractual services	(266)	(184)	(82)	44.6%
Investment income, net	25,837	19,069	6,768	35.5%
Net appreciation	622	2,860	(2,238)	-78.3%
Bond issue cost	(2,111)	(1,285)	(826)	64.3%
Interest and amortization on bonds and notes	<u>(25,788)</u>	<u>(18,302)</u>	<u>(7,486)</u>	<u>40.9%</u>
Total nonoperating revenue	<u>16,002</u>	<u>17,200</u>	<u>(1,198)</u>	<u>-7.0%</u>
Changes in net position	<u>5,912</u>	<u>25,579</u>	<u>(19,667)</u>	<u>-76.9%</u>
Net position - beginning of year, as previously reported	530,822	505,820	25,002	4.9%
Adoption of Governmental Accounting Standards				
Board Statement No. 101, "Compensated Absences"	<u>-</u>	<u>577</u>	<u>(577)</u>	<u>-100.0%</u>
Net position - beginning of year, as restated	<u>530,822</u>	<u>505,243</u>	<u>25,579</u>	<u>5.1%</u>
Net position - end of year	<u>\$ 536,734</u>	<u>\$ 530,822</u>	<u>\$ 5,912</u>	<u>1.1%</u>

ADFA's changes in net position totaled \$5.9 million for the year ended June 30, 2026, compared to \$25.6 million for the year ended June 30, 2025. The decrease in the change in net position relates primarily to the increase in transfers to other governments of \$16.7 million and the net of federal financial assistance activity of \$1.9 million as discussed in our detailed analysis.

Management's Discussion and Analysis (cont.)

For the Year Ended June 30, 2026

Detailed Analysis

Combined Statement of Net Position

Cash and cash equivalents ("cash") increased by \$145.0 million, or 38%, primarily due to receiving bond proceeds on the three Single Family bond deals that closed during the year, net of purchasing mortgage-backed securities ("MBS") with the proceeds. Investments increased by \$149.7 million, or 65%, due to the MBS purchases with bond proceeds.

The Authority's liabilities increased by approximately \$280.7 million, or 46%, due to an increase in bonds and notes payable, net of \$275.9 million. The increase in bonds and notes payable is mainly attributable to the issuance of three Single Family bond deals totaling \$299.3 million (at par) that closed during the year, net of scheduled redemptions of \$24.6 million and optional bond calls of \$6.3 million.

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

The decrease in net position relates primarily to the increase in transfers to other governments resulting from a one-time, federal program directive to close out the Neighborhood Stabilization Program ("NSP") and that the residual assets of the program be transferred to the state agency that administers the Community Development Block Grant ("CDBG") for the state. The Arkansas Economic Development Commission ("AEDC") is the agency that administers the CDBG program for the State of Arkansas. Approximately \$4.5 million in program income cash and \$16.4 million in loans were transferred on March 1, 2026, to AEDC from the Authority.

The net activity related to the federal financial assistance programs also contributed to the decrease in change in net position. During the current fiscal year, the Authority received \$29.4 million in federal funds compared to only \$18.4 million in the prior year, a 60% increase. The HOME and HOME-American Rescue Plan ("HOME-ARP") programs were the main programs that received most of the increase in funds over the last year receiving \$23.9 million this year compared to \$14.1 million in the prior year. The federal assistance disbursements were \$15.9 million for the current fiscal year compared to only \$3.0 million in the prior year, a 432% increase. The main reason for the increase was because the HOME-ARP disbursements of \$13.9 million were all granted out; whereas the HOME program disbursements of \$9.0 million were for repayable loans and reported as loans receivable.

Even though the total net nonoperating revenue and expense did not decrease significantly from the prior year, there were some balances that did fluctuate from last year. Investment income and interest expense both increased due to the Single-Family Mortgage Revenue Bond ("SFMRB") program continuing to issue bonds throughout the year and purchasing MBS with those proceeds.

ADFA's overall financial position has improved. During the current fiscal year, the change in net position decreased from the prior year by approximately \$19.7 million, or 77%; however, this was mainly due to the one-time transfer of the NSP assets. The SFMRB program and federal programs loan activity continue to improve the financial position of the Authority.

Management's Discussion and Analysis (cont.)

For the Year Ended June 30, 2026

Significant Long-Term Financing Activity

One of the main purposes of the Authority is to issue tax-exempt bond financing for mainly single-family homeowner mortgages, businesses, state facilities, student loans, and multi-family developments for the state.

Volume Cap: The Authority has the administrative duty of monitoring the annual allotment of volume cap activity that the Internal Revenue Service ("IRS") allocates to the states for tax-exempt bond financing for private bond activity type funding. The state's statutory allocations are 17% for single family residential housing; 33% for industrial development; 10% for multifamily residential housing; 10% to Arkansas Student Loan Authority; and 30% to General category. For the calendar year 2026, the annual allotment for Arkansas was \$420.5 million.

Single Family: Over the past two years, the Authority issued \$365 million in bonds with stated interest rates ranging from 2.65% - 5.50% on the bonds. This resulted in mortgage interest rates for homebuyers of between 5.00% - 6.125%. The mortgage loans issued by the ADFA are pooled, securitized into MBS at interest rates ranging from 4.50% - 5.625%, and purchased from these bond proceeds. The MBS are reported as investments on the combined statement of net position. IRS code allows up to a 1.25% spread between the bond yield and the mortgage interest rate to cover ongoing administrative costs. The Authority plans on continuing to issue tax-exempt bonds so long as market conditions are favorable and the volume cap is available.

Other Authority Bond Programs: There have not been any new bond issuances within the Authority's other programs over the last two years that are reported on the Authority's combined financial statements.

Conduit Bonds: The Authority issued a large number of conduit bonds over the last two years. During fiscal years 2026 and 2025, \$1.2 billion and \$381 million, respectively, were issued or refunded prior bonds. Conduit bonds are not reported on the Authority's combined financial statements and do not represent an obligation of the Authority. The Authority does have some administrative duties related to these bonds and receives issuance fees in consideration for our services. Some of these bond deals utilize the state's tax-exempt volume cap allocation.

Credit Ratings

The Issuer Credit Rating of ADFA from Standard & Poor's ("S&P") Global Ratings is currently "AA/Stable". Changes in state and federal legislation and statutes can play a role in ADFA achieving its goals and objectives.

The 1995 General Resolution Single Family mortgage revenue bonds are currently rated "AA+/Stable" from S&P.

The Authority also administers the Bond Guaranty Fund created by Act 505. The fund is currently rated "A+/Stable" from S&P. The obligations of the Authority as guarantor are limited to available monies in the ADFA Guaranty Reserve Account, created and maintained pursuant to the authority conferred in the ADFA Guaranty Act.

Management's Discussion and Analysis (cont.)

For the Year Ended June 30, 2026

Currently Known Facts, Decisions, or Conditions

The Authority closed on the 2026 Series C Single Family issue on October 7, 2026, issuing \$60 million of bonds at par and are planning on closing on Series D in December 2026 for \$48.3 million, which both of these bond deals refunded or will refund 2026 Series B. The 2026 Series B bonds were issued as convertible option bonds. The Authority continues to monitor the market conditions to obtain the best mortgage interest rates for homeowners and bond interest rates for the Authority. ADFA's StartSmart program, as of the date the combined financial statements were available to be issued, offered mortgage interest rates at 5.75% of FHA, VA and RD and 6.00% for Conventional-Freddie Mac below 80% AMI only loans. These rates are some of the lowest available in the country for qualified homebuyers.

Current economic conditions, including elevated long-term U.S. Treasury yields and variability in municipal market activity, are expected to affect borrowing costs; however, management does not anticipate any significant impact on the Authority's operations or financial results beyond typical market fluctuations.

A student loan revenue bond issuance in the approximate principal amount of \$50 million is anticipated in the spring of 2027 to finance private student loans originated by the Arkansas Student Loan Authority ("ASLA") during the 2026-2027 and 2027-2028 academic years. ASLA is an independent division of ADFA, and origination and financing of these loans is part of ASLA's ongoing efforts to fulfill its mission to provide low-interest higher education funding to Arkansas students and families.

Contacting the Authority's Financial Management

This financial report is designed to provide bondholders, constituents, and business partners with a general overview of the Authority's finances and to show the Authority's accountability for the funds it administers. Questions about this report and requests for additional financial information should be directed to the Chief Financial Officer by telephoning 501.682.5900. The Authority's website is <https://adfa.arkansas.gov>.

**ARKANSAS DEVELOPMENT FINANCE AUTHORITY,
A COMPONENT UNIT OF THE STATE OF ARKANSAS**

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Combined Statement of Net Position

June 30, 2026

(In Thousands)

<u>Assets and Deferred Outflow of Resources</u>	<u>Authority</u>	<u>Component Unit</u>
Current assets		
Cash and cash equivalents	\$ 522,505	\$ 1,876
Accrued interest receivable	4,680	-
Accounts receivable	3,733	150
Current portion of		
Investments	21,521	-
Loans	770	-
Total current assets	<u>553,209</u>	<u>2,026</u>
Noncurrent assets		
Investments		
Unrestricted	30,038	-
Restricted	328,463	20,333
Loans, net of allowance for loan losses of \$79,993	510,777	5,539
Capital assets, net	1,983	-
Other assets	4,632	-
Total noncurrent assets	<u>875,893</u>	<u>25,872</u>
Total assets	<u>1,429,102</u>	<u>27,898</u>
Deferred outflow of resources		
Other postemployment benefits ("OPEB") difference in expected versus actual experience	318	-
Changes in OPEB actuarial assumptions and proportions	49	-
Pension contributions, net differences, and changes in share of contributions	589	-
Pension differences in expected versus actual experience	90	-
Changes in pension actuarial assumptions and proportions	51	-
Total deferred outflow of resources	<u>1,097</u>	<u>-</u>
Total assets and deferred outflow of resources	<u>\$ 1,430,199</u>	<u>\$ 27,898</u>

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

**ARKANSAS DEVELOPMENT FINANCE AUTHORITY,
A COMPONENT UNIT OF THE STATE OF ARKANSAS**

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Combined Statement of Net Position (cont.)

June 30, 2026

(In Thousands)

<u>Liabilities, Deferred Inflow of Resources, and Net Position</u>	<u>Authority</u>	<u>Component Unit</u>
Current liabilities		
Accounts payable	\$ 1,312	\$ 304
Accrued interest payable	9,257	-
Unearned fees	115	-
Contract obligations	3,662	-
Deferred gain on refinancing sale of asset	56	-
Current portion of bonds and notes payable	136,035	-
OPEB and pension liabilities	-	-
Total current liabilities	<u>150,437</u>	<u>304</u>
Noncurrent liabilities		
Unearned fees	225	-
Contract obligations	2,780	-
Bonds and notes payable, net of unamortized premiums and current portion	677,990	-
Deposits against financing arrangements	52,687	-
Deferred gain on refinancing sale of asset	133	-
OPEB and pension liabilities	4,938	-
Other liabilities	2,622	-
Total noncurrent liabilities	<u>741,375</u>	<u>-</u>
Total liabilities	<u>891,812</u>	<u>304</u>
Deferred inflow of resources		
OPEB difference in expected versus actual experience	71	-
Changes in OPEB actuarial assumptions and proportions	709	-
Pension difference in expected versus actual experience	88	-
Net differences between expected and actual investment earnings	193	-
Changes in pension actuarial assumptions and proportion	49	-
Lease obligations	543	-
Total deferred inflow of resources	<u>1,653</u>	<u>-</u>
Total liabilities and deferred inflow of resources	<u>893,465</u>	<u>304</u>
Net position		
Investment in capital assets	1,983	-
Restricted expendable by bond resolution and programs	366,531	-
Restricted, nonexpendable, and minority interest	-	281
Unrestricted	168,220	27,313
Total net position	<u>536,734</u>	<u>27,594</u>
Total liabilities, deferred inflow of resources, and net position	<u>\$ 1,430,199</u>	<u>\$ 27,898</u>

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

**ARKANSAS DEVELOPMENT FINANCE AUTHORITY,
A COMPONENT UNIT OF THE STATE OF ARKANSAS**

12

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

For the Year Ended June 30, 2026

(In Thousands)

	<u>Authority</u>	<u>Component Unit</u>
Operating revenues		
Financing fee income	\$ 6,814	\$ -
Operating expenses		
Administrative expenses		
Salaries and benefits	4,804	-
Operations and maintenance	1,651	189
Other	1,976	1
Total operating expenses	8,431	190
Operating loss	(1,617)	(190)
Noncapital subsidies received (provided)		
Federal financial assistance	29,395	-
Other financial assistance	100	-
Federal financial assistance program expense	(15,940)	-
Transfer (to) from component unit	(1,098)	1,770
Transfer to parent government	(20,930)	-
Total noncapital subsidies	(8,473)	1,770
Operating loss and noncapital subsidies	(10,090)	1,580
Nonoperating revenues (expenses)		
Loan interest income	17,906	-
Provision for loan losses	(199)	-
Loan servicing and other contractual services	(266)	-
Investment income, net	25,787	1,763
Amortization of discounts and premiums on loans and investments, net	1	-
Net appreciation	622	-
Other income	50	-
Bond issue cost	(2,111)	-
Interest and amortization on bonds and notes	(25,788)	(38)
Total nonoperating revenue	16,002	1,725
Changes in net position	5,912	3,305
Net position - beginning of year	530,822	24,674
Distribution to member	-	(385)
Net position - end of year	\$ 536,734	\$ 27,594

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

ARKANSAS DEVELOPMENT FINANCE AUTHORITY,
A COMPONENT UNIT OF THE STATE OF ARKANSAS

13

Combined Statement of Cash Flows (Authority Only)

For the Year Ended June 30, 2026

(In Thousands)

Cash flows from operating activities	
Financing fee income received	\$ 6,832
Cash paid to employees	(3,861)
Cash paid for program administration	(4,945)
Net cash used by operating activities	<u>(1,974)</u>
Cash flows from noncapital financing activities	
Proceeds from issuance of bonds and notes payable	303,908
Repayments of bonds and notes payable	(30,928)
Cash paid for interest	(18,114)
Bond issuance costs	(2,111)
Federal grants received	29,417
Federal grants expenses	(15,940)
Transfers out, net	(5,605)
Net cash provided by noncapital financing activities	<u>260,627</u>
Cash flows from capital financing activities	
Purchase of capital assets	<u>(1)</u>
Net cash used by capital financing activities	<u>(1)</u>
Cash flows from investing activities	
Purchase of investments	(174,224)
Maturities of investments	25,205
Interest received on investments	24,962
Interest received on loans	14,095
Principal repayments on loans	49,204
Loan disbursements	(54,337)
Cash paid for financing arrangements	1,390
Net cash used in investing activities	<u>(113,705)</u>
Net increase in cash and cash equivalents	144,947
Cash and cash equivalents - beginning of year	<u>377,558</u>
Cash and cash equivalents - end of year	<u>\$ 522,505</u>

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

ARKANSAS DEVELOPMENT FINANCE AUTHORITY,
A COMPONENT UNIT OF THE STATE OF ARKANSAS

14

Combined Statement of Cash Flows (Authority Only) (cont.)

For the Year Ended June 30, 2026

(In Thousands)

Reconciliation of changes in net position to net cash used by
operating activities

Operating loss	\$ (1,617)
Adjustments to reconcile operating loss to net cash used by operating activities	
Accreted deferred financing fees	(146)
Depreciation of capital assets	98
Changes in operating assets and liabilities	
Accounts receivable	376
Other assets	387
Accounts payable	(784)
Other liabilities	<u>(288)</u>

Net cash used by operating activities	<u>\$ (1,974)</u>
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The accompanying notes are an integral part of these combined financial statements.

Notes to Combined Financial Statements

June 30, 2026

1. **Nature of Operations and Summary of Significant Accounting Policies**

- a. **Nature of operations and reporting entity** – The Arkansas Development Finance Authority (“ADFA” or the “Authority”), a component unit of the State of Arkansas, was created on May 1, 1985, by Act 1062 of 1985 (Arkansas Development Finance Authority Act) as a successor to the former Arkansas Housing Development Agency (created in 1977) whereby all records, funds, property, obligations, debts, functions, powers, and duties were transferred to the Authority. Pursuant to Act 1062 of 1985, the Authority is authorized and empowered to issue bonds and various other debt instruments for the purpose of financing qualified agricultural business enterprises, capital improvement facilities, educational facilities, health care facilities, housing developments, and industrial enterprises. With the passing of Act 944, effective July 1, 2025, the Authority now serves as an independent instrumentality of the State of Arkansas, whereby the Authority is still subject to State oversight but is given independence to better serve the public needs.

Effective July 1, 2017, Arkansas Student Loan Authority (“ASLA”) merged with the Authority. ASLA functions as a division of the Authority. ASLA was created to improve access to higher education funding for Arkansas students. As part of its mission, ASLA administers a private student loan program, provides fee-based default management services to Arkansas colleges and universities, and provides free college planning services to college-bound high school students.

The Authority is governed by a board of directors, including the secretary of the Arkansas Department of Finance and Administration (“DFA”), the Arkansas Treasurer of State, the secretary of the Arkansas Department of Commerce, and 11 members of the public who are appointed by the governor of Arkansas. The Authority is an independent instrumentality of the State of Arkansas (the “State”) and is created and governed by laws adopted by the State.

Bonds and other debt instruments issued by the Authority and included on the Authority’s combined financial statements are usually special obligations of the Authority, payable solely from, and collateralized by, a first lien on the proceeds, monies, revenues, rights, interests, and collections pledged therefore under the resolutions authorizing the particular issues. The Authority has issued bonds and other debt instruments, which are general obligations of the Authority, supported by the Authority’s general fund assets and/or pledge of the Authority’s issuer credit rating. The State is not obligated to pay the bonds and other debt instruments, and neither the faith and credit nor the taxing power of the State is pledged to the payment of the principal or redemption price of, or interest on, the bonds and other debt instruments. The Authority has no taxing power.

Component units are legally separate organizations for which the Authority’s management is financially accountable or for which the nature and significance of their relationship with the Authority are such that exclusion would cause the Authority’s combined financial statements to be misleading.

Notes to Combined Financial Statements

June 30, 2026

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

The Arkansas Venture Capital Investment Trust (“AVCIT” or “Component Unit”) meets the criteria to be discretely presented in the accompanying combined financial statements. The financial information of the AVCIT, including its blended component units, the Arkansas Institutional Fund, LLC (“AIF”) and the Arkansas Venture Development Fund, LLC (“AVDF”), is presented in a separate column in the agency-wide financial statements to emphasize that the AVCIT (including AIF and AVDF) is legally separate from the Authority.

The Authority is financially accountable for the AVCIT because the Authority’s president is one of the three trustees, and the Authority is charged with daily operations and management of the programs within the trust.

The AVCIT, a public trust, was created in 2003 pursuant to the provisions of the laws of the State, including specifically Title 28, Chapter 72, Subchapter 2 of the Arkansas Code of 1987 Annotated. The General Assembly of the State adopted the Venture Capital Investment Act of 2001 (“VCI Act”), codified as Title 15, Chapter 5, Subchapter 14 of the Arkansas Code of 1987 Annotated, for the purpose of increasing the availability of equity and near-equity capital for emerging, expanding, relocating, and restructuring enterprises in the State. The trust is governed by three trustees: the President of the Authority, the Secretary of the DFA, and the Executive Director of the Arkansas Economic Development Commission (“AEDC”).

The AIF was formed in 2003 by AVCIT, which owns 99.8% of the limited liability company. The purpose of the AIF is to invest in private equity, seed, and venture funds and to support the growth and development of the venture capital industry in the State. Although AVCIT is the fund manager of AIF, it has contracted with the Authority to perform those duties. The AIF’s audited financial statements are accounted for on a calendar-year basis and reported under Financial Accounting Standards Board (“FASB”) standards. As such, AIF’s financial statement presentation was recast to be consistent with Governmental Accounting Standards Board (“GASB”) presentation features. No other modifications have been made to the AIF’s financial information in the Authority’s financial reporting entity for differences of FASB and GASB standards. Subsequent to 2016, the purposes of this entity were carried out through the AVDF.

The AVDF was formed in 2016 by AVCIT, which is the sole owner of the limited liability company. The primary purposes of the AVDF are to assist the Authority and the AVCIT in advancing the goals and objectives of the Authority by strengthening the economic base and creating jobs within the State, including carrying out the purposes and goals of the VCI Act.

Separately issued audited financial statements are not available for the AVDF or the Arkansas Venture Capital Development Fund (“AVC”). Separately issued audited financial statements for AIF can be obtained by contacting:

Arkansas Development Finance Authority
1 Commerce Way, Suite 602
Post Office Box 8023
Little Rock, Arkansas 72202

Notes to Combined Financial Statements

June 30, 2026

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

- b. **Measurement focus and basis of accounting** – The Authority 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.

In accordance with *GASB Statement No. 103, “Financial Reporting Model Improvements,”* the combined statement of revenues, expenses, and changes in net position distinguishes operating from nonoperating items. Operating revenues and expenses arise from the Authority’s principal ongoing activities, whereas nonoperating items include all other revenues and expenses, such as noncapital subsidies, investment income, interest expense, capital contributions, and gains or losses on the disposal of capital assets. All revenues and expenses not meeting the definition of operating are reported as nonoperating.

- c. **Recently issued accounting pronouncements** – *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 (“MD&A”). The Authority adopted this statement as of June 30, 2026. See Note 12 for how this statement impacted the combined financial statements of the Authority.

GASB Statement No. 104, “Disclosure of Certain Capital Assets.” The objective of this statement is to establish requirements for certain types of capital assets to be disclosed separately in the capital assets footnote disclosure required by *GASB Statement No. 34, “Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments.”* This statement also establishes requirements for capital assets held for sale, including additional disclosures for those capital assets. The requirements of this statement are effective for fiscal year beginning after June 15, 2025, and all reporting periods thereafter, with earlier adoption encouraged. The Authority adopted this statement as of June 30, 2026, which did not have a material effect on its combined financial statements.

Notes to Combined Financial Statements

June 30, 2026

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

GASB Statement No. 105, "Subsequent Events." The objective of this statement is to improve the financial reporting requirements for subsequent events by clarifying the time frame during which subsequent events must be evaluated, refining the distinction between recognized and nonrecognized subsequent events, and establishing enhanced note disclosure requirements for nonrecognized events that may have a significant effect on a government's financial position. This statement also introduces a requirement for governments to disclose the date through which subsequent events have been evaluated, aligning GASB guidance more closely with other standard setters such as the FASB and American Institute of Certified Public Accountants. The requirements of this statement are effective for fiscal years beginning after June 15, 2026, with earlier adoption encouraged. The Authority has not early adopted this statement. The Authority does not expect this statement to have a material effect on its combined financial statements.

- d. **Fund accounting** – The Authority utilizes internal funds, each of which accounts for the assets, liabilities, net position, revenues, and expenses of the Authority's programs and activities.

The following describes the nature of the operations and significant programs currently maintained by the Authority:

Single Family Housing Programs

Single Family Mortgage Purchase Program – Accounts for proceeds from single-family mortgage revenue bonds, the debt service requirements of the bonds, and the related mortgage-backed securities, or mortgage loans for single-family owner-occupied housing in the State. Included within this program are the Authority's Single Family Mortgage Revenue Bond General Resolution, adopted on July 20, 1995 (1995 General Resolution), and the Authority's Home Ownership Revenue Bond General Resolution, adopted on November 19, 2009 (2009 General Resolution).

Federal Housing Programs

HOME Investment Partnerships Program – Accounts for federal financial assistance received from the U.S. Department of Housing and Urban Development ("HUD") for the purpose of developing and supporting affordable housing through tenant based rental assistance, rental rehabilitation, new construction, or assistance to homebuyers and homeowners.

Tax Credit Assistance Program ("TCAP") – Accounts for federal financial assistance in the form of American Reinvestment and Recovery Act funds received from HUD for the purpose of providing additional financing in the form of loans to developers to ensure that developments have sufficient financing to provide quality affordable housing. Only developments that were awarded low-income housing tax credits under Section 42(h) of the Internal Revenue Code ("IRC") in federal fiscal years 2007, 2008, and 2009 were eligible for the sub-awards granted to the State from HUD for TCAP funding.

Notes to Combined Financial Statements

June 30, 2026

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

Neighborhood Stabilization Programs (“NSP”) – Accounts for federal financial assistance received from HUD for the purpose of stabilizing neighborhoods that have suffered the most from foreclosures and abandonment. The Authority participated in two of the three NSP offered by HUD. The first NSP was authorized by the Housing and Economic Recovery Act, which was signed into law on July 30, 2008. The third NSP was authorized by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. NSP provides loans to purchase and rehabilitate foreclosed or abandoned homes for sale or rent in order to stabilize neighborhoods and stem the decline of house values in neighboring homes. During fiscal year 2026, this program was sunset and the residual assets were transferred on March 1, 2026 to the AEDC, a governmental fund of the State of Arkansas.

Preservation Revolving Loan Fund Program – Accounts for federal financial assistance received from the U.S. Department of Agriculture (“USDA”) Rural Housing Service to loan funds to carry out a demonstration program that provides revolving loans for the preservation and revitalization of low-income multi-family housing.

National Housing Trust Fund Program – Accounts for federal financial assistance received from HUD for the purpose of expanding and preserving the supply of affordable housing, particularly rental housing, for extremely low-income to very low income households.

Homeowner Assistance Fund (“HAF”) Program – Accounts for federal financial assistance received from the U.S. Department of the Treasury (the “Treasury”) as a grant under the American Rescue Plan Act of 2021 (“ARPA”) for the purpose of preventing homeowner mortgage delinquencies, defaults, foreclosures, loss of utilities or home energy services, and displacements of homeowners experiencing financial hardship after January 21, 2020 through reimbursement of qualified expenses related to mortgages and housing.

Emergency Solutions Grant Program – Accounts for federal assistance received from HUD Community Planning and Development to provide funding to engage homeless individuals and families, improve the number and quality of emergency shelters for homeless individuals and families, help operate these shelters, provide essential services to shelter residents, rapidly re-house homeless individuals and families, and prevent families and individuals from being homeless.

Multi-Family Programs

Financing Adjustment Factor (“FAF”)/New BMIR Loan Programs – Accounts for loans receivable funded by distributions the Authority received from an old multi-family bond issue, as well as from FAF distributions from the federally funded Section 8 Housing Assistance Payment Program.

Affordable Housing Assistance Program – Accounts for loans receivable funded for the use of down payment assistance, rental assistance, low-interest financing, land acquisition, new construction, rehabilitation constructions, and reconstruction.

Notes to Combined Financial Statements

June 30, 2026

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

Economic Development Bond Guaranty Program

Economic Development Bond Guaranty Program – Accounts for guaranty fees collected, interest earned on investments, and disbursements made in connection with bond guaranties provided by the Authority, as well as the proceeds from the sale of development revenue bonds issued by the Authority and guaranteed by the Bond Guaranty Fund, the debt service requirements of the bonds, and related loans and leases to private companies. The Bond Guaranty Fund was created by Act 505 of 1985, which authorized a grant of \$6 million from the State treasurer (which was subsequently repaid by the Authority) for the purpose of enhancing and supporting the creditworthiness of bonds and other debt instruments guaranteed by the Authority. At June 30, 2026, the fund had cash and cash equivalents and investments totaling \$17.7 million in the reserve account to collateralize Authority-guaranteed bonds and future issues under the bond guaranty program.

State Facilities and Amendment 82 Programs

State Facilities Programs – Accounts for the proceeds from the sale of development revenue bonds; the debt service requirements of the bonds, and related loans and leases to public and government bodies within the State; and includes certain assets not owned and related obligations not owed by the Authority.

Amendment 82 Programs – Accounts for the proceeds from the sale of general obligation bonds of the State as authorized under Amendment 82 of the Arkansas Constitution; related loans and leases to private institutions and government bodies within the State, and includes certain assets not owned and related obligations not owed by the Authority.

Other Economic Development Programs

State Small Business Credit Initiative Program – The ARPA reauthorized and amended the Small Business Jobs Act of 2010, codified at 12 U.S.C. § 5701 et seq., to provide \$10 billion to fund the State Small Business Credit Initiative (“SSBCI”) as a response to the economic effects of the COVID-19 pandemic. SSBCI is a federal program administered by the Treasury that was created to strengthen capital programs that support private financing to small businesses, including capital access programs and other credit support programs (loan guarantees, loan participations, and venture capital investment programs) of eligible jurisdictions (i.e., states, the District of Columbia, territories, Tribal governments, and eligible municipalities).

Arkansas was awarded a potential allocation of \$81.6 million to support seven programs under its SSBCI Program. The first tranche in the amount of \$24.0 million was received on December 16, 2022.

Notes to Combined Financial Statements

June 30, 2026

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

On December 19, 2025, the Treasury was notified by ADFA that Arkansas had not expended, transferred, or obligated at least 80% of its first tranche disbursement by the three-year anniversary of its allocation agreement dated December 13, 2022. As a result, the Treasury terminated the availability of Arkansas' untransferred SSBCI Program funding under Tranche 2 and Tranche 3.

The Tranche 1 allocation represents the final and total amount of the SSBCI Program fund Arkansas will receive under this round of the program. ADFA continues to deploy Tranche 1 funds in accordance with the approved Allocation Agreement. Under the Allocation Agreement, all allocated funds, returned funds, and program income must be used solely to carry out the approved program. The Treasury retains its rights under the Allocation Agreement and applicable law, including the authority to recoup misused funds.

Other Economic Development Programs – Accounts for loan reserve programs, such as Capital Access and Disadvantaged Business Enterprise.

Tobacco Settlement Revenue Bonds Program

Tobacco Settlement Revenue Bonds Program – Accounts for the proceeds from the sale of tobacco settlement revenue bonds and the debt service requirements of the bonds and related disbursements of bond proceeds to participating colleges to be used to fund the construction and equipping of projects outlined by the Arkansas Tobacco Settlement Funds Act of 2000, as supplemented by Act 9 of the First Extraordinary Session of 2006 of the 85th General Assembly.

Student Loan Programs

Student Loan Programs – To provide private student loans at below-market interest rates to students and families, provide fee-based default management services to Arkansas colleges and universities, along with other financial aid office support services, and provide free financial literacy and college planning services to Arkansas students and families.

General Fund Program

General Fund Program – Accounts for direct obligations of the Authority; revenue earned by the Authority for issuing and administering various programs; operating expenses of the Authority; special initiatives of the Authority, such as direct loan programs, funding down payment assistance, and warehousing mortgage-backed securities created by its Single Family Housing Programs; and money or residual assets, such as investments and mortgages, transferred from other funds to the extent such transfers are permitted by the resolutions.

Notes to Combined Financial Statements

June 30, 2026

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

- e. **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, liabilities and deferred inflow and outflow of resources 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.
- f. **Cash and cash equivalents** – The Authority considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2026, cash equivalents of \$522.5 million consisted primarily of money market mutual funds with variable interest rates.
- g. **Investments and investment income, net** – Investments are carried at fair value with the exception of equity investments held by AVCIT.

Equity investments held by the AVCIT are carried at cost. The net accumulated earnings of individual investments subsequent to the date of acquisition are recognized by AVCIT only to the extent distributed as dividends. A decrease in the carrying value of an investment is recognized when a series of operating losses of an individual investment or other factors indicate that an other than temporary decline in value below cost has occurred.

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

The fair value of the Authority's investments at June 30, 2026 was less than the cost basis by \$5.0 million.

- h. **Loans** – Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding principal balances adjusted for unearned income, charge-offs, and the allowance for loan losses. For loans amortized at cost, interest income is accrued based on the unpaid principal balance.

Generally, loans are placed on nonaccrual status at 180 days past due. Past due status is based on the contractual terms of the loan. All interest accrued but not collected for loans that are placed on nonaccrual or charged off are reversed against interest income unless the loan is well secured and in the process of collection. The interest on these loans is accounted for on the cash-basis or cost recovery method until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current, and future payments are reasonably assured.

- i. **Allowance for loan losses** – The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to expense. Actual loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

Notes to Combined Financial Statements

June 30, 2026

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

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired and additional loans specifically reviewed by management. The general component covers non-classified loans and is based on historical charge-off experience and expected loss given default derived from the Authority's internal risk rating process. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

Impaired loans are evaluated as part of the review of the allowance for loan losses. A loan is considered impaired when, based on current information and events, it is probable that the Authority will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Groups of loans with similar risk characteristics are collectively evaluated for impairment based on the group's historical loss experience adjusted for changes in trends, conditions, and other relevant factors that affect repayment of the loans.

- j. **Income taxes** – As an essential government function of the State, the Authority is exempt from income taxes under Section 115 of the IRC and a similar provision of state law.
- k. **Capital assets** – Premises and equipment are carried at cost, less accumulated depreciation. Depreciation for financial statement purposes is computed using the straight-line method over the estimated useful lives of the assets, ranging from 3 to 10 years. The Authority defines capital assets as assets with an initial, individual cost of more than \$5 thousand and a life greater than one year.

Notes to Combined Financial Statements

June 30, 2026

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

- l. **Pensions** – For purposes of measuring the net pension liability, deferred outflow of resources, and deferred inflow of resources related to pensions and pension expense, information about the fiduciary net position of the Arkansas Public Employees Retirement System (“APERS”), and additions to/deductions from APERS fiduciary net position have been determined on the same basis as they are reported by APERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.
- m. **Postemployment benefits other than pensions** – For purposes of measuring the net other postemployment benefits (“OPEB”) liability, deferred inflows of resources, and deferred outflows of resources related to OPEB and OPEB expense, information about the fiduciary net position of the benefit plan and additions to/deductions from the plan’s fiduciary net position have been determined on the same basis as they were determined by a third-party actuarial report on the plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.
- n. **Deferred outflow/inflow of resources** – The Authority reports increases in net position that relate to future periods as deferred outflow of resources in a separate section of its combined statement of net position. The Authority reports decreases in net position that relate to future periods as deferred inflow of resources in a separate section of its combined statement of net position. These amounts will be amortized as pension and OPEB expense over future periods as shown in Notes 8 and 9.
- o. **Deposits against financing arrangements** – Deposits against financing arrangements represent debt service funds and interest earned on funds created by trust indentures associated with bond issuances that are held by the Authority to be used by the borrower to pay debt service to the Authority. If not used to pay debt service, these funds are returned to the borrower at the end of the financing arrangement.
- p. **Contract obligations** – Contract obligations consist of payables on contracts the Authority entered into with the Arkansas Department of Corrections, a software subscription service agreement to administer the HAF program, and the remaining balance of the consulting service agreement for the HAF program.
- q. **Unearned guaranty fee** – The Authority receives guaranty fees from borrowers who participate in the Bond Guaranty Fund Programs. Nonrefundable fees are amortized into income ratably over the term of the respective programs.
- r. **Conduit debt obligations** – Conduit debt issued by the Authority is recorded on the Authority’s combined statement of net position if either (a) the Authority has a vested interest in the residual value of the bond issue after its retirement or (b) the Authority guarantees the debt through the Bond Guaranty Fund.

Notes to Combined Financial Statements

June 30, 2026

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

Additionally, the Authority reports conduit debt obligations of entities included in the State of Arkansas reporting entity on its combined statement of net position. At June 30, 2026, the principal balance of these bonds included on the Authority's combined statement of net position totaled \$237.1 million.

- s. **Net position** – Net position represents the difference between assets and deferred outflow of resources, and liabilities and deferred inflow of resources on the accompanying combined statement of net position. Net position is classified in four components:

Restricted expendable by bond resolution and programs – Represents those funds restricted within the respective bond resolution or by specific provisions of the programs.

Restricted, nonexpendable, and minority interest – Represents the equity interest of the Component Unit held by a minority participant.

Investment in capital assets – Represents the balance of capital assets, net of depreciation. No related debt exists.

Unrestricted – Represents those funds used at the discretion of the Authority's Board of Directors to complement bond and loan programs and to provide for the Authority's operations.

The Authority first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net positions are available.

2. Deposits and Investments

Deposits

● **The Authority** – Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority's deposit policy for custodial credit risk requires compliance with the provisions of state law, including the State Board of Finance's Management of Cash Funds Rule 2012-A, the Authority's various bond indentures, and the Authority's general fund investment policy. Deposits are collateralized for those amounts exceeding federal depository insurance, typically with obligations of the Treasury, U.S. agencies or instrumentalities, municipal bonds, or bank purchase agreements having an aggregate value at least 105% of the amount of the deposits.

At June 30, 2026, the carrying value of the Authority's deposits was \$ 19.0 million. The balances, per the bank statements, totaled \$19.3 million. Of those deposits, \$ 68 thousand were exposed to custodial credit risk.

(In thousands)

Uninsured and uncollateralized

\$ 68

Notes to Combined Financial Statements

June 30, 2026

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

The uninsured and uncollateralized balance represents deposits with the Federal Home Loan Bank (“FHLB”) of Dallas.

Investments

The Authority – The Authority may legally invest in direct obligations of, and other obligations guaranteed as to principal by the Treasury and U.S. agencies and instrumentalities, mortgage-backed securities, guaranteed investment contracts, municipal bonds, and bank repurchase agreements.

At June 30, 2026, the Authority had the following investments and maturities:

	Maturities in Years				Total
	Less than 1	1 - 5	6 - 10	More than 10	
<i>(In thousands)</i>					
U.S. agencies obligations	\$ 21,475	\$ 23,182	\$ -	\$ -	\$ 44,657
Mortgage-backed securities	23	4,154	13,230	310,905	328,312
Mutual bond funds	245	402	333	1,028	2,008
	<u>\$ 21,743</u>	<u>\$ 27,738</u>	<u>\$ 13,563</u>	<u>\$ 311,933</u>	<u>\$ 374,977</u>

Component Unit – The mission of ACVIT is to increase the availability of equity and near-equity capital for emerging, expanding, relocation, and restructuring enterprises in the State, with the ultimate goal of strengthening the State’s economic base and creating jobs. ACVIT can legally invest in equity capital and near equity capital and was created to invest in such. There are no scheduled maturities for these investments, nor are they rated investments. There is no limit on the amount that may be invested in any one company. There is only one investment that represented 5% or more of the total equity investments. This company focuses on diagnostic health testing, which is 7.51% of the total investments balance as of June 30, 2026. Total equity investments for ACVIT at June 30, 2026 were \$20.3 million.

- a. **Interest rate risk** – As a means of limiting its exposure to fair value losses due to rising interest rates, the Authority’s investments typically match the term of the corresponding bonds or, in the case of general funds, limit the maturity to no greater than 15 years for municipal bonds and seven years for treasuries, agencies, and mortgage-backed securities.

The Authority invests in various asset and mortgage-backed securities. These securities are reported at fair value in the combined statement of net position. The Authority invests in these securities to enhance yields on investments. Changes in market interest rates could affect the cash flows of these securities and may result in changes in fair value. The overall return or yield on these securities depends on the changes in the interest and principal payment pattern and the market value of the underlying assets.

Notes to Combined Financial Statements

June 30, 2026

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

- b. **Credit risk** – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The Authority complies with various trust indentures or internal investment policy whereby investments and debt securities are typically rated “A” or higher. The Authority’s investments in U.S. agencies obligations and mortgage-backed securities not directly guaranteed by the U.S. government were primarily rated “AA+” by Standard & Poor’s (“S&P’s”) and “Aaa” by Moody’s Investors Service at June 30, 2026. The Authority’s amounts in money market mutual funds, or investments of those funds, were primarily rated “AAAm” by S&P’s and “Aaa” by Moody’s Investors Service.
- c. **Custodial credit risk** – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Authority’s investments in mutual funds and guaranteed investment contracts are not classified by custodial risk category as they are not supported by securities in physical or book entry form.
- d. **Concentration of credit** – The Authority places no limit on the amount that may be invested in any one issuer. The Authority had no investments (not guaranteed by the U.S. government or considered a mutual fund) that represented 5% or more of total investments at June 30, 2026.

Summary of Carrying Values

The carrying values of deposits, money market mutual funds, the State Treasurer Money Management Trust Fund (“MMTF”), and investments are included on the accompanying combined statement of net position as follows:

	<u>Authority</u>	Component <u>Unit</u>
<i>(In thousands)</i>		
Carrying values		
Deposits	\$ 19,026	\$ 1,876
Money market mutual funds	427,262	-
State Treasurer MMTF	81,262	-
Investments	<u>374,977</u>	<u>20,333</u>
	<u>\$ 902,527</u>	<u>\$ 22,209</u>

Notes to Combined Financial Statements

June 30, 2026

2. Deposits and Investments (cont.)

Included in the following combined statement of net position captions:

	<u>Authority</u>	<u>Component Unit</u>
<i>(In thousands)</i>		
Current assets		
Cash and cash equivalents	\$ 522,505	\$ 1,876
Current portion of investments	21,521	-
Noncurrent assets		
Investments		
Unrestricted	30,038	-
Restricted	328,463	20,333
	<u>\$ 902,527</u>	<u>\$ 22,209</u>

The Authority's investments above are carried at their estimated fair market value. Unrealized gains and losses are included in investment income, net on the accompanying combined statement of revenues, expenses, and changes in net position and combined statement of cash flows. The Authority recorded unrealized gains of \$622 thousand for fiscal year 2026. As discussed in Note 10 for federated treasury obligations, money market obligations, and cash management fund, the carrying value approximates fair value. The Component Unit investments are carried at historical cost less any impairments. The Component Unit recorded impairments of approximately \$790 thousand, which are included in investment income, net on the accompanying combined statement of revenues, expenses, and changes in net position for the year ended June 30, 2026.

**ARKANSAS DEVELOPMENT FINANCE AUTHORITY,
A COMPONENT UNIT OF THE STATE OF ARKANSAS**

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Notes to Combined Financial Statements

June 30, 2026

3. Loans and Direct Financed Leases

The following presents the breakdown of the Authority's portfolio of loans receivable:

The Authority

<u>Type of Loan</u>	<u>Balance</u>	<u>Allowance</u>	<u>Loans Net of Allowance</u>	<u>Stated Interest Rate</u>	<u>Impairments</u>
Federal Housing Programs	\$ 177,493	\$ 70,464	\$ 107,029	0.00% to 6.25%	\$ 78,345
Multi-Family Programs	5,770	2,790	2,980	0.00% to 4.0%	2,437
Economic Development Bond Guaranty Program	13,224	370	12,854	Rate on bonds	115
State Facilities and Amendment 82 Programs	234,847	-	234,847	Rate on bonds	-
Other Economic Development Programs	2,124	547	1,577	1.00% to 3.00%	645
Tobacco Settlement Revenue Bonds Program	66,361	-	66,361	4.92% to 5.10%	-
General Fund Program	57,312	3,440	53,872	0.00% to 7.875%	477
Student Loan Programs	<u>34,409</u>	<u>2,382</u>	<u>32,027</u>	2.99% to 8.12%	<u>-</u>
Totals	<u>\$ 591,540</u>	<u>\$ 79,993</u>	<u>\$ 511,547</u>		<u>\$ 82,019</u>

- a. **Federal Housing Programs** – Includes loans funded by federal agencies, mainly HUD, and are either for multi-family housing or single-family housing loan assistance. The programs offer different types of loan structures, such as deferred loans and surplus cash loans, as well as loans with below market interest rates and standard amortization.
- b. **Economic Development Bond Guaranty Program** – Loans and leases to private companies for financing the acquisition or expansion of facilities are collateralized by liens on and security interests in collateral granted by the companies and by guaranty agreements between the Authority and one or more guarantors. To a limited extent, and only when specified by a specific trust indenture, the payment of principal and interest on the bonds is guaranteed by the Authority under the ADFA Bond Guaranty Act (Act 505 of 1985).

Notes to Combined Financial Statements

June 30, 2026

3. **Loans and Direct Financed Leases (cont.)**

Additionally, the Bond Guaranty Fund guarantees principal and interest on revenue bonds issued by municipalities within the State for economic development purposes. At June 30, 2026, revenue bonds outstanding of \$10.1 million were guaranteed by the Bond Guaranty Fund. However, \$4.7 million of these bonds were defeased on June 22, 2026. Furthermore, the Bond Guaranty Fund guarantees bond anticipation notes. At June 30, 2026, the principal amount on these notes totaled \$1.6 million outstanding, with \$1.5 million guaranteed.

- c. **State Facilities Programs** – Includes financing activities with various state agencies.
- d. **Tobacco Settlement Revenue Bonds Program** – Includes a loan agreement between the Authority and the University of Arkansas's Board of Trustees (the "University"), whereby the University agrees to provide for repayment in the event tobacco settlement revenues are not available.
- e. **General Fund Program** – Includes loans that are residual assets of the Single Family Mortgage Purchase Program, Multi-Family Mortgage Purchase Program, or funded by the general fund as special initiatives of the Authority. Mortgage loans purchased by the Authority under the Single Family Mortgage Purchase Program are typically Federal Housing Administration insured, guaranteed by USDA Rural Development, or U.S. Department of Veterans Affairs guaranteed.
- f. **Student Loan Programs** – Includes private student loans with below-market interest rates for Arkansas residents attending higher education institutions either in Arkansas or out-of-state. Non-Arkansas residents are eligible to receive private student loans from the Authority when attending an eligible Arkansas higher education institution.
- g. **Delinquent loans** – At June 30, 2026, accruing loans delinquent 180 days or more, where payment is anticipated due to current payment activity, totaled approximately \$369 thousand. At June 30, 2026, nonaccruing loans were \$8.2 million.
- h. **Direct financing leases** – The Authority is the lessor under various leases whereby the Authority issued bonds for the acquisition or construction of certain facilities and then leased the facilities to other state agencies or private companies. At the end of the lease terms, these leases either transfer ownership to the other agencies or contain bargain purchase options.

Notes to Combined Financial Statements

June 30, 2026

4. **Capital Assets**

Premises and equipment activity consists of the following:

	<u>June 30, 2025</u>	<u>Additions</u>	<u>Transfers and Disposals</u>	<u>June 30, 2026</u>
<i>(In thousands)</i>				
Premises and equipment	\$ 4,119	\$ 1	\$ -	\$ 4,120
Less accumulated depreciation	<u>2,039</u>	<u>98</u>	<u>-</u>	<u>2,137</u>
Capital assets, net	<u>\$ 2,080</u>	<u>\$ (97)</u>	<u>\$ -</u>	<u>\$ 1,983</u>

Depreciation expense was approximately \$98 thousand for the year ended June 30, 2026.

5. **Noncurrent Liabilities**

Changes in noncurrent liabilities, other than bonds and notes payable discussed in Note 6, consist of the following:

The Authority

	<u>June 30, 2025</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2026</u>	<u>Amount Due Within One Year</u>
<i>(In thousands)</i>					
Unearned fees	\$ 520	\$ -	\$ 180	\$ 340	\$ 115
Contract obligations	5,884	3,093	2,535	6,442	3,662
Deposits against financing arrangements	51,855	27,555	26,723	52,687	-
Deferred gain on refinancing sale of asset	221	-	32	189	56
OPEB liability	2,024	-	-	2,024	-
Pension liability	3,519	-	605	2,914	-
Compensated absences	1,208	36	-	1,244	967
Other liabilities	<u>2,341</u>	<u>11</u>	<u>7</u>	<u>2,345</u>	<u>-</u>
	<u>\$ 67,572</u>	<u>\$ 30,695</u>	<u>\$ 30,082</u>	<u>\$ 68,185</u>	<u>\$ 4,800</u>

Notes to Combined Financial Statements

June 30, 2026

6. Bonds and Notes Payable

Bonds and notes payable consist of the following:

The Authority

(In thousands)

Total Single Family bonds payable, with interest rates ranging from 2.49% - 6.10% and final maturity at varying dates through January 1, 2057.	\$ 480,669
Plus unamortized premiums	<u>7,744</u>
Total Single Family bonds payable, net	488,413
Total Federal Housing notes payable, with interest rates of 1.00% and final maturity at varying dates through July 29, 2045.	2,817
Total Economic Development bonds payable, guaranteed by the Bond Guaranty Fund, with interest rates ranging from 2.25% - 6.00% and final maturity at varying dates through January 1, 2040.	19,361
Total State Facilities bonds payable, with interest rates ranging from 1.60% - 5.00% and final maturity at varying dates through December 1, 2050.	237,073
Tobacco bonds payable, with interest rates ranging from 4.92% - 5.10% and final maturity at varying dates through July 1, 2046.	<u>66,361</u>
Total all bonds and notes payable, net	<u>\$ 814,025</u>

Notes to Combined Financial Statements

June 30, 2026

6. **Bonds and Notes Payable (cont.)**

Activity in bonds and notes payable consists of the following:

The Authority

	<u>Beginning Balance</u>	<u>Additions Including Accretion</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amount Due Within One Year</u>
<i>(In thousands)</i>					
Bonds payable	\$ 531,778	\$ 302,471	\$ (30,785)	\$ 803,464	\$ 135,890
Notes payable	<u>2,960</u>	<u>-</u>	<u>(143)</u>	<u>2,817</u>	<u>145</u>
	534,738	302,471	(30,928)	806,281	136,035
Unamortized premiums	<u>3,391</u>	<u>4,652</u>	<u>(299)</u>	<u>7,744</u>	<u>-</u>
Total	<u>\$ 538,129</u>	<u>\$ 307,123</u>	<u>\$ (31,227)</u>	<u>\$ 814,025</u>	<u>\$ 136,035</u>

Component Unit

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amount Due Within One Year</u>
<i>(In thousands)</i>					
Note payable	<u>\$ 2,301</u>	<u>\$ 61</u>	<u>\$ 2,362</u>	<u>\$ -</u>	<u>\$ -</u>

The future amount of principal and interest due is undeterminable at this time because the balances will fluctuate with draws needed for capital calls and reductions for distributions by investee companies.

Notes to Combined Financial Statements

June 30, 2026

6. **Bonds and Notes Payable (cont.)**

The Authority

Future amounts required for principal and interest on all bonds and notes payable at June 30, 2026 were as follows:

<i>(In thousands)</i>	<u>Principal</u>	<u>Interest</u>
Fiscal Year Ending		
2027	\$ 136,035	\$ 28,569
2028	33,193	28,159
2029	26,422	27,228
2030	26,623	26,487
2031	26,290	25,727
2032 - 2036	152,080	115,713
2037 - 2041	132,227	94,187
2042 - 2046	118,324	73,472
2047 - 2051	97,065	52,199
2052 - 2056	94,130	28,292
2057	2,185	3,202
Unamortized premiums	7,744	-
Accreted interest	<u>(38,293)</u>	<u>38,293</u>
Total	<u>\$ 814,025</u>	<u>\$ 541,528</u>

Under certain bond resolutions, the Authority has the option to redeem bonds early at various premium rates. Generally, the redemption option cannot be exercised prior to the time the bonds have been outstanding for 6 to 10 years. Certain special redemptions, as governed by the bond resolutions, are permitted or required prior to such time. During fiscal 2026, \$6.3 million of bonds were redeemed at par early.

The bonds and notes are collateralized, as described in the applicable bond and note resolutions, by the revenues, monies, investments, mortgage loans, and other assets in the funds and accounts established by the respective bond and note resolutions.

During the normal course of business, the Authority issues Economic Development Revenue Bonds and Multi-Family Housing Revenue Bonds on behalf of private companies within the State. The bonds are payable solely from, and secured by, a pledge of revenues from the private companies to which the bond proceeds were remitted and, accordingly, have been excluded from the Authority's combined financial statements. At June 30, 2026, the bonds outstanding issued under these programs aggregated \$3.3 billion.

On October 7, 2026, the Authority issued 2026 Series C Single Family Bonds for \$60 million, at rates ranging between 2.9% - 5.50%, with a premium of \$975 thousand, and maturing on July 1, 2057. These bonds were issued for the purpose of refunding a portion of the Authority's 2026 Series B Single Family Bonds, which were issued as convertible option bonds.

Notes to Combined Financial Statements

June 30, 2026

7. **Concentration of Risk in Lending and Loan Receivable**

The Authority, through its normal lending activity, originates and maintains loans receivable that are concentrated primarily in Arkansas. The Authority's policy calls for collateral or other forms of repayment assurance to be received from the borrower at the time of loan origination. Such collateral or other forms of repayment assurance are subject to changes in economic value due to various factors beyond the control of the Authority, and such changes could be significant.

The Authority's private student loans are not collateralized; therefore, uncollectible student loans are expected to be covered with loan loss reserves.

Additionally, the Authority is dependent on private insurers for recovery of loan principal should a borrower or borrowers not pay the principal and should any collateral prove to be insufficient in value to provide for full recovery of principal and accrued interest. This dependency is concentrated in a limited number of insurers, and the Authority's ability to monitor closely the insurers' financial condition is limited.

8. **Retirement Plan**

Plan Descriptions

The officials and employees of the Authority participate in a statewide, cost sharing, multiple employer, defined benefit pension plan administered by APERS. There is no legal obligation imposed upon the member agencies relative to the operation of APERS other than the payment of a percentage of the gross salaries of eligible employees participating in the Plan as an employer contribution. APERS consists of both a contributory plan and a noncontributory plan. The noncontributory plan was created by Act 793 of 1977 and was effective January 1, 1978. It automatically applied to all members hired from January 1, 1978 to June 30, 2005. Act 2084 of 2005 requires that, beginning July 1, 2005, all new hires become contributory members and are required to contribute 5% of their earnings to APERS. Beginning on July 1, 2022, the contribution rate was increased by .25% and will increase each July 1st until a max of 7% is reached. All other noncontributory members were given the opportunity to become contributory if they so elected by December 31, 2005. Employees joining APERS prior to July 1, 1997 are vested after 10 years of employment. Beginning July 1, 1997, the vesting period for new members was reduced to five years; however, this act was not retroactive. APERS is audited separately, and included therein is financial data and trend information, which gives an indication of the extent to which APERS is accumulating sufficient assets to pay benefits when due.

Eligible employees of the Authority are provided with pensions through APERS, administered by APERS's Board of Trustees. APERS is a cost sharing multiple employer defined benefit plan. Benefit provisions are established and amended by Arkansas Code Title 24.

The plan issues a publicly available financial report, which may be obtained by contacting:

Arkansas Public Employees Retirement System
124 W. Capitol Avenue, Suite 400
Little Rock, Arkansas 72201-3704
(501) 682-7800
<http://www.apers.org/publications>

Notes to Combined Financial Statements

June 30, 2026

8. **Retirement Plan (cont.)**

Benefits Provided

APERS provides retirement, disability, and death benefits and annual adjustments to plan members and beneficiaries, as follows:

The normal retirement benefit, paid monthly, is determined based on (1) the member's final average compensation ("FAC") and (2) the number of years of credited service. FAC for members first hired prior to July 1, 2022, is the average of the three highest annual compensations paid during a completed fiscal year of credited service, and for members first hired on or after July 1, 2022, FAC is the average of the five highest annual compensation. The plan also provides for disability and survivor benefits. Retiree benefit increases are calculated each year on July 1 for the following 12 months. The redetermined amount first hired prior to July 1, 2022, is the amount of the benefit payable as of the immediately preceding July 1, increased by 3%. If first hired on or after July 1, 2022, the redetermined amount is the lesser of 3% or the percentage change in the Consumer Price Index for Urban Wage Earners and Clerical Workers as determined by the United States Department of Labor. Members are eligible for full retirement benefits (1) at any age with 28 years of credited service; (2) at age 65 with five years of actual service, except for members of the General Assembly who must have 10 years of actual service if the member only has service as a member of the General Assembly; or (3) at age 55 with 35 years of credited service as an elected official or public safety member. Members are eligible for reduced benefits (1) at any age with at least 25 years but less than 28 years of actual service; or (2) at age 55 with five years of actual service. Members who are defined as a public safety member are eligible for a reduced benefit with five years of actual service if the member is within 10 years of normal retirement age.

Contributions

Arkansas Code Title 24 establishes the contribution requirements of active members and participating employers. Contribution rates are as follows:

- Contribution provisions applicable to the participating employers are established by APERS's Board of Trustees and should be based on an independent actuary's determination of the rate required to fund the plan. The General Assembly and certain agencies employing individuals in public safety positions must also remit additional amounts. For the fiscal year ended June 30, 2025, the employer contribution rates, as a percentage of active member payrolls, ranged from 4.00% to 86.42%. Contributions to APERS from the Authority were approximately \$582 thousand for the year ended June 30, 2026.

During a member's participation in APERS deferred retirement option plan, the employer continues to contribute and the employee ceases to contribute.

Notes to Combined Financial Statements

June 30, 2026

8. **Retirement Plan (cont.)**

Net Pension Liability

The collective net pension liability of \$2.1 billion was measured as of June 30, 2025, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Each employer's proportion of the net pension liability was based on the employers' share of contributions to the pension plan relative to the total contributions of all participating employees. At June 30, 2025, the Authority's proportion was 0.138885% for APERS. At June 30, 2026, the Authority reported liabilities of \$2.9 million for its proportionate share of the net pension liability and has been recognized in the Authority's accompanying combined statement of net position.

The net pension liability in the cost-sharing pension plan at June 30, 2026, using the 2025 measurement date, is as follows:

	Total APERS Pension Liability	ADFA's Liability Portion
<i>(In thousands)</i>		
Total pension liability	\$ 14,030,817	\$ 19,487
Plan net position	<u>11,932,028</u>	<u>16,572</u>
Net pension liability	<u>\$ 2,098,789</u>	<u>\$ 2,915</u>
Plan net position as a % of total pension liability	85.04%	85.04%

Notes to Combined Financial Statements

June 30, 2026

8. **Retirement Plan (cont.)**

Pension Liabilities, Pension Expense, Deferred Outflow of Resources, and Deferred Inflow of Resources to Pensions

For the year ended June 30, 2026, the Authority recognized pension expense of approximately \$257 thousand. For the year ended June 30, 2026, the Authority reported deferred outflow of resources and deferred inflow of resources related to pensions as follows:

	Deferred Outflow of <u>Resources</u>	Deferred Inflow of <u>Resources</u>
<i>(In thousands)</i>		
Differences between expected and actual experience	\$ 90	\$ 88
Changes of assumptions	51	-
Net differences between projected and actual earnings on pension plan investments	-	193
Changes in proportion and differences between the Authority's contributions and proportionate share of contributions	7	49
The Authority's contributions subsequent to the measurement date	<u>582</u>	<u>-</u>
Total	<u>\$ 730</u>	<u>\$ 330</u>

At June 30, 2026, the Authority reported approximately \$730 thousand as deferred outflow of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2026. Other amounts reported as deferred outflow of resources and deferred inflow of resources related to pensions will be recognized in pension expense as follows:

(In thousands)

Fiscal Year Ending	
2027	\$ 374
2028	(259)
2029	(189)
2030	<u>(108)</u>
	<u>\$ (182)</u>

Notes to Combined Financial Statements

June 30, 2026

8. **Retirement Plan (cont.)**

Actuarial Assumptions

For fiscal 2026, the total pension liability in the actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, (a) an inflation rate of 3.25%, (b) salary increases in the range of 3.25% to 11.00%, including inflation, (c) an investment rate of return of 7.00%, and (d) the PubG-2010 Amount-Weighted Below-Median Income General Retiree Mortality tables, were used. The healthy retiree mortality tables, for postretirement mortality, used in evaluating allowances to be paid were 114% for males and 132% for females. The disabled retiree mortality tables, for postretirement disabled mortality, used in evaluating allowances to be paid were 114% and 132% of the PubNS-2010 Amount-Weighted Disabled Retiree Mortality tables for males and females, respectively. The preretirement mortality tables used were 75% of the PubG-2010 Amount-Weighted Below-Median General Employee Mortality tables for active mortality experience. Mortality rates for a particular calendar year are determined by applying the MP-2021 mortality improvement scale to the tables described above.

The actuarial assumptions used in the June 30, 2025 valuation were based on the period July 1, 2017 through June 30, 2022.

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The best estimates of arithmetic real rates of return for the 10-year period from 2025 - 2034 were provided by the plan investment consultant.

For each major asset class that is included in the pension plans' target asset allocation, these best estimates are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return</u>
Broad domestic equity	39%	5.14%
International equity	17%	5.97%
Real assets	16%	5.00%
Private equity	5%	8.77%
Hedge funds	2%	3.58%
Domestic fixed	<u>21%</u>	3.26%
Total	<u>100%</u>	

Notes to Combined Financial Statements

June 30, 2026

8. **Retirement Plan (cont.)**

Discount Rate

The discount rate for the plan was determined as follows:

The discount rate used to measure the total pension liability was 7.00% for the year ended June 30, 2026. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Authority's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Authority's proportionate share of the net pension liability for the plan calculated using the discount rate stated above, as well as what the Authority's proportionate share of net pension liability would be if it were calculated using a single discount rate that is 1% lower or 1% higher than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
APERS - current discount rate 7.00%	\$ <u>5,440</u>	\$ <u>2,915</u>	\$ <u>833</u>

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued financial report of the plan.

9. **Postemployment Benefits Other Than Pensions**

Plan Description

The Authority contributes to the single-employer defined benefit healthcare plan for eligible state employees, Arkansas State Employee Health Plan ("ASE") (administered by the Department of Finance and Administration – Employee Benefits Division).

Notes to Combined Financial Statements

June 30, 2026

9. Postemployment Benefits Other Than Pensions (cont.)

Benefits Provided

The plan provides medical and prescription drug benefits to plan members and beneficiaries as established by state law Arkansas Code § 21-5-401 to § 21-5-414.

ASE covers state employees who are members of APERS and are eligible to be in ASE on their last day of employment and their dependents. Retirees and their spouses are eligible to continue participation in ASE until the death of each covered individual. Retirees who are Medicare eligible will have their benefits coordinated with Medicare Part A and B, with ASE being the secondary payer.

Employees Covered by Benefit Terms

The Authority had XX active employees as of June 30, 2026. Inactive employees still receiving benefits are not maintained at each agency's level.

Annual OPEB Cost and Net OPEB Obligation

At June 30, 2026, the Authority reported the following liability as determined as of the date listed:

	Measurement Date	Total OPEB Liability
(In thousands)		
Authority	June 30, 2026	\$ -

Actuarial Assumptions and Other Inputs

The total OPEB liability was determined by an actuarial valuation as of the valuation date of June 30, 2026, calculated based on the discount rate and actuarial assumptions below. Any significant changes during the period have been reflected as prescribed by *GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions."* The actuarial valuations used are included in the State's report.

The discount rate was X.XX% and was based on the Bond Buyer 20-Bond GO Index. The inflation rate was 2.30% and salary increases, including both wage growth in addition to promotion and longevity, ranged from 11.00% to 3.45% for ages ranging from 20 years to 65 years.

Mortality rates were based on the PUBG-2010 amount-weighted below-median income general, retiree, and disabled retiree mortality tables for males and females. Mortality rates are multiplied by 114% for males and 132% for females. The healthy annuitant tables are adjusted for fully generational mortality improvements using Scale MP-2021.

Notes to Combined Financial Statements

June 30, 2026

9. Postemployment Benefits Other Than Pensions (cont.)

Long-Term Expected Rate of Return

Since there are no plan assets held in trust, the expected long-term rate of return is zero. Therefore, the required supplementary information associated with the schedule of contributions of investment returns is not included.

Changes in the Total OPEB Liability

The following table provides the changes in the total OPEB liability for the Authority:

	Total OPEB Liability
<i>(In thousands)</i>	
Balance - June 30, 2025	\$ 2,024
Changes for the current fiscal year	
Service cost	-
Interest	-
Effect of economic/demographic gains or losses	-
Changes in assumptions or other inputs	-
Changes in proportion	-
Benefit payments	-
Net changes	-
Balance - June 30, 2026	\$ 2,024

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following table presents the total OPEB liability of the Authority, as well as what the Authority's total OPEB liability would be if it were calculated using a discount rate that is one percentage-point lower or one percentage-point higher than the current discount rate for the plan:

	1% Decrease		Current Discount Rate		1% Increase	
	Rate	Total OPEB Liability	Rate	Total OPEB Liability	Rate	Total OPEB Liability
<i>(In thousands)</i>						
Authority	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -

Notes to Combined Financial Statements

June 30, 2026

9. Postemployment Benefits Other Than Pensions (cont.)

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following table presents the total OPEB liability of the Authority, as well as what the Authority's total OPEB liability would be if it were calculated using healthcare costs trend rates that are one percentage-point lower or one percentage-point higher than the current healthcare cost trend rates for the plan:

	1% Decrease		Current Health Care Cost Trend Rate		1% Increase	
(In thousands)	<u>Total OPEB Liability</u>		<u>Total OPEB Liability</u>		<u>Total OPEB Liability</u>	
Authority	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -

OPEB Expense and Deferred Outflow of Resources and Deferred Inflow of Resources Related to OPEB

For the year ended June 30, 2026, the Authority recognized OPEB expense for the plan as follows:

(In thousands)	Total OPEB <u>Expense</u>
Authority	\$ -

At June 30, 2026, the Authority reported deferred outflow of resources and deferred inflow of resources related to OPEB for the plan:

	Authority	
(In thousands)	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflow of Resources</u>
Difference between expected and actual experience	\$ -	\$ -
Changes of assumptions and other inputs	-	-
Total	\$ -	\$ -

Notes to Combined Financial Statements

June 30, 2026

9. **Postemployment Benefits Other Than Pensions (cont.)**

Amounts reported as deferred outflow of resources and deferred inflow of resources related to OPEB will be recognized in OPEB expense as follows:

(In thousands)

Fiscal Year Ending

2027

\$ -

2028

-

2029

-

Total

\$ -

10. **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).

Notes to Combined Financial Statements

June 30, 2026

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

Recurring Measurements

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

		Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)
	<u>Fair Value</u>			
<i>(In thousands)</i>				
U.S. agencies obligations	\$ 44,657	\$ -	\$ 44,657	\$ -
Mortgage-backed securities	328,312	-	328,312	-
Mutual bond funds	<u>2,008</u>	<u>-</u>	<u>2,008</u>	<u>-</u>
Total investments	<u>\$ 374,977</u>	<u>\$ -</u>	<u>\$ 374,977</u>	<u>\$ -</u>

The following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized on the accompanying combined financial statements, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended June 30, 2026.

Investments

Where quoted market prices are available in an active market, securities are classified within Level I of the valuation hierarchy. The Authority did not have any Level I securities at June 30, 2026. Level II securities include U.S. Government and federal agencies, mortgage-backed securities, negotiable certificates of deposit, and mutual bond fund. 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 and 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 Authority did not have any Level III securities at June 30, 2026.

Notes to Combined Financial Statements

June 30, 2026

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

Nonrecurring Measurements

The following table presents the fair value measurement of assets measured at fair value on a nonrecurring 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 (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)
<i>(In thousands)</i>				
Real estate owned	\$ 1,000	\$ -	\$ -	\$ 1,000

The following is a description of the valuation methodologies and inputs used for assets measured at fair value on a nonrecurring basis and recognized on the accompanying combined financial statements, as well as the general classification of such assets pursuant to the valuation hierarchy:

Other Assets - Real Estate Owned

Real estate owned is carried at the lower of fair value at acquisition date or current estimated fair value, less estimated cost to sell when the real estate is acquired. Estimated fair value of real estate is based on estimates or evaluations. Real estate owned is classified within Level III of the fair value hierarchy.

11. **Commitments and Contingencies**

The Authority

The Authority participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent the Authority has not complied with the rules and regulations governing the grants, refunds of any money received may be required, and the collectibility of any related receivable at June 30, 2026 may be impaired. In the opinion of the Authority, 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 contingencies.

The Authority has \$14.5 million of amounts recorded as cash and investments on the accompanying combined statement of net position that may be disbursed to borrowers under loan and lease agreements closed prior to June 30, 2026.

Notes to Combined Financial Statements

June 30, 2026

11. **Commitments and Contingencies (cont.)**

From time to time, the Authority may be a defendant in legal actions related to its business operations and mission. While the final outcome of these legal actions may vary, management is of the opinion that the ultimate liability, if any, will not have a material effect on the Authority's financial position.

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; workers' compensation claims; fiduciary liability; and fidelity for which the Authority either carries commercial insurance or participates in insurance through the State. There have been no settlements exceeding insurance coverage in the past three years.

The IRC of 1986 establishes rules and regulations for arbitrage rebates. The Authority has made provisions for revenues above the rebate limit, which must be remitted to the federal government.

Third-Party Servicers

The Authority has contracted with and utilizes the services of Aspire Resources Inc. ("Aspire") to originate and service private student loans. The third party, Aspire, performs virtually all student loan servicing activities on behalf of the Authority, including maintenance of borrower files, payment processing, and processing loan applications. The Authority has contracted with EdFinancial Services, Inc. to perform a variety of administrative activities related to marketing the Authority's private student loan programs, providing fee-based support services to Arkansas financial aid offices, and certain other administrative functions on behalf of the Authority's Student Loan Programs.

Component Unit

Outstanding commitments to various funds/companies by the AVCIT were \$5.7 million for the year ended June 30, 2026.

In 2003, the Authority initiated funding for the AIF, an institutional fund of funds venture capital program created by the Arkansas General Assembly in 2001. The VCI Act authorizes the Authority to assist in increasing the availability of equity and near-equity capital for emerging, expanding, relocating, and restructuring enterprises in the state through the creation of an institutional partnership fund. The Bond Guaranty Fund is subject to the first \$10 million of losses incurred by the AIF. The funding is structured as a guaranteed line of credit with the Authority, and draws occur on an as-needed basis. The line of credit was paid in full on August 7, 2025 and management determined no further draws will be made on this line of credit.

AVCIT participates in certain venture capital investment structures that provide for performance-based allocations ("carried interest"). Under these agreements, the government may be entitled to receive carried interest calculated in accordance with contractually established formulas tied to investment returns. In some agreements, interest is payable in cash only upon the occurrence of a qualifying future liquidity event. In other agreements, carried interest accrues on a paid-in-kind (PIK) basis and may convert into additional equity interests or other financial instruments at the time of such an event.

Notes to Combined Financial Statements

June 30, 2026

11. **Commitments and Contingencies (cont.)**

Although the carried interest percentages and calculation methodologies are determinable under the governing agreements, realization of any carried interest is contingent upon both the occurrence of future liquidity events and the continued solvency of the underlying investment entities. These conditions create significant uncertainties regarding timing and collectibility.

In accordance with *GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,"* which prohibits the recognition of receivables or revenues until gains are realizable, the government has not recorded any carried interest receivables or revenues. Potential gains will be recognized only when all related contingencies have been resolved and amounts become realizable.

AVCIT monitors these investments and updates its assessment of collectibility as conditions develop.

12. **Change in Accounting Principle**

In fiscal year 2026, the Authority implemented *GASB Statement No. 103, "Financial Reporting Model Improvements,"* which is effective for combined financial statements for periods beginning after June 15, 2025 for all state and local governments. This statement revises key components of the financial reporting model and establishes new accounting and financial reporting requirements for MD&A, unusual or infrequent items, and the presentation of the proprietary fund statement of revenues, expenses, and changes in fund net position. The MD&A should provide an objective and easily readable analysis of the government's financial activities based on currently known facts, decisions, or conditions. The combined statement of revenues, expenses, and changes in fund net position should distinguish between operating and nonoperating revenues and expenses, as well as separately report noncapital subsidies (a type of nonoperating revenue and expense). The statement defines nonoperating revenues and expenses, and any financial statement not meeting these definitions are classified as operating revenues. It is an operating revenue or expense if it does not meet the definition of a nonoperating revenue or expense. A nonoperating revenue or expense should be classified as an operating revenue or operating expense if those transactions constitute the proprietary fund's principal ongoing operations. Interest on loans, interest on investments, and interest from leases were moved from operating revenues to noncapital subsidies and other nonoperating revenues and expenses. Interest on bonds, interest on leases, and bond issuance expense were moved from operating expenses to noncapital subsidies and other nonoperating revenues and expenses. The adoption of this statement did not impact beginning net position.

13. **Subsequent Events**

The Authority evaluated the events and transactions subsequent to its June 30, 2026 combined statement of net position date and determined there were no additional significant events, other than disclosed in Note 6, to report through _____, 2026, which is the date the Authority issued its combined financial statements.

ARKANSAS DEVELOPMENT FINANCE AUTHORITY, A COMPONENT UNIT OF THE STATE OF ARKANSAS

Schedule of the Authority's Proportionate Share of the Net Pension Liability – Arkansas Public Employees Retirement System

June 30, 2026 – June 30, 2017

	<u>2026</u>	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Authority's proportion of net pension liability	0.1389%	0.1414%	0.1420%	0.1403%	0.1525%	0.1700%	0.1785%	0.1790%	0.1996%	0.1880%
Authority's proportionate share of the net pension liability	\$ 2,914,907	\$ 3,519,034	\$ 4,137,828	\$ 3,783,369	\$ 1,172,128	\$ 4,868,576	\$ 4,306,471	\$ 3,947,934	\$ 5,156,742	\$ 4,496,128
Authority's covered payroll, cash basis	3,800,686	3,335,804	3,318,249	2,944,747	2,948,277	3,366,431	3,418,710	3,394,031	3,250,192	3,408,161
Authority's proportionate share of the net pension liability as a percentage of its covered-employee payroll	76.69%	105.49%	124.70%	128.48%	39.76%	144.62%	125.97%	116.32%	158.66%	131.92%
Plan fiduciary net position as a percentage of total pension liability	85.04%	81.61%	77.94%	78.31%	93.57%	75.38%	78.55%	79.59%	75.65%	75.50%

Information in this schedule has been determined as of the measurement date (June 30 of the year prior to the most recent fiscal year-end) of the Authority's net pension liability.

For 2026 through 2017, information for ASLA is included.

See independent auditor's report.

ARKANSAS DEVELOPMENT FINANCE AUTHORITY, A COMPONENT UNIT OF THE STATE OF ARKANSAS

Schedule of the Authority's Contributions – Arkansas Public Employees Retirement System

For the Years Ended June 30, 2026 – June 30, 2017

	<u>2026</u>	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Contractually required contribution	\$ 582,342	\$ 509,354	\$ 492,223	\$ 482,131	\$ 449,326	\$ 466,396	\$ 508,214	\$ 523,322	\$ 494,459	\$ 471,153
Contributions in relation to the contractually required contribution	<u>582,342</u>	<u>509,354</u>	<u>492,223</u>	<u>482,131</u>	<u>449,326</u>	<u>466,396</u>	<u>508,214</u>	<u>523,322</u>	<u>494,459</u>	<u>471,153</u>
Contribution deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Authority's covered employee payroll	\$ 3,800,686	\$ 3,335,804	\$ 3,187,155	\$ 3,318,249	\$ 2,944,747	\$ 2,948,277	\$ 3,366,431	\$ 3,418,710	\$ 3,394,031	\$ 3,250,192
Contributions as a percentage of covered employee payroll	15.32%	15.27%	15.44%	14.53%	15.26%	15.82%	15.10%	15.31%	14.57%	14.50%

Information in this schedule has been determined as of the Authority's most recent fiscal year-end.

For 2026 through 2017, information for ASLA is included.

See independent auditor's report.

ARKANSAS DEVELOPMENT FINANCE AUTHORITY, A COMPONENT UNIT OF THE STATE OF ARKANSAS

Schedule of Changes in Total Other Postemployment Benefits Liability

For the Years Ended June 30, 2026 – June 30, 2018

(In Thousands)

<u>Plan</u>									
Measurement date	<u>2026</u>	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Service cost	\$ -	\$ 69	\$ 82	\$ 90	\$ 214	\$ 206	\$ 114	\$ 104	\$ 132
Interest	-	77	76	77	95	93	112	122	137
Effect of plan changes	-	-	-	-	(1,089)	-	-	-	-
Effect of economic/demographic gains or losses	-	291	110	39	(354)	12	(108)	20	(55)
Changes in assumptions or other inputs	-	(256)	(310)	(158)	(946)	(177)	1,020	(305)	(144)
Changes in proportion	-	13	(52)	49	(33)	104	120	(661)	-
Benefit payments	-	(85)	(82)	(93)	(109)	(92)	(87)	(94)	(109)
Net changes	-	109	(176)	4	(2,222)	146	1,171	(814)	(39)
Total OPEB liability - beginning	<u>2,024</u>	<u>1,915</u>	<u>2,091</u>	<u>2,087</u>	<u>4,309</u>	<u>4,163</u>	<u>2,992</u>	<u>3,806</u>	<u>3,845</u>
Total OPEB liability - ending	<u>\$ 2,024</u>	<u>\$ 2,024</u>	<u>\$ 1,915</u>	<u>\$ 2,091</u>	<u>\$ 2,087</u>	<u>\$ 4,309</u>	<u>\$ 4,163</u>	<u>\$ 2,992</u>	<u>\$ 3,806</u>
Covered employee payroll	\$ 3,801	\$ 3,336	\$ 3,187	\$ 3,318	\$ 2,945	\$ 2,948	\$ 3,366	\$ 3,419	\$ 3,394
Total as a percentage of covered employee payroll	0.00%	60.70%	60.09%	63.02%	70.87%	146.17%	123.68%	87.51%	112.14%

The State implemented *GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,"* in fiscal year 2018. Information for the schedule was not available prior to fiscal year 2018.

See independent auditor's report.

ARKANSAS DEVELOPMENT FINANCE AUTHORITY, A COMPONENT UNIT OF THE STATE OF ARKANSAS

Combining Statement of Net Position

June 30, 2026

(In Thousands)

<u>Assets and Deferred Outflow of Resources</u>	Single Family Housing Programs	Federal Housing Programs	Multi-Family Programs	Economic Development Bond Guaranty Program	State Facilities and Amendment 82 Programs	Other Economic Development Programs	Tobacco Settlement Revenue Bonds Program	General Fund Program	Student Loan Programs	Eliminations	Total
Current assets											
Cash and cash equivalents	\$ 286,573	\$ 33,329	\$ 7,592	\$ 19,469	\$ 54,867	\$ 17,545	\$ 5,490	\$ 69,216	\$ 28,424	\$ -	\$ 522,505
Accrued interest receivable	2,082	147	23	93	769	50	15	595	906	-	4,680
Accounts receivable	-	3,133	-	-	2	2	-	1,336	112	(852)	3,733
Current portion of											
Investments	-	-	-	-	-	-	-	21,521	-	-	21,521
Loans	-	-	-	-	-	-	-	770	-	-	770
Total current assets	<u>288,655</u>	<u>36,609</u>	<u>7,615</u>	<u>19,562</u>	<u>55,638</u>	<u>17,597</u>	<u>5,505</u>	<u>93,438</u>	<u>29,442</u>	<u>(852)</u>	<u>553,209</u>
Noncurrent assets											
Investments											
Unrestricted	-	-	-	-	-	-	-	28,029	2,009	-	30,038
Restricted	321,800	-	-	6,663	-	-	-	-	-	-	328,463
Loans, net of allowance for loan losses of \$79,993	-	107,029	2,980	12,854	234,847	1,577	66,361	53,102	32,027	-	510,777
Capital assets, net	-	-	-	-	-	-	-	51	1,932	-	1,983
Other assets	-	57	-	1,001	-	-	-	2,986	588	-	4,632
Total noncurrent assets	<u>321,800</u>	<u>107,086</u>	<u>2,980</u>	<u>20,518</u>	<u>234,847</u>	<u>1,577</u>	<u>66,361</u>	<u>84,168</u>	<u>36,556</u>	<u>-</u>	<u>875,893</u>
Total assets	<u>610,455</u>	<u>143,695</u>	<u>10,595</u>	<u>40,080</u>	<u>290,485</u>	<u>19,174</u>	<u>71,866</u>	<u>177,606</u>	<u>65,998</u>	<u>(852)</u>	<u>1,429,102</u>
Deferred outflow of resources											
OPEB difference in expected versus actual experience	-	-	-	-	-	-	-	318	-	-	318
Changes in OPEB actuarial assumptions and proportions	-	-	-	-	-	-	-	49	-	-	49
Pension contributions, net differences, and changes in share of contributions	-	-	-	-	-	-	-	589	-	-	589
Pension differences in expected versus actual experience	-	-	-	-	-	-	-	90	-	-	90
Changes in pension actuarial assumptions and proportions	-	-	-	-	-	-	-	51	-	-	51
Total deferred outflow of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,097</u>	<u>-</u>	<u>-</u>	<u>1,097</u>
Total assets and deferred outflow of resources	<u>\$ 610,455</u>	<u>\$ 143,695</u>	<u>\$ 10,595</u>	<u>\$ 40,080</u>	<u>\$ 290,485</u>	<u>\$ 19,174</u>	<u>\$ 71,866</u>	<u>\$ 178,703</u>	<u>\$ 65,998</u>	<u>\$ (852)</u>	<u>\$ 1,430,199</u>

See independent auditor's report.

ARKANSAS DEVELOPMENT FINANCE AUTHORITY, A COMPONENT UNIT OF THE STATE OF ARKANSAS

Combining Statement of Net Position (cont.)

June 30, 2026

(In Thousands)

Liabilities, Deferred Inflow of Resources, and Net Position	Single Family Housing Programs	Federal Housing Programs	Multi-Family Programs	Economic Development Bond Guaranty Program	State Facilities and Amendment 82 Programs	Other Economic Development Programs	Tobacco Settlement Revenue Bonds Program	General Fund Program	Student Loan Programs	Eliminations	Total
Current liabilities											
Accounts payable	\$ -	\$ 455	\$ -	\$ -	\$ -	\$ 25	\$ -	\$ 1,597	\$ 87	\$ (852)	\$ 1,312
Accrued interest payable	8,131	17	-	202	907	-	-	-	-	-	9,257
Unearned fees	-	-	-	115	-	-	-	-	-	-	115
Contract obligations	-	-	-	-	3,662	-	-	-	-	-	3,662
Deferred gain on refinancing sale of asset	-	-	-	-	-	24	-	32	-	-	56
Current portion of bonds and notes payable	113,670	145	-	1,248	16,002	-	4,970	-	-	-	136,035
OPEB and pension liabilities	-	-	-	-	-	-	-	-	-	-	-
Total current liabilities	121,801	617	-	1,565	20,571	49	4,970	1,629	87	(852)	150,437
Noncurrent liabilities											
Unearned fees	-	-	-	225	-	-	-	-	-	-	225
Contract obligations	-	-	-	-	2,780	-	-	-	-	-	2,780
Bonds and notes payable, net of unamortized premiums and current portion	374,743	2,672	-	18,113	221,071	-	61,391	-	-	-	677,990
Deposits against financing arrangements	-	-	-	1,119	46,063	-	5,505	-	-	-	52,687
Deferred gain on refinancing sale of asset	-	-	-	-	-	-	-	133	-	-	133
OPEB and pension liabilities	-	-	-	-	-	-	-	4,938	-	-	4,938
Other liabilities	-	-	-	-	-	-	-	2,622	-	-	2,622
Total noncurrent liabilities	374,743	2,672	-	19,457	269,914	-	66,896	7,693	-	-	741,375
Total liabilities	496,544	3,289	-	21,022	290,485	49	71,866	9,322	87	(852)	891,812
Deferred inflow of resources											
OPEB difference in expected versus actual experience	-	-	-	-	-	-	-	71	-	-	71
Changes in OPEB actuarial assumptions and proportions	-	-	-	-	-	-	-	709	-	-	709
Pension difference in expected versus actual experience	-	-	-	-	-	-	-	88	-	-	88
Net differences between expected and actual investment earnings	-	-	-	-	-	-	-	193	-	-	193
Changes in pension actuarial assumptions and proportion	-	-	-	-	-	-	-	49	-	-	49
Lease obligations	-	-	-	-	-	-	-	-	543	-	543
Total deferred inflow of resources	-	-	-	-	-	-	-	1,110	543	-	1,653
Total liabilities and deferred inflow of resources	496,544	3,289	-	21,022	290,485	49	71,866	10,432	630	(852)	893,465
Net position											
Investment in capital assets	-	-	-	-	-	-	-	51	1,932	-	1,983
Restricted expendable by bond resolution and programs	113,911	140,406	10,595	19,058	-	19,125	-	-	63,436	-	366,531
Unrestricted	-	-	-	-	-	-	-	168,220	-	-	168,220
Total net position	113,911	140,406	10,595	19,058	-	19,125	-	168,271	65,368	-	536,734
Total liabilities, deferred inflow of resources, and net position	\$ 610,455	\$ 143,695	\$ 10,595	\$ 40,080	\$ 290,485	\$ 19,174	\$ 71,866	\$ 178,703	\$ 65,998	\$ (852)	\$ 1,430,199

See independent auditor's report.

ARKANSAS DEVELOPMENT FINANCE AUTHORITY, A COMPONENT UNIT OF THE STATE OF ARKANSAS

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

For the Year Ended June 30, 2026

(In Thousands)

	Single Family Housing Programs	Federal Housing Programs	Multi-Family Programs	Economic Development Bond Guaranty Program	State Facilities and Amendment 82 Programs	Other Economic Development Programs	Tobacco Settlement Revenue Bonds Program	General Fund Program	Student Loan Programs	Eliminations	Total
Operating revenues											
Financing fee income	\$ -	\$ -	\$ -	\$ 146	\$ -	\$ 15	\$ -	\$ 8,348	\$ -	\$ (1,695)	\$ 6,814
Operating expenses											
Administrative expenses											
Salaries and benefits	-	-	-	-	-	-	-	4,277	527	-	4,804
Operations and maintenance	465	1,808	-	-	-	88	-	635	170	(1,515)	1,651
Other	213	333	1	172	-	356	-	415	666	(180)	1,976
Total operating expenses	678	2,141	1	172	-	444	-	5,327	1,363	(1,695)	8,431
Operating income (loss)	(678)	(2,141)	(1)	(26)	-	(429)	-	3,021	(1,363)	-	(1,617)
Noncapital subsidies received (provided)											
Federal financial assistance	-	29,361	-	-	34	-	-	-	-	-	29,395
Other financial assistance	-	-	-	-	-	-	-	100	-	-	100
Federal financial assistance program expense	-	(15,935)	-	-	-	-	-	(5)	-	-	(15,940)
Interfund transfers	4,316	-	-	-	-	(182)	-	(4,134)	-	-	-
Transfer to component unit	-	-	-	-	-	(1,098)	-	-	-	-	(1,098)
Transfer to parent government	-	(20,930)	-	-	-	-	-	-	-	-	(20,930)
Total noncapital subsidies	4,316	(7,504)	-	-	34	(1,280)	-	(4,039)	-	-	(8,473)
Operating income (loss) and noncapital subsidies	3,638	(9,645)	(1)	(26)	34	(1,709)	-	(1,018)	(1,363)	-	(10,090)
Nonoperating revenues (expenses)											
Loan interest income	-	1,104	47	896	8,224	41	3,215	2,854	1,525	-	17,906
Provision for loan losses	-	1,632	63	(348)	-	57	-	(521)	(1,082)	-	(199)
Loan servicing and other contractual services	-	-	-	-	-	-	-	-	(266)	-	(266)
Investment income, net	18,366	1,139	259	493	-	639	-	3,425	1,466	-	25,787
Amortization of discounts and premiums on loans and investments, net	-	-	-	-	-	-	-	1	-	-	1
Net appreciation (depreciation)	(505)	-	-	214	-	-	-	947	(34)	-	622
Other income	-	-	-	-	-	-	-	50	-	-	50
Bond issue cost	(2,111)	-	-	-	-	-	-	-	-	-	(2,111)
Interest and amortization on bonds and notes	(13,357)	(29)	-	(929)	(8,258)	-	(3,215)	-	-	-	(25,788)
Total nonoperating revenue (expense)	2,393	3,846	369	326	(34)	737	-	6,756	1,609	-	16,002
Changes in net position	6,031	(5,799)	368	300	-	(972)	-	5,738	246	-	5,912
Net position - beginning of year	107,880	146,205	10,227	18,758	-	20,097	-	162,533	65,122	-	530,822
Net position - end of year	\$ 113,911	\$ 140,406	\$ 10,595	\$ 19,058	\$ -	\$ 19,125	\$ -	\$ 168,271	\$ 65,368	\$ -	\$ 536,734

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***

Board of Directors
Arkansas Development Finance Authority
A Component Unit of the State of Arkansas
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 business-type activities and the aggregate discretely presented component unit of Arkansas Development Finance Authority as of and for the year ended June 30, 2026, and the related notes to the combined financial statements, which collectively comprise Arkansas Development Finance Authority's basic combined financial statements, and have issued our report thereon dated ____, 2026.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the combined financial statements, we considered Arkansas Development Finance Authority'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 Arkansas Development Finance Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Arkansas Development Finance Authority'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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Arkansas Development Finance Authority'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 Arkansas Development Finance Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *GAS* in considering Arkansas Development Finance Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Certified Public Accountants

Little Rock, Arkansas
_____, 2026

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

Board of Directors
Arkansas Development Finance Authority
A Component Unit of the State of Arkansas
Little Rock, Arkansas

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Arkansas Development Finance Authority's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of Arkansas Development Finance Authority's major federal programs for the year ended June 30, 2026. Arkansas Development Finance Authority'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, Arkansas Development Finance Authority 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, 2026.

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 Arkansas Development Finance Authority 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 Arkansas Development Finance Authority'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 Arkansas Development Finance Authority'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 Arkansas Development Finance Authority'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 Arkansas Development Finance Authority'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 Arkansas Development Finance Authority'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 Arkansas Development Finance Authority'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 Arkansas Development Finance Authority'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.

Certified Public Accountants

Little Rock, Arkansas

____, 2026

ARKANSAS DEVELOPMENT FINANCE AUTHORITY,
A COMPONENT UNIT OF THE STATE OF ARKANSAS

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2026

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:

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

HOME Investment Partnerships Program	14.239
HOME Investment HOME-ARP Program	14.239
Preservation Revolving Loan Fund	10.415
Emergency Solutions Grant Program	14.231

Dollar threshold used to distinguish between type A and type B programs: \$ 1,000,000

Auditee qualified as a low-risk auditee? ☒ Yes ☐ No

Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2026

<u>Reference Number</u>	<u>Summary of Finding</u>	<u>Status</u>
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No matters were reported in the June 30, 2025 Schedule of Findings and Questioned Costs.		
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**ARKANSAS DEVELOPMENT FINANCE AUTHORITY,
A COMPONENT UNIT OF THE STATE OF ARKANSAS**

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Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2026

Federal Grantor/Pass-Through Grantor Program or Cluster Title	<u>ALN</u>	Pass-Through Entity Identifying Number	Pass-Through Through to Subrecipients	Total Federal Expenditures
U.S. Department of Agriculture Development/Preservation Revolving Loan Fund	10.415	N/A	\$ -	\$ 2,960,316
U.S. Department of Housing and Urban Development/CDBG-Entitlement Grants Cluster/(Community Development Block Grant)	14.228	N/A	-	198,348
U.S. Department of Housing and Urban Development/Emergency Solutions Grant Program	14.231	N/A	1,863,404	2,033,960
U.S. Department of Treasury/American Rescue Plan/Home Owner Assistance Fund	21.026	N/A	-	134,608
U.S. Department of Housing and Urban Development/Housing Trust Fund	14.275	N/A	-	3,274,267
U.S. Department of Housing and Urban Development/HOME Investment Partnerships Program	14.239	N/A	19,820	9,651,408
HOME-ARP Program	14.239	N/A	<u>2,603,992</u>	<u>14,202,710</u>
			<u>\$ 4,487,216</u>	<u>\$ 32,455,617</u>

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

Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2026

1. The accompanying schedule of expenditures of federal awards ("SEFA") includes the federal award activity of the Arkansas Development Finance Authority (the "Authority"), a component unit of the State of Arkansas, under programs of the federal government for the year ended June 30, 2026. 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 Authority, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Authority.
2. Expenditures reported on the SEFA are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, the cost principles in Office of Management and Budget A-110 or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Authority has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.
3. Expenditures reflected in ALN 10.415, Preservation Revolving Loan Fund, include loans to contractors for the development of multi-family housing. The funding sources for these loans are two \$2,125,000 promissory notes executed between the Authority and the U.S. Department of Agriculture Rural Development during fiscal year 2013 and fiscal year 2016. When received, the funds were used to make new loans for program activities. The outstanding loan receivable balance was \$2,969,876 for the year ended June 30, 2026. There were no disbursements for loans made during the year ended June 30, 2026, as all funding commitments have been fully disbursed for this program in prior years.
4. Expenditures reflected in ALN 14.239, HOME Investment Partnerships Program, include loans to contractors and borrowers for the development of single-family and multi-family housing. The funding source for these loans includes federal grant funds and revolving program funds. The funds are disbursed after expenses have been incurred as forgiveness of principal and repayable loans. The outstanding loan receivable balance was \$130,257,219 for the year ended June 30, 2026. Total disbursements of federal funds for repayable loans totaled \$8,978,558 during the year ended June 30, 2026.
5. The federal loan programs listed subsequently are administered directly by the Authority, and balances and transactions relating to the programs are included in the Authority's basic combined financial statements. Notes payable outstanding at the beginning of the year and federal expenditures during the year are included in the federal expenditures presented in the SEFA. The balance of the notes payable outstanding at June 30, 2026 consists of:

Reference Number	Program Name	Outstanding Balance at June 30, 2026
10.415	Preservation Revolving Loan Fund	\$ 2,817,060

Notes to Schedule of Expenditures of Federal Awards (cont.)

For the Year Ended June 30, 2026

6. Expenditures reflected in ALN 14.275, Housing Trust Fund, include loans to contractors for development or redevelopment of affordable housing, particularly rental housing for extremely low income and very low income households. The funding source for these loans is federal grant funds. The funds are disbursed after expenses have been incurred as forgiveness of principal and repayable loans. The outstanding loan receivable balance was \$20,872,459 for the year ended June 30, 2026. Total disbursements for repayable loans made were \$2,931,922 during the year ended June 30, 2026.
7. Expenditures reflected in ALN 21.026, Homeowner Assistance Fund, include disbursements to prevent homeowner mortgage delinquencies, defaults, utilities delinquencies, and expenses for the administration of this program. The funding source for these expenses was federal grant funds.
8. Expenditures reflected in ALN 14.228, Community Development Block Grant – Disaster Grant consists of two grants B-19 \$8,940,000 and B-25 \$59,048,000, include disbursements to develop suitable housing and expand economic opportunities for persons of low – moderate income, and expenses for the administration of this program. The funding source for these expenses was federal grant funds. Due to the program being in the planning stage, all disbursements in fiscal year 2026 were administrative expenses. Program funds for federal assistance have not yet been committed.

TAB 6

Communication With Those Charged With Governance

Commissioners of the Arkansas Natural
Resources Commission

Board of Directors
Arkansas Development Finance Authority
Little Rock, Arkansas

We have audited the combined financial statements of the State of Arkansas Construction Assistance Revolving Loan Fund Program (the “Program”) as of and for the year ended June 30, 2026, and have issued our report thereon dated _____, 2026. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated May 27, 2026, our responsibility, as described by professional standards, is to form and express an opinion about whether the combined financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (“GAAP”). Our audit of the combined financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the combined financial statements are free of material misstatement. An audit of combined financial statements includes consideration of the system of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control over financial reporting. Accordingly, as part of our audit, we considered the system of internal control of the Program solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and our network firms have complied with all relevant ethical requirements regarding independence.

Significant Risks Identified

We are required to communicate to you significant risks. A significant risk is an identified and assessed risk of material misstatement that, in the auditor's professional judgment, requires special audit consideration. We have identified the following significant risks:

- Improper revenue recognition is presumed, by auditing standards, to be a risk of fraud.
- Management's override of controls is presumed, by auditing standards, to be a risk of fraud.

We responded to these risks by performing procedures such as, but not limited to, (1) Specific journal entry testing; (2) Inquiry with management and others in the Program; (3) Internal control evaluation; and (4) Specific testing of revenue transactions. Based on these tests, along with our other audit procedures, we found no adjustments required to be made with respect to these significant risk areas in order to keep the combined financial statements from being materially misstated.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Program is included in Note 1 to the combined financial statements. As described in Note 1.d. to the combined financial statements, during the year, the Program adopted Governmental Accounting Standards Board Statement No. 103, "Financial Reporting Model Improvements." No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates and Related Disclosures

Accounting estimates and related disclosures are an integral part of the combined financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the combined financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimate affecting the combined financial statements, and the processes used by management as the basis for their estimate, is as follows:

- Operating revenues – Operating revenues are recognized primarily from financing fee income. Financing fee income is calculated based on the stated financing fee rate for each loan.

We evaluated the factors and assumptions used to develop the estimate and determined it is reasonable in relation to the basic combined financial statements taken as a whole and in relation to the applicable opinion units.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the Program's combined financial statements relate to:

- Note 3 – Loans Receivable
- Note 6 – Concentrations
- Note 7 – Change in Accounting Principle
- Note 8 – Subsequent Events

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards also require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances, or disclosures, and the combined financial statements as a whole and each applicable opinion unit. There were no such uncorrected misstatements noted during our audit.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. There were no such corrected misstatements noted during our audit.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the Program's combined financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in the attached letter dated _____, 2026.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the Program, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, significant events or transactions that occurred during the year, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Program's auditors.

Modification of the Auditor's Report

We have made the following modification to our auditor's report.

Emphasis of Matter

As discussed in Note 1.a., the combined financial statements present only the Program and do not purport to, and do not, present fairly the financial position of the State of Arkansas as of June 30, 2026, and the changes in its financial position and its cash flows for the year then ended in accordance with GAAP. Our opinion is not modified with respect to this matter.

* * * * *

This report is intended solely for the information and use of the Commissioners of the Arkansas Natural Resources Commission, the Board of Directors of the Arkansas Development Finance Authority, and management of the Program, and is not intended to be, and should not be, used by anyone other than these specified parties.

We would like to thank all of the personnel of the Program for their assistance during the audit. We appreciate the opportunity to present these comments and are available to discuss these matters further at your convenience.

Certified Public Accountants

Little Rock, Arkansas
____, 2026

A copy of the signed management representation letter will accompany this letter when finals are printed.

Construction Assistance
Revolving Loan Fund Program

Fiscal Year 2026 Financial Statement
Discussion Draft

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

June 30, 2026 and 2025

**Combined Financial Statements
And
Supplementary Information**

With

Independent Auditor's Report



FROST, PLLC
Certified Public Accountants

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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 Audit of the Combined Financial Statements

Opinions

We have audited the combined financial statements of the State of Arkansas Construction Assistance Revolving Loan Fund Program, which comprise the combined statements of net position as of June 30, 2026 and 2025, and the related combined statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the combined financial statements.

In our opinion, the accompanying combined financial statements present fairly, in all material respects, the financial position of the State of Arkansas Construction Assistance Revolving Loan Fund Program as of June 30, 2026 and 2025, 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 Construction Assistance Revolving Loan Fund Program, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note 1.a., the accompanying combined financial statements present only the State of Arkansas Construction Assistance Revolving Loan Fund Program and do not purport to, and do not, present fairly the financial position of the State of Arkansas as of June 30, 2026 and 2025, and the changes in its financial position and its cash flows for the years then ended in accordance with GAAP. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Combined Financial Statements

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

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

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

Our objectives are to obtain reasonable assurance about whether the combined financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and 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 Construction Assistance Revolving Loan Fund Program's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the combined financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the State of Arkansas Construction Assistance Revolving Loan Fund Program's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

GAAP requires that the management's discussion and analysis on pages 4 through 10 be presented to supplement the basic combined financial statements. Such information is the responsibility of management and, although not a part of the basic combined financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic combined financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic combined financial statements, and other knowledge we obtained during our audits of the basic combined financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming opinions on the combined financial statements that collectively comprise the State of Arkansas Construction Assistance Revolving Loan Fund Program's basic combined financial statements. The schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic combined financial statements. The supplementary information on pages 26 through 28 and the schedule of expenditures of federal awards on page 35 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 ____, 2026, on our consideration of the State of Arkansas Construction Assistance Revolving Loan Fund Program's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State of Arkansas Construction Assistance Revolving Loan Fund Program's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *GAS* in considering the State of Arkansas Construction Assistance Revolving Loan Fund Program's internal control over financial reporting and compliance.

Certified Public Accountants

Little Rock, Arkansas
____, 2026

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

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Management's Discussion and Analysis

For the Years Ended June 30, 2026 and 2025

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

For this report, and in conjunction with the implementation of a recently issued accounting pronouncement by the *Governmental Accounting Standards Board ("GASB") Statement No. 103, "Financial Reporting Model Improvements,"* the discussion below and comparative financial statement line items from prior years have been modified to adhere to the reporting requirements of this GASB statement.

Overview of the Combined Financial Statements

The June 30, 2026 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, 2025 and 2024 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 Fund, and the Technical Assistance Set-Aside, which comprise the Program.

Financial Summary

The aging wastewater infrastructure and the added stimulus funds availability backed by the Bipartisan Infrastructure Law/Infrastructure Investment Jobs Act ("BIL/IJJA") grants have created the demand for increased wastewater treatment projects in Arkansas. Typical loan projects include construction, rehabilitation, expansion or improvement of environmental projects, including systems for storage, treatment, recycling, and reclamation of wastewater, for local government entities and other qualified owners.

To meet the primary purpose of the Program's infrastructure funding goals, significant resources are needed from Program assets. The primary components of the Program's assets are cash and cash equivalents and loans receivable. The Program's cash sources each year are derived from repayments on existing loans, federal Environmental Protection Agency ("EPA") grants and their required state fund match funds. Periodically, the demand for assets to meet funding requirements drains these resources which facilitates the need for bond issuance as a leveraging tool to provide liquidity and protect resources. The majority of the Program's current and noncurrent liabilities stem from bonds payable and related accrued interest. The difference between the Program's total assets and total liabilities is reflected in the net position of the Program which is fully restricted by bond resolution and Program administration and cannot be used by the Arkansas Natural Resources Division ("NRD") or the Arkansas Development Finance Authority ("ADFA") for other purposes outside of the Program's objectives.

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

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Management's Discussion and Analysis (cont.)

For the Years Ended June 30, 2026 and 2025

Condensed Financial Information – Combined Statements of Net Position

	<u>2026</u>	<u>2025</u>	<u>Change</u>	<u>Percentage Change</u>	<u>2024</u>	<u>Change</u>	<u>Percentage Change</u>
<i>(In thousands)</i>							
Total assets	\$ 747,894	\$ 665,773	\$ 82,121	12.3%	\$ 566,821	\$ 98,952	17.5%
Liabilities							
Current liabilities	9,605	8,010	1,595	19.9%	4,082	3,928	96.2%
Noncurrent liabilities	214,385	155,332	59,053	38.0%	73,973	81,359	110.0%
Total liabilities	223,990	163,342	60,648	37.1%	78,055	85,287	109.3%
Net position							
Restricted by bond resolution, enabling legislation, and Program requirements	\$ 523,904	\$ 502,431	\$ 21,473	4.3%	\$ 488,766	\$ 13,665	2.8%

The Program's total assets have increased over the past three years. At June 30, 2026, total assets increased \$82.1 million, which is primarily attributable to the increase of \$138.0 million in loans receivable - restricted net of the decrease of \$55.4 million in cash and cash equivalents. At June 30, 2025, total assets increased \$99.0 million, which is primarily attributable to the increase of \$44.6 million in cash and cash equivalents and \$54.4 million in loans receivable - restricted. The Program's total liabilities increased to \$224.0 million at June 30, 2026, from \$163.3 million at June 30, 2025. The increase is primarily due to the issuance of bonds as an additional funding source for the loan volume.

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

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Management's Discussion and Analysis (cont.)

For the Years Ended June 30, 2026 and 2025

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

	2026	2025	Change	Percentage Change	2024	Change	Percentage Change
<i>(In thousands)</i>							
Operating revenues							
Financing fee income	\$ 5,746	\$ 4,844	\$ 902	18.6%	\$ 4,316	528	12.2%
Operating expenses							
Program administration	546	585	(39)	-6.7%	507	78	15.4%
Operating income	5,200	4,259	941	22.1%	3,809	450	11.8%
Noncapital subsidies received (provided)							
Base federal grants	7,182	4,021	3,161	78.6%	2,145	1,876	87.5%
BIL/IIJA federal grants	13,855	890	12,965	1456.7%	412	478	116.0%
Federal financial assistance							
Base federal grants	(2,661)	(4,021)	1,360	-33.8%	(1,954)	(2,067)	105.8%
BIL/IIJA federal grants	(3,819)	(38)	(3,781)	9950.0%	-	(38)	0.0%
Transfers in (out), net	(801)	2,847	(3,648)	-128.1%	1,260	1,587	126.0%
Total noncapital subsidies received	13,756	3,699	10,057	271.9%	1,863	1,836	98.6%
Operating income and noncapital subsidies	18,956	7,958	10,998	138.2%	5,672	2,286	40.3%
Other nonoperating revenues (expenses)							
Interest on cash and investments	3,942	4,696	(754)	-16.1%	5,262	(566)	-10.8%
Interest on loans	5,938	5,199	739	14.2%	5,269	(70)	-1.3%
Net appreciation (depreciation) of investments	(12)	(13)	1	-7.7%	42	(55)	-131.0%
Bond interest	(8,599)	(5,038)	(3,561)	70.7%	(3,024)	(2,014)	66.6%
Amortization of bond premiums	1,644	1,460	184	12.6%	771	689	89.4%
Bond issuance costs	(396)	(597)	201	-33.7%	(696)	99	-14.2%
Total other nonoperating revenues (expenses)	2,517	5,707	(3,190)	-55.9%	7,624	(1,917)	-25.1%
Changes in net position	21,473	13,665	7,808	57.1%	13,296	369	2.8%
Net position - beginning of year	502,431	488,766	13,665	2.8%	475,470	13,296	2.8%
Net position - end of year	\$ 523,904	\$ 502,431	\$ 21,473	4.3%	\$ 488,766	\$ 13,665	2.8%

As financing fees have increased in line with the expansion of the loan portfolio and operating expenses have remained relatively stable, operating income has steadily improved over the last three years.

Detailed Analysis

The primary driver for the changes in the combined financial statements is related to the issuance of \$50.0 million in bonds in January 2026 and \$64.0 million in March 2025 and also reallocated \$15.0 million in bond proceeds from the Safe Drinking Water Revolving Fund Loan Program ("SDWRFLP") in June 2026 to provide additional funding for new loans. The Program has approved several commitments over the last three years due to the low borrowing rate and federal programs subsidizing projects causing the increase in loans receivable - restricted as these loans are funded.

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

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Management's Discussion and Analysis (cont.)

For the Years Ended June 30, 2026 and 2025

The following table reports loan activity for each year:

	<u>2026</u>	<u>2025</u>	<u>Change</u>	<u>Percentage Change</u>	<u>2024</u>	<u>Change</u>	<u>Percentage Change</u>
<i>(In thousands)</i>							
Loan disbursements	\$ 162,249	\$ 80,318	\$ 81,931	102.0%	\$ 66,413	\$ 13,905	20.9%
Loan repayments	<u>24,227</u>	<u>25,892</u>	<u>(1,665)</u>	<u>-6.4%</u>	<u>22,190</u>	<u>3,702</u>	<u>16.7%</u>
Net increase in loans receivable	<u>\$ 138,022</u>	<u>\$ 54,426</u>	<u>\$ 83,596</u>	<u>153.6%</u>	<u>\$ 44,223</u>	<u>\$ 10,203</u>	<u>23.1%</u>

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

	<u>2026</u>	<u>2025</u>	<u>Change</u>	<u>Percentage Change</u>	<u>2024</u>	<u>Change</u>	<u>Percentage Change</u>
<i>(In thousands)</i>							
New loans	\$ 98,370	\$ 197,493	\$ -	0.0%	\$ 124,756	\$ -	0.0%
Loan disbursements - new loans	18,219	22,698	-	0.0%	8,503	-	0.0%
Existing loans	526,846	393,719	-	0.0%	274,404	-	0.0%
Loan disbursements - existing loans	144,030	57,620	-	0.0%	57,910	-	0.0%

The Program continuously funds loans from EPA grant funds, state matching funds, and revolving Program funds. The Program receives federal subsidy in the form of an annual capitalization grant ("Base"). Per EPA guidelines and NRD policy, all state match funds must be matched with federal dollars on or prior to the receipt of the federal funds and NRD has chosen to fund loans with state match funds prior to utilizing the federal capitalization grant. The Program has \$10.2 million and \$5.1 million remaining of the federal fiscal years 2025 and 2024 Base grants, respectively, to utilize for additional subsidy and repayable loans. The Program has also received federal subsidy in the form of general capitalization grants from the BIL/IIJA. The Program has available \$16.8 million, \$15.6 million, and \$10.7 million of the federal fiscal years 2025, 2024, and 2022 BIL/IIJA grants, respectively. In fiscal years 2025 and 2026, bond proceeds were an additional fund source.

The table below reflects the amounts used from each funding source for the fiscal years 2026, 2025 and 2024:

	<u>2026</u>	<u>2025</u>	<u>Change</u>	<u>Percentage Change</u>	<u>2024</u>	<u>Change</u>	<u>Percentage Change</u>
<i>(In thousands)</i>							
EPA federal base	\$ 13,709	\$ -	\$ 13,709	0.0%	\$ 51	\$ (51)	-100.0%
State matching funds	5,303	4,245	1,058	24.9%	1,578	2,667	169.0%
Bond funds	104,877	70,995	33,882	47.7%	51,820	19,175	37.0%
Prepayments	532	271	261	96.3%	-	271	0.0%
Revolving Program funds	<u>37,828</u>	<u>4,807</u>	<u>33,021</u>	<u>686.9%</u>	<u>12,964</u>	<u>(8,157)</u>	<u>-62.9%</u>
	<u>\$ 162,249</u>	<u>\$ 80,318</u>	<u>\$ 81,931</u>	<u>102.0%</u>	<u>\$ 66,413</u>	<u>\$ 13,905</u>	<u>20.9%</u>

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

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Management's Discussion and Analysis (cont.)

For the Years Ended June 30, 2026 and 2025

In 2026, total funding sources increased significantly as several components experienced notable growth over the prior year due to increasing environmental projects, including wastewater facilities, needing improvements, updated systems or new systems. These increases across federal, state, bond, repayment, and program sources contributed to the overall substantial rise in total available funds in 2026.

In fiscal year 2026, federal grants increased \$14.0 million, which is primarily due to fund more principal forgiveness loans from the prior year and utilizing other funding sources for the repayable loans. The Program has approximately \$15.3 million in 2024 and 2024 based grant awards and \$43.2 million in 2025, 2024, and 2023 BIL/IIJA awards available due to funding. In fiscal year 2025, base federal grants revenue increased \$1.9 million, which is primarily due to funding more principal forgiveness loans from the prior year and utilizing other funding sources for the repayable loans. The loans of the Program have approximately a two to five year construction period in which many existing loans are being funded. The Program receives federal grant revenue for reimbursement of the Program's expenses from both the base grants and the BIL/IIJA grants.

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

	Beginning Balance	Amount Expended In		
		2026	2025	2024
		(In thousands)		
Federal Award Year				
2021	\$ -	\$ -	\$ -	\$ 780
2022	13,159	13,159	4,059	1,225
2023	17,997	7,283	-	-
2024	21,013	254	-	-
2025	26,534	-	-	-
	<u>\$ 78,703</u>	<u>\$ 20,696</u>	<u>\$ 4,059</u>	<u>\$ 2,005</u>

Federal financial assistance - base federal grants fluctuate with the volume of principal forgiveness loans available for funding and the rate at which the borrowers request reimbursement. During fiscal years 2026 and 2025, the Program forgave principal of \$6.5 million and \$4.0 million, respectively.

Transfers in and out are comprised of transfers to and from other state programs and agencies. The current fiscal year transfers of \$801,000 are mainly comprised of NRD transfers for administrative expenses. In the prior fiscal year, the Program had transfers in (out), net of \$2.9 million which comprised of \$3.7 million from the NRD Water, Waste Disposal and Pollution Abatement Facilities General Obligation Bond Fund Program (GO Program) to fund the Program's state match, which is offset by transfers out of \$0.8 to NRD for administrative expenses. The funding source for the administrative expenses is the 4% set-aside of the EPA base capitalization grant along with other funds deposited into the Fees and Expense Fund.

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

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Management's Discussion and Analysis (cont.)

For the Years Ended June 30, 2026 and 2025

Interest on investments was \$3.9 million, \$4.7 million, and \$5.3 million for fiscal years ending June 30, 2026, 2025, and 2024, respectively. In fiscal year 2026, the slight decrease is due to interest rates being on average of 3.41%; whereas, in fiscal year 2025, the average was 3.96%. The Program maintains liquidity to fund projects as needed.

The Program invests through the State Treasury Money Management Trust Fund ("MMTF"). The Program has \$24.0 million investment in the State Treasury MMTF at fiscal year-end 2026, which is reported as a part of cash and cash equivalents. The State Treasury MMTF yield as of June 30, 2026 and 2025 was 3.63% and 4.33%, respectively, with an average of 3.99% for fiscal year 2026.

Bond interest expense increased in both fiscal years due to the expansion of the Program's outstanding debt obligations referenced earlier, which was undertaken to meet growing loan demand and resulted in a higher volume of interest-bearing debt. In addition, the June 2026 reallocation of \$15.0 million in bond proceeds from SDWRFLP to support new loan fundings further increased the amount of debt subject to interest accrual. These actions collectively expanded the Program's bond portfolio and contributed to the rise in interest expense over the period.

The net position of the Program increased \$35.1 million in the past two years. The bond resolutions and the Program restrict all of the net position. The overall financial position and results of operations of the Program have improved.

Significant Long-Term Financing Activity

To meet long-term financing needs, particularly as federal BIL/IIJA appropriations conclude after federal fiscal year 2026, the Program's future pipeline funding will rely increasingly on bond issuance. With the discontinuation of BIL/IIJA grant support and limited remaining federal capacity, maintaining adequate resources for continued loan growth will require either additional bond issuances or an increase in base federal grant funding. Management anticipates two bond issuances during the next fiscal year. This shift underscores the Program's growing dependence on capital market financing to sustain long-term lending activity.

Currently Known Facts, Decisions or Conditions

A new bond issuance closed in late September 2026 which will provide \$125.0 million in proceeds, with the probability of another bond issuance for liquidity needs before the end of the fiscal year ending June 30, 2027. The September 2026 issuance, entitled Arkansas Development Finance Authority Revolving Loan Fund Revenue Bonds, Series 2026B, is discussed further in Note 4 following the combined financial statements presented below. The Program's expected proceeds are a portion of the total bond issuance of \$250 million which is shared with the SDWRFLP.

Currently, the United States Congress has appropriated funds through federal fiscal years 2026 to back BIL/IIJA grants. With the end of BIL/IIJA grants, the future of funding for increased loans activity will be met primarily through bond issuance or a demand for increase to base grants. Expenditure deadlines for the anticipated federal fiscal year awards will be September 30, 2030. However, historically, EPA has allowed the NRD to extend the expenditure deadlines if there are valid projects approved to utilize the funds.

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

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Management's Discussion and Analysis (cont.)

For the Years Ended June 30, 2026 and 2025

Contact Regarding the Program

This financial report is designed to provide bondholders, constituents, and business partners with a general overview of the Program's finances and to show the Program's accountability for the funds it administers. Questions about this report and requests for additional financial information should be directed to the ADFA's Chief Financial Officer by telephoning 501.682.5900 or by contacting the NRD Water Development Section Manager at 501.682.1611.

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

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Combined Statements of Net Position

June 30, 2026 and 2025

(In Thousands)

<u>Assets</u>	<u>2026</u>	<u>2025</u>
Current assets		
Cash and cash equivalents	\$ 90,962	\$ 146,205
Accrued interest receivable		
Cash	260	499
Loans	128	118
Accounts receivable - borrowers	200	128
Investments	2,370	2,871
Total current assets	<u>93,920</u>	<u>149,821</u>
Noncurrent assets		
Loans receivable - restricted		
Construction	653,640	515,618
Wetlands mitigation	334	334
Total noncurrent assets	<u>653,974</u>	<u>515,952</u>
Total assets	<u>\$ 747,894</u>	<u>\$ 665,773</u>
 <u>Liabilities and Net Position</u>		
Current liabilities		
Accounts payable	\$ 439	\$ 413
Accrued interest payable	851	1,377
Current portion of bonds payable	8,315	6,220
Total current liabilities	<u>9,605</u>	<u>8,010</u>
Noncurrent liabilities		
Bonds payable including unamortized premiums of \$18,415 and \$14,472 in fiscal 2026 and 2025, respectively, net of current portion	<u>214,385</u>	<u>155,332</u>
Total liabilities	<u>223,990</u>	<u>163,342</u>
Net position		
Restricted by bond resolution, enabling legislation, and Program requirements	<u>\$ 523,904</u>	<u>\$ 502,431</u>

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

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

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

For the Years Ended June 30, 2026 and 2025

(In Thousands)

	<u>2026</u>	<u>2025</u>
Operating revenues		
Financing fee income	\$ 5,746	\$ 4,844
Operating expenses		
Program administration	546	585
Operating income	<u>5,200</u>	<u>4,259</u>
Noncapital subsidies received (provided)		
Base federal grants	7,182	4,021
BIL/IIJA federal grants	13,855	890
Federal financial assistance		
Base federal grants	(2,661)	(4,021)
BIL/IIJA federal grants	(3,819)	(38)
Transfers in (out), net	(801)	2,847
Total noncapital subsidies	<u>13,756</u>	<u>3,699</u>
Operating income and noncapital subsidies	<u>18,956</u>	<u>7,958</u>
Nonoperating revenues (expenses)		
Interest on cash and investments	3,942	4,696
Interest on loans	5,938	5,199
Net depreciation of investments	(12)	(13)
Bond interest	(8,599)	(5,038)
Amortization of bond premiums	1,644	1,460
Bond issuance costs	(396)	(597)
Total nonoperating revenues	<u>2,517</u>	<u>5,707</u>
Changes in net position	21,473	13,665
Net position - beginning of year	<u>502,431</u>	<u>488,766</u>
Net position - end of year	<u>\$ 523,904</u>	<u>\$ 502,431</u>

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

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

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Combined Statements of Cash Flows

For the Years Ended June 30, 2026 and 2025

(In Thousands)

	<u>2026</u>	<u>2025</u>
Cash flows from operating activities		
Financing fee income received	\$ 5,674	\$ 4,892
Cash paid for program administration	<u>(521)</u>	<u>(552)</u>
Net cash provided by operating activities	<u>5,153</u>	<u>4,340</u>
Cash flows from noncapital financing activities		
Proceeds from issuance of bonds payable	54,012	70,614
Bond proceeds reallocated - 2026 bonds	15,000	20,000
Repayments of bonds payable	(6,220)	(4,985)
Cash paid for interest	(9,125)	(3,953)
Cash paid for bond issuance costs	(396)	(597)
Federal grants received	21,038	4,911
Federal grant expended	(6,480)	(4,059)
Transfers in (out), net	<u>(801)</u>	<u>2,847</u>
Net cash provided by noncapital financing activities	<u>67,028</u>	<u>84,778</u>
Cash flows from investing activities		
Interest received on cash and investments	4,181	4,627
Interest received on loans	5,928	5,220
Purchase of investments	(2,500)	(3,100)
Proceeds from maturities of investments, net	2,989	3,147
Loan disbursements	(162,249)	(80,318)
Principal repayments on loans	<u>24,227</u>	<u>25,892</u>
Net cash used by investing activities	<u>(127,424)</u>	<u>(44,532)</u>
Net increase (decrease) in cash and cash equivalents	(55,243)	44,586
Cash and cash equivalents - beginning of year	<u>146,205</u>	<u>101,619</u>
Cash and cash equivalents - end of year	<u>\$ 90,962</u>	<u>\$ 146,205</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 5,200	\$ 4,259
Adjustments to reconcile operating income of changes in net position to net cash provided by operating activities		
Changes in operating assets and liabilities		
Accounts receivable - borrowers	(72)	48
Accounts payable	<u>25</u>	<u>33</u>
Net cash provided by operating activities	<u>\$ 5,153</u>	<u>\$ 4,340</u>

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

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

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Notes to Combined Financial Statements

June 30, 2026 and 2025

1. Nature of Operations and Summary of Significant Accounting Policies

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

As of July 2001, the Arkansas Natural Resources Commission (“ANRC”) became the lead agency for the Program (previously led by Arkansas Department of Environmental Quality). Effective July 1, 2019, ANRC is a division of the Arkansas Department of Agriculture and is still the lead agency for the Program. ANRC is responsible for performing technical project reviews, monitoring construction, and coordinating the total management of the Program. Act 1243 of 2006 authorized the name change to ANRC, which has not had an impact on the Program. Arkansas Development Finance Authority (“ADFA”) 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 \$400,000 and \$338,000 for the years ended June 30, 2026 and 2025, respectively, and are included in the Program’s administration expenses.

The Arkansas Agriculture Water Quality Loan Program (“AAWQLP”) is accounted for within the Program. Under the AAWQLP, the ANRC establishes noninterest-bearing cash accounts with financial institutions. In fiscal year 2007, an agreement was established with AgriBank in which AAWQLP would purchase a noninterest-bearing bond in conjunction with loans made by AgriBank under the AAWQLP guidelines. Loans are originated by the financial institution or AgriBank to the farmers or property owners that provide for the installation of water quality, antipollution equipment. Interest income normally earned on these balances at the financial institutions or on the bond is used to reduce the interest rates applicable to the loans obtained by the farmers or other property owners. ANRC has established a program contribution limit to AAWQLP in the amount of \$25 million. As of June 30, 2026 and 2025, the AAWQLP had \$5.3 million and \$5.7 million in deposits and investments, respectively, with various financial institutions.

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

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

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Notes to Combined Financial Statements

June 30, 2026 and 2025

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

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

Operating revenues and expenses are distinguished from noncapital subsidies and 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 noncapital subsidies and nonoperating items.

- d. **Recently issued accounting pronouncements** – *Governmental Accounting Standards Board ("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 statements 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 ("MD&A"). The Program adopted this statement as of June 30, 2026. See Note 7 for how this statement impacted the combined financial statements of the Program.

GASB Statement No. 105, "Subsequent Events." The objective of this statement is to improve the financial reporting requirements for subsequent events by clarifying the time frame during which subsequent events must be evaluated, refining the distinction between recognized and nonrecognized subsequent events, and establishing enhanced note disclosure requirements for nonrecognized events that may have a significant effect on a government's financial position. This statement also introduces a requirement for governments to disclose the date through which subsequent events have been evaluated, aligning GASB guidance more closely with other standard setters such as the FASB and American Institute of Certified Public Accountants. The requirements of this statement are effective for fiscal years beginning after June 15, 2026, with earlier adoption encouraged. The Program has not early adopted this statement. The Program does not expect this statement to have a material effect 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, 2026 and 2025, cash equivalents of approximately \$91.0 million and \$146.2 million, respectively, consisted primarily of money market mutual funds with variable interest rates and the State Treasury Money Management Trust Fund ("MMTF"), which is recorded at fair value.

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

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Notes to Combined Financial Statements

June 30, 2026 and 2025

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

Included in cash equivalents on the Program's combined statements of net position is the Fees and Expense Fund with a balance of approximately \$31.6 million and \$31.0 million at June 30, 2026 and 2025, respectively. This fund contains fees charged on loans of the Program as allowed by the EPA, federal grant administration set-aside funds and interest earnings of the fund. These funds may be used at the discretion of the ANRC to fund expenses of the Program.

- f. **Investments** – Investments are carried at fair value. Fair value is determined using quoted market prices. Investment income is related to interest earned on cash, cash equivalents, and investments.
- g. **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.
- h. **Financing fees** – The Program receives up to a 1% annual financing fee from borrowers as part of their contractual payment.
- i. **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.
- j. **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. Deposits are collateralized for those amounts exceeding federal depository insurance, typically with obligations of the U.S. Treasury, U.S. agencies or instrumentalities or municipal bonds having an aggregate market value at least equal to 105% of the amount of the deposits as directed in the State Board of Finance Cash Management of Funds Rule 2012-A.

At June 30, 2026 and 2025, \$2.6 million and \$2.0 million, respectively, of the Program's deposits (and carrying value) of \$3.5 million and \$2.9 million, respectively, were held in excess of Federal Deposit Insurance Corporation insurance and collateralized as follows:

	<u>2026</u>	<u>2025</u>
<i>(In thousands)</i>		
Uninsured and collateral held by Pledging		
Financial Institution agent in the Program's name	\$ 2,614	\$ 2,004

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

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Notes to Combined Financial Statements

June 30, 2026 and 2025

2. Deposits and Investments (cont.)

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.

At June 30, 2026 and 2025, the Program had the following investments and maturities:

	Maturities in Years				
	<u>Less than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>More than 10</u>	<u>Total</u>
<i>(In thousands)</i>					
<u>June 30, 2026</u>					
U.S. agencies obligations	<u>\$ 2,370</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,370</u>
<u>June 30, 2025</u>					
U.S. agencies obligations	\$ 2,871	\$ -	\$ -	\$ -	\$ 2,871

- 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 day's 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, 2026 and 2025, all the Program's investments in U.S. agencies are directly guaranteed by the U.S. government. 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. **Custodial credit risk** – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Program will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Program's investment in mutual funds is not classified by custodial credit risk category, as they are not supported by securities in physical or book entry form.

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

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Notes to Combined Financial Statements

June 30, 2026 and 2025

2. Deposits and Investments (cont.)

- d. **Concentration of credit risk** – The Program places no limit on the amount that may be invested in any one issuer. Investments of the Program (not guaranteed by the U.S. government or considered mutual funds) representing 5% or more of total investments are as follows:

<u>Issuer</u>	<u>2026</u>		<u>2025</u>	
	<u>Fair Value</u>	<u>Percentage</u>	<u>Fair Value</u>	<u>Percentage</u>
<i>(In thousands)</i>				
Federal Farm Credit Bank bond	\$ 2,370	100%	\$ 2,871	100%

Summary of Carrying Values

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

	<u>2026</u>	<u>2025</u>
<i>(In thousands)</i>		
Carrying values		
Deposits	\$ 3,456	\$ 2,862
Money market mutual funds	63,458	120,219
State Treasury MMTF	24,048	23,124
Investments	<u>2,370</u>	<u>2,871</u>
	<u>\$ 93,332</u>	<u>\$ 149,076</u>

Included in the following combined statements of net position captions:

	<u>2026</u>	<u>2025</u>
<i>(In thousands)</i>		
Cash and cash equivalents	\$ 90,962	\$ 146,205
Investments	<u>2,370</u>	<u>2,871</u>
	<u>\$ 93,332</u>	<u>\$ 149,076</u>

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

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Notes to Combined Financial Statements

June 30, 2026 and 2025

3. Loans Receivable

The Program originates loans with Arkansas municipalities, sewer improvement districts, and water facilities boards for financing the construction of wastewater treatment facilities. The loans are payable in monthly or semiannual installments. At June 30, 2026 and 2025, such loans had a carrying value of approximately \$654.0 million and \$516.0 million, respectively, of which approximately \$319.2 million and \$176.1 million, respectively, are for projects still under construction. The loans bear interest ranging from 0.00% to 3.00% and are collateralized by special assessments, user charges or sales and use tax bonds issued by the borrower.

In fiscal year 2010, the Program funded loans with American Recovery and Reinvestment Act ("ARRA") federal funds. At June 30, 2026, the Program's current loan balance of ARRA loans was approximately \$606,000, which was funded with ARRA and other program funds. This balance is included in loans receivable - restricted on the accompanying combined statements of net position.

During the years ended June 30, 2026 and 2025, \$1.70 billion and \$1.60 billion, respectively, in cumulative loans had been approved for funding. At June 30, 2026 and 2025, \$244.7 million and \$352.1 million, respectively, remained encumbered and awaiting disbursement to loan recipients.

4. Bonds Payable

Bonds payable consist of the following:

<u>Series</u>	<u>Interest Rate Range</u>	<u>Final Maturity Date</u>	<u>2026</u>	<u>2025</u>
			<u>(In thousands)</u>	
2023 Serial	5.0%	June 1, 2043	\$ 76,905	\$ 83,125
2025 Serial	5.0%	June 1, 2046	47,515	47,515
2025 Term	5.0%	June 1, 2050	16,440	16,440
			<u>63,955</u>	<u>63,955</u>
2026 Serial	5.0%	June 1, 2046	42,685	-
2026 Term	5.0%	June 1, 2051	20,740	-
			<u>63,425</u>	<u>-</u>
Total bonds			204,285	147,080
Unamortized premiums			<u>18,415</u>	<u>14,472</u>
Net bonds payable			<u>\$ 222,700</u>	<u>\$ 161,552</u>

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

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Notes to Combined Financial Statements

June 30, 2026 and 2025

4. Bonds Payable (cont.)

Activity in bonds payable consists of the following:

	Beginning Balance	Additions	Reductions	Reallocation	Ending Balance	Amount Due within One Year
<i>(In thousands)</i>						
<u>June 30, 2026</u>						
2023 Serial	\$ 83,125	\$ -	\$ (6,220)	\$ -	\$ 76,905	\$ 6,880
2025 Serial and Term	63,955	-	-	-	63,955	1,435
2026 Serial and Term	-	50,000	-	13,425	63,425	-
	<u>\$ 147,080</u>	<u>\$ 50,000</u>	<u>\$ (6,220)</u>	<u>\$ 13,425</u>	<u>\$ 204,285</u>	<u>\$ 8,315</u>
<u>June 30, 2025</u>						
2023 Serial	\$ 70,035	\$ -	\$ (4,985)	\$ 18,075	\$ 83,125	\$ 6,220
2025 Serial and Term	-	63,955	-	-	63,955	-
	<u>\$ 70,035</u>	<u>\$ 63,955</u>	<u>\$ (4,985)</u>	<u>\$ 18,075</u>	<u>\$ 147,080</u>	<u>\$ 6,220</u>

The principal amount shown above differs from the amount on the combined statements of net position due to unamortized premiums of approximately \$18.4 million and \$14.5 million at June 30, 2026 and 2025, respectively.

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

	Principal	Interest
	<i>(In thousands)</i>	
Fiscal Year Ending June 30,		
2027	\$ 8,315	\$ 10,214
2028	8,650	9,799
2029	8,935	9,366
2030	9,410	8,919
2031	7,965	8,449
2032 - 2036	41,705	36,160
2037 - 2041	39,615	25,770
2042 - 2046	42,510	15,760
2047 - 2051	<u>37,180</u>	<u>5,357</u>
	204,285	129,794
Unamortized premiums	<u>18,415</u>	<u>-</u>
	<u>\$ 222,700</u>	<u>\$ 129,794</u>

**STATE OF ARKANSAS CONSTRUCTION ASSISTANCE
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Notes to Combined Financial Statements

June 30, 2026 and 2025

4. Bonds Payable (cont.)

During fiscal year 2026, ADFA issued approximately \$63.4 million in Revolving Loan Fund Revenue Bonds, Series 2026 for the benefit of the Program. During fiscal year 2025, ADFA issued approximately \$64.0 million in Revolving Loan Fund Revenue Bonds, Series 2025 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, Clean Water State Revolving Fund ("CWSRF") loans and to pay underwriters compensation and other costs of issuance. In fiscal year 2026, bond proceeds of \$13.4 million were reallocated from the Safe Drinking Water State Revolving Fund ("SDWSRF") to the CWSRF. This reallocation, executed at par and incorporated into the Series 2026 bonds were undertaken to enhance funding flexibility and support evolving programmatic needs. In fiscal year 2025, bond proceeds of \$18.1 million were reallocated from the SDWSRF to the CWSRF. This reallocation, executed at par and incorporated into the Series 2023 Bonds were undertaken to enhance funding flexibility and support evolving programmatic needs.

On September 22, 2026, ADFA issued 2026 Series B Revolving Loan Fund Bonds for \$125 million, at rates ranging from 4.75% - 5.00%, with a premium of \$9.9 million, and maturing on December 25, 2050. The bond proceeds will be used to fund loans in the ANRC's pipeline.

5. Fair Value of Financial Instruments

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

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

**STATE OF ARKANSAS CONSTRUCTION ASSISTANCE
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Notes to Combined Financial Statements

June 30, 2026 and 2025

5. Fair Value of Financial Instruments (cont.)

Recurring Measurements

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

	<u>Fair Value</u>	Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)
<i>(In thousands)</i>				
<u>June 30, 2026</u>				
U.S. agencies obligations	\$ 2,370	\$ -	\$ -	\$ 2,370
<i>(In thousands)</i>				
<u>June 30, 2025</u>				
U.S. agencies obligations	\$ 2,871	\$ -	\$ -	\$ 2,871

The following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized on the accompanying combined financial statements, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the years ended June 30, 2026 or 2025.

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, 2026 or 2025. In certain cases where Level I or Level II inputs are not available, securities are classified within Level III of the hierarchy. The Program classified one investment as Level III. The Program has an arrangement with AgriBank in which the Program purchases a Federal Farm Credit Bank bond. This investment is marketed only to the Program and the Program has concluded the fair market value to be equal to the par amount.

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

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Notes to Combined Financial Statements

June 30, 2026 and 2025

6. Concentrations

Economic Dependency

The Program's federal revenue is dependent upon the amount of annual federal grants awarded and the amounts available for disbursement. The amount awarded varies from year to year and does have an impact on the Program's total revenue. For the years ended June 30, 2026 and 2025, the Program received 57% and 25%, respectively, of total revenue in the form of federal grants. As of June 30, 2026 and 2025, the Program has \$59.1 million and \$52.5 million, respectively, of the federal fiscal years' grants remaining to disburse.

Principal Forgiveness Loans

In fiscal year 2013, the Program began funding principal forgiveness ("PF") loans with base federal capitalization grant funds. The EPA requires, as part of the base capitalization grant requirements, that a percentage of the grant be available as subsidy to eligible borrowers. States are required to provide a minimum amount of 10% additional subsidization for fiscal years 2022 - 2025 base grants. In 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, a minimum of 49% additional subsidy is required for disadvantaged communities.

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

The 2016 through the 2020 Cap Grant conditions have a minimum for additional subsidy. In addition to the additional subsidy that can be used at a state's discretion as described in the WRRDA, the recipient agrees to use 10% of the funds available in the capitalization grant to provide additional subsidy to eligible recipients. In fiscal year 2024, the EPA approved accessing ADFA for maximum additional subsidies for the 2010, 2016, 2017, and 2018 capitalization grants.

Affordability Criteria/Additional Subsidization

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

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

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Notes to Combined Financial Statements

June 30, 2026 and 2025

6. Concentrations (cont.)

ANRC has developed the following affordability criteria to determine if a project is eligible for additional subsidization funds for the CWSRF:

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

Once a project has been determined to be eligible for additional subsidization from the CWSRF, additional priority will be given to projects that meet the Green standards set by ANRC. ANRC has allocated approximately \$53.4 million for projects or project components eligible for additional subsidization.

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

Federal Fiscal Year	Grant Award Amount	PF Minimum Amount	AD Sub PF Maximum Amount	Total Allowed Maximum Amount	Program Allocation Amount	Cumulative Disbursements	PF Amount Remaining to Fund
<i>(In thousands)</i>							
2010-Reopened	\$ 4,633	\$ 4,639	\$ -	\$ -	\$ 4,639	\$ 1,650	\$ 2,989
2016-Reopened	2,619	-	2,619	2,619	2,619	1,287	1,332
2017-Reopened	2,598	2,598	-	-	2,598	1,940	658
2018-Reopened	3,150	-	3,150	3,150	3,150	1,941	1,209
2021-Base	10,394	1,040	3,118	4,158	4,158	1,308	2,850
2022-Base	7,570	757	2,271	3,028	3,028	587	2,441
2022-BIL Gen	11,642	-	5,705	5,705	5,705	846	4,859
2023-Base	4,907	491	1,472	1,963	1,963	-	1,963
2023-BIL Gen	13,635	-	6,681	6,681	6,580	166	6,414
2024-Base	5,340	534	1,602	2,136	2,136	-	2,136
2024-BIL Gen	14,877	-	7,290	7,290	7,290	-	7,290
2025-Base	10,378	2,076	-	2,076	2,076	-	2,076
2025-BIL Gen	16,115	-	7,896	7,896	7,492	-	7,492
						<u>\$ 9,725</u>	<u>\$ 43,709</u>

The EPA has financially and programmatically closed all Cap grants through the 2020 Cap Grant. The Program has allocated the maximum amount for federal fiscal years 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 \$13.0 million in unused subsidy and allocated most of that in June 2023.

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

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Notes to Combined Financial Statements

June 30, 2026 and 2025

6. Concentrations (cont.)

The Program forgives the loans as the construction draws are disbursed. In fiscal years 2026 and 2025, the Program expensed \$6.5 million and \$4.1 million, respectively, in PF loans.

Contingencies

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

7. Change in Accounting Principle

In fiscal year 2026, the Program implemented *GASB Statement No. 103, "Financial Reporting Model Improvements,"* which is effective for combined financial statements for periods beginning after June 15, 2025 for all state and local governments. This statement revises key components of the financial reporting model and establishes new accounting and financial reporting requirements for MD&A, unusual or infrequent items, and the presentation of the proprietary fund statement of revenues, expenses, and changes in fund net position. The MD&A should provide an objective and easily readable analysis of the government's financial activities based on currently known facts, decisions, or conditions. The combined statements of revenues, expenses, and changes in fund net position should distinguish between operating and nonoperating revenues and expenses, as well as separately report noncapital subsidies (a type of nonoperating revenue and expense). The statement defines nonoperating revenues and expenses, and any financial statement not meeting these definitions are classified as operating revenues. It is an operating revenue or expense if it does not meet the definition of a nonoperating revenue or expense. A nonoperating revenue or expense should be classified as an operating revenue or operating expense if those transactions constitute the proprietary fund's principal ongoing operations. Interest on loans, interest on investments, and EPA grants - admin and set-asides were moved from operating revenues to noncapital subsidies and other nonoperating revenues and expenses. Interest on bonds, bond issuance expense, EPA set-asides, and loan principal forgiven was moved from operating expenses to noncapital subsidies and other nonoperating revenues and expenses. The adoption of this statement did not impact beginning net position.

8. Subsequent Events

The Program evaluated the events and transactions subsequent to its June 30, 2026 combined statement of net position date and determined there were no additional significant events, other than disclosed in Note 4, to report through _____, 2026, which is the date the Program issued its combined financial statements.

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

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Combining Statement of Net Position

June 30, 2026

(In Thousands)

<u>Assets</u>	<u>Revolving Loan Fund</u>	<u>Fees and Expense</u>	<u>Technical Assistance</u>	<u>Total</u>
Current assets				
Cash and cash equivalents	\$ 59,352	\$ 31,610	\$ -	\$ 90,962
Accrued interest receivable				
Cash	170	90	-	260
Loans	128	-	-	128
Accounts receivable - borrowers	-	200	-	200
Investments	2,370	-	-	2,370
Total current assets	<u>62,020</u>	<u>31,900</u>	<u>-</u>	<u>93,920</u>
Noncurrent assets				
Loans receivable - restricted				
Construction	653,640	-	-	653,640
Wetlands mitigation	-	334	-	334
Total noncurrent assets	<u>653,640</u>	<u>334</u>	<u>-</u>	<u>653,974</u>
Total assets	<u>\$ 715,660</u>	<u>\$ 32,234</u>	<u>\$ -</u>	<u>\$ 747,894</u>
 <u>Liabilities and Net Position</u>				
Current liabilities				
Accounts payable	\$ 39	\$ 400	\$ -	\$ 439
Accrued interest payable	851	-	-	851
Current portion of bonds payable	8,315	-	-	8,315
Total current liabilities	<u>9,205</u>	<u>400</u>	<u>-</u>	<u>9,605</u>
Noncurrent liabilities				
Bonds payable including unamortized premiums of \$18,415, net of current portion	<u>214,385</u>	<u>-</u>	<u>-</u>	<u>214,385</u>
Total liabilities	<u>223,590</u>	<u>400</u>	<u>-</u>	<u>223,990</u>
Net position				
Restricted by bond resolution, enabling legislation, and Program requirements	<u>\$ 492,071</u>	<u>\$ 31,833</u>	<u>\$ -</u>	<u>\$ 523,904</u>

See independent auditor's report.

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

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

For the Year Ended June 30, 2026

(In Thousands)

	<u>Revolving Loan Fund</u>	<u>Fees and Expense</u>	<u>Technical Assistance</u>	<u>Total</u>
Operating revenues				
Financing fee income	\$ -	\$ 5,746	\$ -	\$ 5,746
Operating expenses				
Program administration	-	546	-	546
Operating income	-	5,200	-	5,200
Noncapital subsidies received (provided)				
Base federal grants	7,182	-	-	7,182
BIL/IIJA federal grants	13,363	340	152	13,855
Federal financial assistance				
Base federal grants	(2,661)	-	-	(2,661)
BIL/IIJA federal grants	(3,667)	-	(152)	(3,819)
Transfers in (out), net	5,217	(6,018)	-	(801)
Total noncapital subsidies	19,434	(5,678)	-	13,756
Operating income and noncapital subsidies	19,434	(478)	-	18,956
Nonoperating revenues (expenses)				
Interest on cash and investments	2,784	1,158	-	3,942
Interest on loans	5,938	-	-	5,938
Net depreciation of investments	16	(28)	-	(12)
Bond interest	(8,599)	-	-	(8,599)
Amortization of bond premiums	1,644	-	-	1,644
Bond issuance costs	(396)	-	-	(396)
Total nonoperating revenues	1,387	1,130	-	2,517
Changes in net position	20,821	652	-	21,473
Net position - beginning of year	471,250	31,181	-	502,431
Net position - end of year	\$ 492,071	\$ 31,833	\$ -	\$ 523,904

See independent auditor's report.

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

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Combining Statement of Cash Flows

For the Year Ended June 30, 2026

(In Thousands)

	<u>Revolving Loan Fund</u>	<u>Fees and Expense</u>	<u>Technical Assistance</u>	<u>Total</u>
Cash flows from operating activities				
Financing fee income received	\$ -	\$ 5,674	\$ -	\$ 5,674
Cash paid for program administration	(4)	(517)	-	(521)
Net cash provided (used) by operating activities	(4)	5,157	-	5,153
Cash flows from noncapital financing activities				
Proceeds from issuance of bonds payable	54,012	-	-	54,012
Bond proceeds reallocated - 2026A bonds	15,000	-	-	15,000
Repayments of bonds payable	(6,220)	-	-	(6,220)
Cash paid for interest	(9,125)	-	-	(9,125)
Cash paid for bond issuance costs	(396)	-	-	(396)
Federal grants received	20,545	341	152	21,038
Federal grant expended	(6,328)	-	(152)	(6,480)
Transfers in (out), net	5,217	(6,018)	-	(801)
Net cash provided (used) by noncapital financing activities	72,705	(5,677)	-	67,028
Cash flows from investing activities				
Interest received on cash and investments	3,008	1,173	-	4,181
Interest received on loans	5,928	-	-	5,928
Purchase of investments	(2,500)	-	-	(2,500)
Proceeds from maturities of investments, net	3,017	(28)	-	2,989
Loan disbursements	(162,249)	-	-	(162,249)
Principal repayments on loans	24,227	-	-	24,227
Net cash provided (used) by investing activities	(128,569)	1,145	-	(127,424)
Net decrease (increase) in cash and cash equivalents	(55,868)	625	-	(55,243)
Cash and cash equivalents - beginning of year	115,220	30,985	-	146,205
Cash and cash equivalents - end of year	\$ 59,352	\$ 31,610	\$ -	\$ 90,962
Reconciliation of operating income to net cash provided (used) by operating activities				
Operating income	\$ -	\$ 5,200	\$ -	\$ 5,200
Adjustments to reconcile operating income of changes in net position to net cash provided (used) by operating activities				
Changes in operating assets and liabilities				
Accounts receivable - borrowers	-	(72)	-	(72)
Accounts payable	(4)	29	-	25
Net cash provided (used) by operating activities	\$ (4)	\$ 5,157	\$ -	\$ 5,153

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 Construction Assistance Revolving Loan Fund Program, which comprise the combined statement of net position as of June 30, 2026, 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 ____, 2026, 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 Construction Assistance 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 Construction Assistance Revolving Loan Fund Program's internal control. Accordingly, we do not express an opinion on the effectiveness of the State of Arkansas Construction Assistance Revolving Loan Fund Program's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the State of Arkansas Construction Assistance 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 Construction Assistance Revolving Loan Fund Program's combined financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the combined financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *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 Construction Assistance 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 Construction Assistance Revolving Loan Fund Program's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Certified Public Accountants

Little Rock, Arkansas
_____, 2026

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

Commissioners of the Arkansas Natural
Resources Commission

Board of Directors
Arkansas Development Finance Authority
Little Rock, Arkansas

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the State of Arkansas Construction Assistance Revolving Loan Fund Program's compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on each of the State of Arkansas Construction Assistance Revolving Loan Fund Program's major federal programs for the year ended June 30, 2026. The State of Arkansas Construction Assistance Revolving Loan Fund Program's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the State of Arkansas Construction Assistance Revolving Loan Fund Program complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2026.

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the State of Arkansas Construction Assistance Revolving Loan Fund Program's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, 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 Construction Assistance Revolving Loan Fund Program's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, 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 Construction Assistance Revolving Loan Fund Program's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the State of Arkansas Construction Assistance Revolving Loan Fund Program's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the State of Arkansas Construction Assistance Revolving Loan Fund Program's internal control over compliance. Accordingly, no such opinion is expressed.

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

Certified Public Accountants

Little Rock, Arkansas
_____, 2026

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

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2026

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:

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

Capitalization Grants for Clean Water State Revolving Funds	66.458
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Dollar threshold used to distinguish between type A and type B programs:	\$ 1,000,000
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Auditee qualified as a low-risk auditee?	☒ Yes ☐ No
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**STATE OF ARKANSAS CONSTRUCTION ASSISTANCE
REVOLVING LOAN FUND PROGRAM**

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Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2026

<u>Reference Number</u>	<u>Summary of Finding</u>	<u>Status</u>
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No matters were reported in the June 30, 2025 Schedule of Findings and Questioned Costs.		
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STATE OF ARKANSAS CONSTRUCTION ASSISTANCE
REVOLVING LOAN FUND PROGRAM

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Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2026

(In Thousands)

<u>Federal Grantor/Pass-Through Grantor Program or Cluster Title</u>	<u>ALN</u>	<u>Provided to Subrecipients</u>	<u>Total Federal Expenditures</u>
U.S. Environmental Protection Agency/Capitalization Grants for Clean Water State Revolving Funds (Clean Water State Revolving Fund Cluster)	66.458	\$ 34,709	\$ 34,709

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

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

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Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2026

1. The accompanying schedule of expenditures of federal awards ("SEFA") includes the federal award activity of the State of Arkansas Construction Assistance Revolving Loan Fund Program (the "Program") under programs of the federal government for the year ended June 30, 2026. 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 Program, it is not intended to and does not present the net position, changes in net position or cash flows of the 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 Program has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.
3. During the fiscal year ended June 30, 2026, the Program implemented a significant change to its SEFA reporting of direct federal expenditures to match Environmental Protection Agency guidance regarding federal "equivalency" reporting. Based on this change, there will be a difference between actual federal dollar expenditures reported in the combined financial statements and federal "equivalency" expenditures reported in the SEFA.

The term "equivalency" as it applies to the Program is documented in the Clean Water State Revolving Funds regulation found in 40 CFR Part 35.3105(f) and (g). An excerpt from the State Revolving Fund Equivalency Handbook in Appendix 1 on page 12 (released in June 2024), summarizes "equivalency" impact on the Program's SEFA from 40 CFR Part 35.3105(f) as follows:

Equivalency projects. Those section 212 wastewater treatment projects constructed in whole or in part before October 1, 1994, with funds "directly made available by" the capitalization grant. These projects must comply with the requirements of section 602(b)(6) of the Act.

The regulations also explain what "funds 'directly made available by'" means at 40 CFR 35.3105(g):

Funds "directly made available by" capitalization grant. Funds equaling the amount of the grant.

The Program requires infrastructure project borrowers to execute federal equivalency assistance agreements. These assistance agreements tie a project to one or more federal grants. The amount committed in an equivalency assistance agreement total can exceed the grant(s) for which it is tied because the entire project must be considered "equivalency" or "not equivalency" even if the amount reported as "federal" funds is less than the agreement amount. However, only the amount up to the grant amount is reported to meet Federal Funding Accountability and Transparency Act ("FFATA") requirements. Each equivalency assistance agreement is reported in SAM.gov to comply with the FFATA reporting requirements. Additionally, a federal grant may have multiple federal equivalency agreements tied to it.

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

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Notes to Schedule of Expenditures of Federal Awards (cont.)

For the Year Ended June 30, 2026

For the SEFA, the guidance requires all current year disbursements for projects with an equivalency assistance agreement to be reported. For each agreement, the total disbursements are only reported up to the total allocated to each grant. Disbursements are applied towards the oldest grant first using a “first-in, first-out” method. Current year disbursements that exceed the assigned grant amount of the most current tied grant will not be reported in the current SEFA. In other words, if the most current tied grant amount is exhausted by matching disbursements in a fiscal year, future year disbursements will not be reported for that assistance agreement.

The tables below indicate current fiscal year available federal grants for the Program and their equivalency assistance projects with disbursements in the current year related to each grant for the fiscal year ended June 30, 2026:

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

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Notes to Schedule of Expenditures of Federal Awards (cont.)

For the Year Ended June 30, 2026

<u>Federal Grant Number</u>	<u>ALN</u>	<u>Federal Equivalency</u>		
		<u>Cave Springs</u>	<u>Little Rock</u>	<u>Total</u>
		<u>(01269-CW-L)</u>	<u>Water</u>	<u>Federal</u>
			<u>Reclamation</u>	<u>Equivalency</u>
			<u>Authority</u>	
			<u>(02332-CW)</u>	
CS-05000222-0 (2022 Base Cap Grant)	66.458	\$ 1,558	\$ -	\$ 1,558
4C-02F23601-0 (2022 IIJA GS)	66.458	-	-	-
CS-05000223-0 (2023 Base Cap Grant)	66.458	-	4,639	4,639
4C-02F23602-0 (2023 IIJA GS)	66.458	-	13,635	13,635
CS-05000224-0 (2024 Base Cap Grant)	66.458	-	-	-
4C-02F23603-0 (2024 IIJA GS)	66.458	-	14,877	14,877
4X-02F27203-0 (2024 IIJA EC)	66.458	-	-	-
CS-05000225 (2025 Base Cap Grant)	66.458	-	-	-
4C-02F23604-0 (2025 IIJA GS)	66.458	-	-	-
		<u>\$ 1,558</u>	<u>\$ 33,151</u>	<u>\$ 34,709</u>

TAB 7

Communication With Those Charged With Governance

Commissioners of the Arkansas Natural
Resources Commission

Board of Directors
Arkansas Development Finance Authority
Little Rock, Arkansas

We have audited the combined financial statements of the State of Arkansas Safe Drinking Water Revolving Loan Fund Program (the “Program”) as of and for the year ended June 30, 2026, and have issued our report thereon dated ____, 2026. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated May 27, 2026, our responsibility, as described by professional standards, is to form and express an opinion about whether the combined financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (“GAAP”). Our audit of the combined financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the combined financial statements are free of material misstatement. An audit of combined financial statements includes consideration of the system of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control over financial reporting. Accordingly, as part of our audit, we considered the system of internal control of the Program solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and our network firms have complied with all relevant ethical requirements regarding independence.

Significant Risks Identified

We are required to communicate to you significant risks. A significant risk is an identified and assessed risk of material misstatement that, in the auditor's professional judgment, requires special audit consideration. We have identified the following significant risks:

- Improper revenue recognition is presumed, by auditing standards, to be a risk of fraud.
- Management's override of controls is presumed, by auditing standards, to be a risk of fraud.

We responded to these risks by performing procedures such as, but not limited to, (1) Specific journal entry testing; (2) Inquiry with management and others in the Program; (3) Internal control evaluation; and (4) Specific testing of revenue transactions. Based on these tests, along with our other audit procedures, we found no adjustments required to be made with respect to these significant risk areas in order to keep the combined financial statements from being materially misstated.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Program is included in Note 1 to the combined financial statements. As described in Note 1.d. to the combined financial statements, during the year, the Program adopted Governmental Accounting Standards Board Statement No. 103, "Financial Reporting Model Improvements." No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates and Related Disclosures

Accounting estimates and related disclosures are an integral part of the combined financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the combined financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimate affecting the combined financial statements, and the processes used by management as the basis for their estimate, is as follows:

- Operating revenues – Operating revenues are recognized primarily from financing fee income. Financing fee income is calculated based on the stated financing fee rate for each loan.

We evaluated the factors and assumptions used to develop the estimate and determined it is reasonable in relation to the basic combined financial statements taken as a whole and in relation to the applicable opinion units.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the Program's combined financial statements relate to:

- Note 3 – Loans Receivable
- Note 5 – Concentrations
- Note 6 – Change in Accounting Principle
- Note 7 – Subsequent Events

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards also require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances, or disclosures, and the combined financial statements as a whole and each applicable opinion unit. There were no such uncorrected misstatements noted during our audit.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. There were no such corrected misstatements noted during our audit.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the Program's combined financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in the attached letter dated _____, 2026.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the Program, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, significant events or transactions that occurred during the year, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Program's auditors.

Modification of the Auditor's Report

We have made the following modification to our auditor's report.

Emphasis of Matter

As discussed in Note 1.a., the combined financial statements present only the Program and do not purport to, and do not, present fairly the financial position of the State of Arkansas as of June 30, 2026, and the changes in its financial position and its cash flows for the year then ended in accordance with GAAP. Our opinion is not modified with respect to this matter.

* * * * *

This report is intended solely for the information and use of the Commissioners of the Arkansas Natural Resources Commission, the Board of Directors of the Arkansas Development Finance Authority, and management of the Program, and is not intended to be, and should not be, used by anyone other than these specified parties.

We would like to thank all of the personnel of the Program for their assistance during the audit. We appreciate the opportunity to present these comments and are available to discuss these matters further at your convenience.

Certified Public Accountants

Little Rock, Arkansas
____, 2026

A copy of the signed management representation letter will accompany this letter when finals are printed.

Safe Drinking Water
Revolving Loan Fund Program

Fiscal Year 2026 Financial Statement
Discussion Draft

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

June 30, 2026 and 2025

**Combined Financial Statements
And
Supplementary Information**

With

Independent Auditor's Report



FROST, PLLC
Certified Public Accountants

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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 Audit of the 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, 2026 and 2025, 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, 2026 and 2025, 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, 2026 and 2025, 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 11 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 25 through 28 and the schedule of expenditures of federal awards on page 36 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 ____, 2026, 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.

Certified Public Accountants

Little Rock, Arkansas
____, 2026

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

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Management's Discussion and Analysis

For the Years Ended June 30, 2026 and 2025

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.

For this report, and in conjunction with the implementation of a recently issued accounting pronouncement by the *Governmental Accounting Standards Board ("GASB") Statement No. 103, "Financial Reporting Model Improvements,"* the discussion below and comparative financial statement line items from prior years have been modified to adhere to the reporting requirements of this GASB statement.

Overview of the Combined Financial Statements

The June 30, 2026 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, 2025 and 2024 are also presented. These comparative totals are intended to facilitate an enhanced understanding of the Program's financial position and results of operations for the current fiscal year in comparison to the prior fiscal years. The notes to the combined financial statements provide additional information that is essential for understanding financial data that may not be displayed on the face of the combined financial statements and, as such, are an integral part of the Program's basic combined financial statements. 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.

Financial activities that impact infrastructure projects are reported in the Revolving Loan Fund section of the combining statements. As identified in the combining statements at the back of this report, these activities are the primary activities of the Program. The Safe Drinking Water Act and its amendments in 1996, which established the Program, allows states up to 31% of federal Environmental Protection Agency ("EPA") capitalization grants to fund set-asides whose primary purposes are to support infrastructure activities through assistance with regulatory compliance, capacity analysis and to protect the public's health through reliance on safe drinking water. The Fees and Expense Set-Aside section reports the direct program management function of the Program by the Arkansas Natural Resource Division ("NRD") of the Department of Agriculture and the Arkansas Development Finance Authority ("ADFA"). The other Set-Asides are representation of management activities by the engineering group of the Arkansas Department of Health ("ADH") and other outside contractors who were hired to support the objectives of various grants.

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

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Management's Discussion and Analysis (cont.)

For the Years Ended June 30, 2026 and 2025

Financial Summary

The aging water infrastructure and the added stimulus funds availability backed by the Bipartisan Infrastructure Law/Infrastructure Investment Jobs Act ("BIL/IJIA") grants have created the demand for increased safe drinking water projects in Arkansas. Typical loan projects include installation or replacement of existing water meters, water lines, and pump station projects for municipalities, water user associations, and public facilities boards.

To meet the primary purpose of the Program's infrastructure funding goals, significant resources are needed from Program assets. The primary components of the Program's assets are cash and cash equivalents and loans receivable. The Program's cash sources each year are derived from repayments on existing loans, federal EPA grant funds and their required state match funds. Periodically, the demand for assets to meet funding requirements drains these resources which facilitates the need for bond issuance as a leveraging tool to provide liquidity and protect resources. The majority of the Program's current and noncurrent liabilities stem from bonds payable and related accrued interest. The difference between the Program's total assets and total liabilities is reflected in the net position which is fully restricted by bond resolution and Program administration and cannot be used by NRD, ADH, or ADFA for other purposes outside of the Program's objectives.

Condensed Financial Information – Combined Statements of Net Position

	<u>2026</u>	<u>2025</u>	<u>Change</u>	<u>Percentage Change</u>	<u>2024</u>	<u>Change</u>	<u>Percentage Change</u>
<i>(In thousands)</i>							
Total assets	\$ 507,327	\$ 366,232	\$ 141,095	38.5%	\$ 367,041	\$ (809)	-0.2%
Liabilities							
Current liabilities	5,289	2,349	2,940	125.2%	3,766	(1,417)	-37.6%
Noncurrent liabilities	112,376	19,980	92,396	462.4%	34,885	(14,905)	-42.7%
Total liabilities	117,665	22,329	95,336	427.0%	38,651	(16,322)	-42.2%
Net position							
Restricted by bond resolution, enabling legislation, and Program requirements	\$ 389,662	\$ 343,903	\$ 45,759	13.3%	\$ 328,390	\$ 15,513	-4.7%

As identified above, the Program's total assets and total liabilities have fluctuated over the last three years. In the current fiscal year, the increase in total assets is primarily attributable to a \$170.9 million increase in net loans receivable, offset by a \$30.2 million overall decline in cash and cash equivalents. Total liabilities increased during the year due to issuing \$110.9 million, including bond premium, in a bond issue in January 2026, but a portion of those proceeds, or \$15 million, was reallocated in June 2026 to the Construction Assistance Revolving Loan Fund ("CARLF") program to provide for increased liquidity needs. In the prior fiscal year, total assets remained relatively unchanged due to a combination of an increase in loans offset by a decline in cash and cash equivalents primarily related to funding those loans, along with a one-time, \$20 million reallocation of bond proceeds issued during fiscal year 2024 to CARLF which also caused a decline in total liabilities during the fiscal year 2025.

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

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Management's Discussion and Analysis (cont.)

For the Years Ended June 30, 2026 and 2025

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

<i>(In thousands)</i>	2026	2025	Change	Percentage Change	2024	Change	Percentage Change
Operating revenues							
Financing fee income	\$ 3,628	\$ 2,305	\$ 1,323	57.4%	\$ 1,202	\$ 1,103	91.8%
Operating expenses							
Program administration	423	436	(13)	-3.0%	316	120	38.0%
Operating income	3,205	1,869	1,336	71.5%	886	983	110.9%
Noncapital subsidies received (provided)							
Base federal grants	19,910	10,326	9,584	92.8%	6,607	3,719	56.3%
Federal financial assistance							
Base federal grants	(6,201)	(10,220)	4,019	-39.3%	(3,400)	(6,820)	200.6%
BIL/IIJA federal grants	(18,847)	(3,625)	(15,222)	419.9%	-	(3,625)	
BIL/IIJA federal grants	45,893	9,598	36,295	378.2%	1,042	8,556	821.1%
Federal set-asides - BIL/IIJA federal grants	(3,795)	(1,808)	(1,987)	109.9%	(455)	(1,353)	297.4%
Transfers in from Parent government, net	3,045	2,514	531	21.1%	59	2,455	4161.0%
Total noncapital subsidies	40,005	6,785	33,220	489.6%	3,853	2,932	76.1%
Operating income and noncapital subsidies	43,210	8,654	34,556	399.3%	4,739	3,915	82.6%
Nonoperating revenue (expense)							
Net interest income	6,055	8,145	(2,090)	-25.7%	9,557	(1,412)	-14.8%
Bond interest	(3,351)	(1,269)	(2,082)	164.1%	(1,523)	254	-16.7%
Amortization of bond premiums	612	28	584	2085.7%	405	(377)	-93.1%
Bond cost of issuance	(767)	(45)	(722)	1604.4%	(360)	315	-87.5%
Net nonoperating revenue	2,549	6,859	(4,310)	-62.8%	8,079	(1,220)	-15.1%
Changes in net position	45,759	15,513	30,246	195.0%	12,818	2,695	21.0%
Net position - beginning of year	343,903	328,390	15,513	4.7%	315,572	12,818	4.1%
Net position - end of year	\$ 389,662	\$ 343,903	\$ 45,759	13.3%	\$ 328,390	\$ 15,513	4.7%

Net position has increased in the past two years with a significant increase in the current fiscal year of \$30.2 million. The impact on increased net position was primarily driven by noncapital subsidies; more specifically, due to an increase in Base and BIL/IIJA federal grants for funding repayable loans for fiscal year ending June 30, 2026, totaling \$13.0 million and \$17.9 million, respectively.

Operating income has continued to increase in the past two years as financing fee income followed the increase in loan activity in the same periods while operating expenses for program administration remained relatively unchanged. A more detailed analysis of key components affecting the financial position of the Program are discussed further.

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

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Management's Discussion and Analysis (cont.)

For the Years Ended June 30, 2026 and 2025

Detailed Analyses

Assets and Related Noncapital Subsidies

The following table reports loan activity for each year:

	<u>2026</u>	<u>2025</u>	<u>Change</u>	<u>Percentage Change</u>	<u>2024</u>	<u>Change</u>	<u>Percentage Change</u>
<i>(In thousands)</i>							
Loan disbursements	\$ 189,540	\$ 105,150	\$ 84,390	80.3%	\$ 31,219	\$ 73,931	236.8%
Loan repayments	<u>18,590</u>	<u>18,657</u>	<u>(67)</u>	<u>-0.4%</u>	<u>30,232</u>	<u>(11,575)</u>	<u>-38.3%</u>
Net increase in loans receivable	<u>\$ 170,950</u>	<u>\$ 86,493</u>	<u>\$ 84,457</u>	<u>50.6%</u>	<u>\$ 987</u>	<u>\$ 85,506</u>	<u>8663.2%</u>

The Program has several funding sources to meet the increasing loan activity, including program income from previously revolved loans, bond proceeds, federal grants and state matching funds. The table below reflects the amounts used from each funding source to fund repayable loans for fiscal years June 30, 2025, 2024, and 2023 as follows:

	<u>2026</u>	<u>Percentage</u>	<u>2025</u>	<u>Percentage</u>	<u>2024</u>	<u>Percentage</u>
<i>(In thousands)</i>						
Revolving Program funds	\$ 78,644	41.5%	\$ 90,045	85.6%	\$ 8,316	26.6%
Bond funds	71,407	37.7%	8,485	8.1%	18,216	58.3%
Federal funds						
Base federal grants	12,974	6.8%	-	0.0%	-	0.0%
BIL/IIJA federal grants	17,941	9.5%	-	0.0%	-	0.0%
State matching funds	<u>8,574</u>	<u>4.5%</u>	<u>6,620</u>	<u>6.3%</u>	<u>4,687</u>	<u>15.0%</u>
	<u>\$ 189,540</u>		<u>\$ 105,150</u>		<u>\$ 31,219</u>	

Federal grant related activities are classified as noncapital subsidy activities and are comprised from two sources: grants from the EPA ("Base capitalization grants") and BIL/IIJA federal grants. Total noncapital subsidies from these sources provided \$65.8 million to the Program in the current fiscal year versus \$19.9 million in the prior fiscal year. Per EPA guidelines, federal grants are allocated between repayable and principal forgiveness loans and administrative costs. Both NRD and ADH incur administration expenses and are reimbursed using base and BIL/IIJA federal grant revenue for administering the Program. These funds are drawn down from the federal government as the municipalities, NRD, or ADH incurred expenses. Federal funding for construction loans is based on the loans available for funding and the rate at which the borrower completes their project; therefore, fluctuations can occur.

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

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Management's Discussion and Analysis (cont.)

For the Years Ended June 30, 2026 and 2025

Historically, in fiscal year 2012, the Program began funding principal forgiveness loans from the Base capitalization grants as required by the EPA. With principal forgiveness loans, 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, but repayable loans can also be sourced from federal funds. The funding activities of principal forgiveness loans have no impact on the net position of the Program; however, as mentioned previously, the funding of repayable loans with federal grants increases the net position of the Program.

Base and BIL/IJA federal grant revenue also fund set-aside administrative expense reimbursement to ADH for engineering services and to pay contractors as discussed further in this section. These administrative reimbursements have no effect on the net position of the Program.

Base grants from the EPA comprised 6.8% of the funding source of the repayable loan disbursements this fiscal year versus 0% for the prior two fiscal years. Depending on the funds available, the amount funded from EPA base grants will fluctuate. As mentioned previously, the Program utilized these grants to fund repayable loans totaling \$10.0 million and principal forgiveness loans totaling \$6.2 million in the fiscal year ended June 30, 2026. On June 30, 2026, the Program had \$13.4 million available from EPA base grants to fund repayable and principal forgiveness loans.

In addition to the Base grants, the EPA awarded grants under BIL/IJA for general ("Gen") capitalization grants in the amount of \$109.6 million, totaling for grant fiscal years 2025, 2024, 2023, and 2022. During the current fiscal year, \$16.8 million in Gen grant funds were reported for repayable loan fundings. The Program also utilized Gen grants to fund principal forgiveness loans totaling \$10.9 million.

Also, from BIL/IJA, the following additional grants were awarded in grant fiscal years 2025, 2024, 2023, and 2022 for grants totaling \$40.8 million for emerging contaminant ("EC") funding, and 2023 grants totaling \$42.7 million for lead service line replacement ("LSL") funding. Only \$1.1 million in EC grants were expended this fiscal year for repayable loans and \$7.9 million for principal forgiveness loans. The BIL/IJA 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 CARLF and are included in the totals above. There was \$71.9 million available from BIL/IJA grants to fund repayable and principal forgiveness loans at June 30, 2026.

In addition to principal forgiveness loans, the LSL award was used to fund set-aside expenditures totaling \$3.8 million in the current fiscal year ending June 30, 2026 which represented a \$2.0 million increase over the prior fiscal year. Most of the award was used for capacity development representing payments to a contractor for engineering costs for a lead service line inventory project to enhance the Program's mission to provide safe drinking water throughout the state. The volume of related expenditures paid to the contractor increased to \$1.8 million, representing a \$1.4 million increase from the prior fiscal year.

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

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Management's Discussion and Analysis (cont.)

For the Years Ended June 30, 2026 and 2025

During the current fiscal year, transfers in, net, increased \$0.5 million which is down from the change in the prior year of a \$2.4 million increase. Transfers in are presented primarily by the state matching funds required by the EPA grants. As funds are available, the Program receives these transfers in from NRA, Water, Waste Disposal, and Pollution Abatement Facilities General Obligation Bond Fund Program, which represents the state matching funds for the Program. Transfers out represent transfers to NRD and ADH for administrative reimbursements. The details of transfers in and out are presented in the following table:

	<u>2026</u>	<u>2025</u>	<u>Change</u>	<u>Percentage Change</u>	<u>2024</u>	<u>Change</u>	<u>Percentage Change</u>
<i>(In thousands)</i>							
ANRC							
State match	\$ 8,574	\$ 6,320	\$ 2,254	35.7%	\$ 3,706	\$ 2,614	70.5%
Administration	(650)	(670)	20	-3.0%	(520)	(150)	28.8%
ADH	(4,880)	(3,138)	(1,742)	55.5%	(3,127)	(11)	0.4%
Reallocation of 2026 and 2023 bonds to CARLF	<u>1</u>	<u>2</u>	<u>(1)</u>	<u>-50.0%</u>	<u>-</u>	<u>2</u>	<u>0.0%</u>
Transfers in, net	<u>\$ 3,045</u>	<u>\$ 2,514</u>	<u>\$ 531</u>	<u>21.1%</u>	<u>\$ 59</u>	<u>\$ 2,455</u>	<u>4161.0%</u>

Liabilities

The Program issued \$100.0 million in bonds in January 2026 compared to only \$4.6 million in March 2025 and reallocated \$15.0 million in bond proceeds from the Program to CARLF in June 2026 to provide additional funding for new loans. Due to bond market conditions and increase in loan activity and approved commitments, the Program has utilized the ability to leverage with bond proceeds.

Operating Revenue

Operating revenues are derived from financing fee income which represents servicing fees, ranging from 0% to 1%, are charged on the outstanding loan balances in the portfolio. The increase in financing fee income for the prior two years directly correlates with the increase in loan fundings during those periods. Operating expenses are mainly comprised of various professional service fees and ADFA's administrative fees as fund manager of the Program which remained relatively comparable to the prior fiscal year.

Nonoperating Items Revenue

Net interest income has fluctuated over the past three fiscal years. Net interest income presented in the table above includes interest earned on cash and cash equivalents, net of appreciation (depreciation), and interest earned on loans. Net interest income on investments, representing cash and cash equivalents, has declined significantly over the past two years due to the use of cash and cash equivalents for increased loan fundings. Net investment income has declined by \$3.4 million, or 61%, for the year ending June 30, 2026, and by \$2.6 million, or 32%, for the year ending June 30, 2025. The average yield on cash, cash equivalents and investments for fiscal year 2026 was 3.61%, whereas the average yields for fiscal years 2025 and 2024 were 4.65% and 4.98%, respectively.

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

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Management's Discussion and Analysis (cont.)

For the Years Ended June 30, 2026 and 2025

Loan interest income increased significantly due to the impact of increase loan fundings and has fluctuated over the past three years. Loan interest income increased by \$1.3 million, or 52%, for the year ending June 30, 2026, and by \$1.2 million, or 88%, for the year ending June 30, 2025, respectively. The Program is continuously making loans with interest rates between 0.00% and 3.50%. The average return on loans is 0.99%, 1.03%, and 0.69% for the fiscal years ended June 30, 2026, 2025, and 2024, respectively.

Bond interest and related issuance costs increased this fiscal year by a net of \$2.2 million due to the January 2026 bond issue which was a significantly larger issuance than in the prior fiscal year, even after the reallocation of funds in June 2026 to the CARLF program.

Net Position

The net position of the Program increased by \$61.2 million in the past two years. The bond resolution and the Program guidelines restrict all the net position. The overall financial position and results of operations of the Program continue to improve with the contribution of noncapital subsidies to support infrastructure projects. However, with these federal subsidies, the financial picture changes significantly. If investment and loan rates are sufficient to cover bond rates, the Program will have slight sustained growth, but net position will not increase at the rate indicated in the presented combined financial statements. Liquidity needs will drive the demand for leveraging activities, thus impacting net position.

Significant Long-Term Financing Activity

Due to significant demand for safe drinking water infrastructure needs and a long list of approved projects in NRD's current pipeline, it is anticipated that leveraging activity through future revenue bond issuance will continue in the next few years. Bonds are collateralized by pools of repaying loans and their scheduled long-term cash flows guaranteed by agreed-upon water rates and their revenue streams locked in by municipality bond ordinances and bond purchase agreements executed by borrowers, NRD and ADFA upon ratification at the local level. Purchases of capital assets by the Program and its resources are not anticipated, nor do they fit into the intended use of Program resources.

Currently Known Facts

A new bond issuance closed in late September 2026 which will provide \$125.0 million in proceeds, with the probability of another bond issuance for liquidity needs before the end of the fiscal year ending June 30, 2027. The September 2026 issuance, entitled Arkansas Development Finance Authority Revolving Loan Fund Revenue Bonds, Series 2026B, is discussed further in Note 4 following the combined financial statements presented below. The Program's expected proceeds are a portion of the total bond issuance of \$250 million which is shared with the CARLF Program.

Currently, the United States Congress has appropriated funds through federal fiscal year 2026 to back BIL/IIJA grants. With the end of BIL/IIJA grants, the future of funding for increased loan activity will be met primarily through bond issuance or a demand for increase to base grants. However, historically, the EPA has allowed the NRD to extend the expenditures deadline if there are valid projects approved to utilize the funds.

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

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Management's Discussion and Analysis (cont.)

For the Years Ended June 30, 2026 and 2025

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 NRD Water Development Section Manager at 501.682.1611.

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

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Combined Statements of Net Position

June 30, 2026 and 2025

(In Thousands)

	<u>2026</u>	<u>2025</u>
<u>Assets</u>		
Current assets		
Cash and cash equivalents	\$ 42,220	\$ 72,420
Accrued interest receivable		
Cash	139	261
Loans	414	111
Accounts receivable		
Borrowers	329	157
Environmental Protection Agency	455	463
Total current assets	43,557	73,412
Noncurrent assets		
Loans receivable - restricted		
Construction	463,770	292,820
Total assets	<u>\$ 507,327</u>	<u>\$ 366,232</u>
<u>Liabilities and Net Position</u>		
Current liabilities		
Accounts payable	\$ 1,927	\$ 717
Accrued interest payable	437	137
Current portion of bonds payable	2,925	1,495
Total current liabilities	5,289	2,349
Noncurrent liabilities		
Bonds payable including unamortized premiums of \$10,576 and \$1,830 in fiscal 2026 and 2025, respectively, net of current portion	112,376	19,980
Total liabilities	117,665	22,329
Net position		
Restricted by bond resolution, enabling legislation, and Program requirements	<u>\$ 389,662</u>	<u>\$ 343,903</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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Combined Statements of Revenues, Expenses, and Changes in Net Position

For the Years Ended June 30, 2026 and 2025

(In Thousands)

	<u>2026</u>	<u>2025</u>
Operating revenues		
Financing fee income	\$ 3,628	\$ 2,305
Operating expenses		
Program administration	423	436
Operating income	<u>3,205</u>	<u>1,869</u>
Noncapital subsidies received (provided)		
Base federal grants	19,910	10,326
Federal financial assistance		
Base federal grants	(6,201)	(10,220)
BIL/IIJA federal grants	(18,847)	(3,625)
BIL/IIJA federal grants	45,893	9,598
Federal set-asides - BIL/IIJA federal grants	(3,795)	(1,808)
Transfers in from Parent government, net	3,045	2,514
Total noncapital subsidies	<u>40,005</u>	<u>6,785</u>
Operating income and noncapital subsidies	<u>43,210</u>	<u>8,654</u>
Nonoperating income (expense)		
Interest on cash and cash equivalents	2,212	5,678
Net depreciation of cash and cash equivalents	(56)	(91)
Interest on loans	3,899	2,558
Bond interest	(3,351)	(1,269)
Amortization of bond premiums	612	28
Bond cost of issuance	(767)	(45)
Total nonoperating income	<u>2,549</u>	<u>6,859</u>
Change in net position	45,759	15,513
Net position - beginning of year	<u>343,903</u>	<u>328,390</u>
Net position - end of year	<u>\$ 389,662</u>	<u>\$ 343,903</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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Combined Statements of Cash Flows

For the Years Ended June 30, 2026 and 2025

(In Thousands)

	<u>2026</u>	<u>2025</u>
Cash flows from operating activities		
Financing fee income received	\$ 3,456	\$ 2,190
Cash paid for program administration	(365)	(370)
Net cash provided by operating activities	<u>3,091</u>	<u>1,820</u>
Cash flows from noncapital financing activities		
Proceeds from issuance of bonds payable	110,934	5,044
Bond proceeds reallocated - 2026 bonds and 2023 bonds	(15,000)	(20,000)
Repayments of long-term debt	(1,495)	(1,430)
Cash paid for interest	(3,051)	(1,277)
Cash paid for bond issuance costs	(767)	(45)
Nonoperating grants received	65,811	19,889
Federal grant funds expended for assistance	(25,048)	(13,845)
Federal grant funds expended for set-asides	(3,854)	(1,776)
Transfers in, net	4,260	2,516
Net cash provided (used) by noncapital financing activities	<u>131,790</u>	<u>(10,924)</u>
Cash flows from investing activities		
Interest received on cash and cash equivalents	2,334	6,121
Interest received on loans	3,591	2,478
Principal repayments on loans	18,590	18,657
Loan disbursements	(189,540)	(105,150)
Change in market value of cash equivalents	(56)	(91)
Net cash used by investing activities	<u>(165,081)</u>	<u>(77,985)</u>
Net decrease in cash and cash equivalents	(30,200)	(87,089)
Cash and cash equivalents - beginning of year	<u>72,420</u>	<u>159,509</u>
Cash and cash equivalents - end of year	<u>\$ 42,220</u>	<u>\$ 72,420</u>
Reconciliation of changes in net position to net cash provided by operating activities		
Operating income	\$ 3,205	\$ 1,869
Adjustments to reconcile operating income of changes in net position to net cash provided by operating activities		
Changes in operating assets and liabilities		
Accounts receivable - borrowers	(172)	(116)
Accounts payable	58	67
Net cash provided by operating activities	<u>\$ 3,091</u>	<u>\$ 1,820</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, 2026 and 2025

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 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 \$284,000 and \$192,000 for the years ended June 30, 2026 and 2025, 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 noncapital subsidies and 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 noncapital subsidies or nonoperating items.

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

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Notes to Combined Financial Statements

June 30, 2026 and 2025

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

- d. **Recently issued accounting pronouncements** – *Governmental Accounting Standards Board (“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 statements 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 (“MD&A”). The Program adopted this statement as of June 30, 2026. See Note 6 for how this statement impacted the combined financial statements of the Program.

GASB Statement No. 105, “Subsequent Events.” The objective of this statement is to improve the financial reporting requirements for subsequent events by clarifying the time frame during which subsequent events must be evaluated, refining the distinction between recognized and nonrecognized subsequent events, and establishing enhanced note disclosure requirements for nonrecognized events that may have a significant effect on a government’s financial position. This statement also introduces a requirement for governments to disclose the date through which subsequent events have been evaluated, aligning GASB guidance more closely with other standard setters such as the FASB and American Institute of Certified Public Accountants. The requirements of this statement are effective for fiscal years beginning after June 15, 2026, with earlier adoption encouraged. The Program has not early adopted this statement. The Program does not expect this statement to have a material effect 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, 2026 and 2025, cash equivalents of approximately \$42.2 million and \$72.4 million, respectively, consisted of demand deposits, 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.
- 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.

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

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Notes to Combined Financial Statements

June 30, 2026 and 2025

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

- 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. Deposits

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Program's deposits may not be returned to it. The Program's deposit policy for custodial credit risk requires compliance with the provisions of state law and bond indentures. Deposits are collateralized for those amounts exceeding federal depository insurance, typically with obligations of the U.S. Treasury, U.S. agencies or instrumentalities or municipal bonds having an aggregate market value at least equal to 105% of the amount of the deposits as directed in the State Board of Finance Cash Management of Funds Rule 2012-A.

At June 30, 2026 and 2025, \$133,500 of the Program's deposits were held in excess of Federal Deposit Insurance Corporation insurance and collateralized as follows:

	<u>2026</u>	<u>2025</u>
<i>(In thousands)</i>		
Uninsured and collateral held by pledging		
Financial institution agent in the Program's name	\$ 134	\$ -

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 administered by the State of Arkansas. The Program may request withdrawal of its funds with one business day's notice.

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

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Notes to Combined Financial Statements

June 30, 2026 and 2025

2. Deposits (cont.)

- b. **Credit risk** – Credit risk is the risk the issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2026 and 2025, 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, 2026 or 2025.

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:

	<u>2026</u>	<u>2025</u>
<i>(In thousands)</i>		
Carrying values		
Deposits	\$ 383	\$ -
Money market mutual funds	37,277	37,445
State Treasury MMTF	<u>4,560</u>	<u>34,975</u>
Cash and cash equivalents	<u>\$ 42,220</u>	<u>\$ 72,420</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 monthly or semiannual installments. At June 30, 2026 and 2025, such loans had a carrying value of approximately \$463.8 million and \$292.8 million, respectively. The loans bear interest at 0.0% to 3.5% and are collateralized by special assessments, user charges, or sales and use tax bonds issued by the borrower.

In fiscal 2010, the Program funded loans with American Recovery and Reinvestment Act ("ARRA") federal funds, along with other funding sources. At June 30, 2026 and 2025, the Program's outstanding loan balance for ARRA loans totaled \$10.1 million and \$10.9 million, respectively, which is included in loans receivable - restricted - construction on the accompanying combined statements of net position.

During the years ended June 30, 2026 and 2025, approximately \$1,132.0 million and \$857.6 million, respectively, in cumulative loans had been approved for funding. At June 30, 2026 and 2025, approximately \$420.6 million and \$340.6 million, respectively, remained encumbered and awaiting disbursement to loan recipients.

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

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Notes to Combined Financial Statements

June 30, 2026 and 2025

4. Bonds Payable

Bonds payable consist of the following:

<u>Series</u>	<u>Interest Rate Range</u>	<u>Final Maturity Date</u>	<u>2026 (In thousands)</u>	<u>2025</u>
2023 Serial	5.0%	June 1, 2043	\$ 13,580	\$ 15,075
2025 Serial	5.0%	June 1, 2046	3,400	3,400
2025 Term	5.0%	June 1, 2050	1,170	1,170
			<u>4,570</u>	<u>4,570</u>
2026 (A) Serial	5.0%	June 1, 2046	81,550	-
2026 (A) Term	5.0%	June 1, 2051	5,025	-
			<u>86,575</u>	<u>-</u>
Total bonds			104,725	19,645
Unamortized premiums			<u>10,576</u>	<u>1,830</u>
Net bonds payable			<u>\$ 115,301</u>	<u>\$ 21,475</u>

Activity in bonds payable consists of the following:

<u>(In thousands)</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Reallocation</u>	<u>Ending Balance</u>	<u>Amount Due Within One Year</u>
<u>June 30, 2026</u>						
2023 Serial	\$ 15,075	\$ -	\$ (1,495)	\$ -	\$ 13,580	\$ 1,550
2025 Serial and Term	4,570	-	-	-	4,570	105
2026 (A) Serial and Term	-	100,000	-	(13,425)	86,575	1,270
	<u>\$ 19,645</u>	<u>\$ 100,000</u>	<u>\$ (1,495)</u>	<u>\$ (13,425)</u>	<u>\$ 104,725</u>	<u>\$ 2,925</u>
<u>June 30, 2025</u>						
2023 Serial	\$ 34,580	\$ -	\$ (1,430)	\$ (18,075)	\$ 15,075	\$ 1,495
2025 Serial and Term	-	4,570	-	-	4,570	-
	<u>\$ 34,580</u>	<u>\$ 4,570</u>	<u>\$ (1,430)</u>	<u>\$ (18,075)</u>	<u>\$ 19,645</u>	<u>\$ 1,495</u>

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

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Notes to Combined Financial Statements

June 30, 2026 and 2025

4. Bonds Payable (cont.)

The principal amount shown above differs from the amount on the combined statements of net position due to unamortized premiums of approximately \$10.6 million and \$1.8 million at June 30, 2026 and 2025, respectively.

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

	<u>Principal</u>	<u>Interest</u>
	<i>(In thousands)</i>	
Fiscal Year Ending June 30,		
2027	\$ 2,925	\$ 5,236
2028	4,880	5,090
2029	5,865	4,846
2030	6,150	4,553
2031	5,105	4,245
2032 - 2036	22,490	17,762
2037 - 2041	23,905	12,057
2042 - 2046	27,210	5,529
2047 - 2051	6,195	592
	104,725	59,910
Unamortized premiums	10,576	-
	\$ 115,301	\$ 59,910

During fiscal 2026 and 2025, ADFA issued approximately \$100.0 million and \$4.6 million, respectively, in Revolving Loan Fund Revenue Bond, Series 2026 and Series 2025, respectively, 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.

On September 22, 2026, the ADFA issued 2026 Series B Revolving Loan Fund Bonds for \$125 million, at rates ranging from 4.75% - 5.00%, with a premium of \$9.9 million, and maturing on December 25, 2050. The proceeds from the bonds will be used to fund loans in ANRC's pipeline.

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

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Notes to Combined Financial Statements

June 30, 2026 and 2025

5. Concentrations

Economic Dependency

The Program is economically dependent upon revenue from the Environmental Protection Agency (“EPA”). For the years ended 2026 and 2025, the Program received approximately 87% and 66%, 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.

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

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

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Notes to Combined Financial Statements

June 30, 2026 and 2025

5. Concentrations (cont.)

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 federal fiscal years 2022, 2023, and 2024, 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.

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	DV PF Maximum Amount	Total Allowed Maximum	Program Allocation Amount	Cumulative Disbursements	PF Remaining to Disburse
<i>(In thousands)</i>								
2010-Reopened	\$ 8,920	\$ -	\$ -	\$ 8,920	\$ 8,920	\$ 8,920	\$ 2,711	\$ 6,209
2011-Reopened	7,979	7,979	-	-	2,793	2,793	2,149	644
2012-Reopened	94	94	-	-	94	94	94	-
2013-Reopened	1,251	1,251	-	-	1,251	1,251	-	1,251
2014-Reopened	63	63	-	-	63	63	-	63
2015-Reopened	32	32	-	-	32	32	-	32
2021 Base	16,551	2,317	-	5,793	8,110	8,110	4,931	3,179
2022 Base	10,543	1,476	-	3,690	5,166	5,166	888	4,278
2022 IJJA GS	27,070	-	-	13,264	13,264	13,264	7,280	5,984
2022 IJJA EC	11,979	-	-	11,979	11,979	11,979	6,484	5,495
2023 Base	5,912	828	-	2,069	2,897	2,897	1,537	1,360
2023 IJJA GS	25,209	-	-	12,353	12,353	12,353	4,292	8,061
2023 IJJA EC	10,358	-	-	10,358	10,358	10,358	4,226	6,132
2024 Base	5,580	781	-	1,953	2,734	2,734	-	2,734
2024 IJJA GS	27,520	-	-	13,485	13,485	13,485	124	13,361
2024 IJJA EC	9,147	-	-	9,147	9,147	5,588	-	5,588
2025 Base	13,058	1,828	1,567	-	3,395	3,395	623	2,772
2025 IJJA GS	29,810	-	-	14,607	14,607	14,607	-	14,607
2025 IJJA EC	9,147	-	-	9,147	9,147	9,147	-	9,147
							<u>\$ 35,339</u>	<u>\$ 90,897</u>

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

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Notes to Combined Financial Statements

June 30, 2026 and 2025

5. Concentrations (cont.)

The EPA has financially and programmatically closed all Cap grants through the 2020 Cap Grant. However, the EPA allowed reopenings for federal fiscal years 2010 - 2015 to allocate unclaimed principal forgiveness. The Program allocated the maximum amount for federal fiscal years 2021, 2022, 2023, and 2024 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 2026 and 2025, the Program expensed \$25.1 million and \$13.8 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).

Contingencies

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

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

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Notes to Combined Financial Statements

June 30, 2026 and 2025

6. Change in Accounting Principle

In fiscal year 2026, the Program implemented *GASB Statement No. 103, "Financial Reporting Model Improvements,"* which is effective for combined financial statements for periods beginning after June 15, 2025 for all state and local governments. This statement revises key components of the financial reporting model and establishes new accounting and financial reporting requirements for MD&A, unusual or infrequent items, and the presentation of the proprietary fund statement of revenues, expenses, and changes in fund net position. The MD&A should provide an objective and easily readable analysis of the government's financial activities based on currently known facts, decisions, or conditions. The combined statements of revenues, expenses, and changes in fund net position should distinguish between operating and nonoperating revenues and expenses, as well as separately report noncapital subsidies (a type of nonoperating revenue and expense). The statement defines nonoperating revenues and expenses, and any financial statement not meeting these definitions are classified as operating revenues. It is an operating revenue or expense if it does not meet the definition of a nonoperating revenue or expense. A nonoperating revenue or expense should be classified as an operating revenue or operating expense if those transactions constitute the proprietary fund's principal ongoing operations. Interest on loans, interest on investments, and EPA grants - admin and set-asides were moved from operating revenues to noncapital subsidies and other nonoperating revenues and expenses. Interest on bonds, bond issuance expense, EPA set-asides, and loan principal forgiven was moved from operating expenses to noncapital subsidies and other nonoperating revenues and expenses. The adoption of this statement did not impact beginning net position.

7. Subsequent Events

The Program evaluated the events and transactions subsequent to its June 30, 2026 combined statement of net position date and determined there were no additional significant events, other than disclosed in Note 4, to report through _____, 2026, 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, 2026

(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	\$ 8	\$ 2	\$ 15	\$ 1,139	\$ 8,921	\$ 32,135	\$ 42,220
Accrued interest receivable							
Cash	-	-	-	-	25	114	139
Loans	-	-	-	-	-	414	414
Accounts receivable							
Borrowers	-	-	-	-	329	-	329
Environmental Protection Agency	85	2	3	365	-	-	455
Total current assets	93	4	18	1,504	9,275	32,663	43,557
Noncurrent assets							
Loans receivable - restricted							
Construction	-	-	-	-	-	463,770	463,770
Total assets	\$ 93	\$ 4	\$ 18	\$ 1,504	\$ 9,275	\$ 496,433	\$ 507,327
<u>Liabilities and Net Position</u>							
Current liabilities							
Accounts payable	\$ 93	\$ 4	\$ 18	\$ 1,504	\$ 284	\$ 24	\$ 1,927
Accrued interest payable	-	-	-	-	-	437	437
Current portion of bonds payable	-	-	-	-	-	2,925	2,925
Total current liabilities	93	4	18	1,504	284	3,386	5,289
Noncurrent liabilities							
Bonds payable including unamortized premiums of \$10,576, net of current portion	-	-	-	-	-	112,376	112,376
Total liabilities	93	4	18	1,504	284	115,762	117,665
Net position							
Restricted by bond resolution, enabling legislation, and Program requirements	\$ -	\$ -	\$ -	\$ -	\$ 8,991	\$ 380,671	\$ 389,662

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, 2026

(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>
Operating revenues							
Financing fee income	\$ -	\$ -	\$ -	\$ -	\$ 3,628	\$ -	\$ 3,628
Operating expenses							
Program administration	-	-	-	-	423	-	423
Operating income	-	-	-	-	3,205	-	3,205
Noncapital subsidies received (provided)							
Base federal grants	1	5	25	643	-	19,236	19,910
Federal financial assistance							
Base federal grants	-	-	-	-	-	(6,201)	(6,201)
BIL/IIJA federal grants	-	-	-	-	-	(18,847)	(18,847)
BIL/IIJA federal grants	171	-	3,855	3,974	782	37,111	45,893
Federal set-asides - BIL/IIJA federal grants	-	-	(3,795)	-	-	-	(3,795)
Transfers in from (out to) Parent government, net	(172)	(5)	(85)	(4,617)	(12,650)	20,574	3,045
Total noncapital subsidies	-	-	-	-	(11,868)	51,873	40,005
Operating income and noncapital subsidies	-	-	-	-	(8,663)	51,873	43,210
Nonoperating income (expense)							
Interest on cash and cash equivalents	-	-	-	-	373	1,839	2,212
Net depreciation of cash and cash equivalents	-	-	-	-	(10)	(46)	(56)
Interest on loans	-	-	-	-	-	3,899	3,899
Bond interest	-	-	-	-	-	(3,351)	(3,351)
Amortization of bond premiums	-	-	-	-	-	612	612
Bond cost of issuance	-	-	-	-	-	(767)	(767)
Net nonoperating income	-	-	-	-	363	2,186	2,549
Changes in net position	-	-	-	-	(8,300)	54,059	45,759
Net position - beginning of year	-	-	-	-	17,291	326,612	343,903
Net position - end of year	\$ -	\$ -	\$ -	\$ -	\$ 8,991	\$ 380,671	\$ 389,662

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, 2026

(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	\$ -	\$ -	\$ -	\$ -	\$ 3,456	\$ -	\$ 3,456
Cash paid for program administration	-	-	-	-	(365)	-	(365)
Net cash provided by operating activities	-	-	-	-	3,091	-	3,091
Cash flows from noncapital financing activities							
Proceeds from issuance of bonds payable	-	-	-	-	-	110,934	110,934
Bond proceeds reallocated - 2026 bonds and 2023 bonds	-	-	-	-	-	(15,000)	(15,000)
Repayments of long-term debt	-	-	-	-	-	(1,495)	(1,495)
Cash paid for interest	-	-	-	-	-	(3,051)	(3,051)
Cash paid for bond issuance costs	-	-	-	-	-	(767)	(767)
Nonoperating grants received	112	5	3,942	4,624	782	56,346	65,811
Federal grant funds expended for assistance	-	-	-	-	-	(25,048)	(25,048)
Federal grant funds expended for set-asides	-	-	(3,854)	-	-	-	(3,854)
Transfers in (out), net	(104)	(3)	(73)	(3,485)	(12,650)	20,575	4,260
Net cash provided (used) by noncapital financing activities	8	2	15	1,139	(11,868)	142,494	131,790
Cash flows from investing activities							
Interest received on cash and cash equivalents	-	-	-	-	406	1,928	2,334
Interest received on loans	-	-	-	-	-	3,591	3,591
Principal repayments on loans	-	-	-	-	-	18,590	18,590
Loan disbursements	-	-	-	-	-	(189,540)	(189,540)
Change in market value of cash and cash equivalents	-	-	-	-	(10)	(46)	(56)
Net cash provided (used) by investing activities	-	-	-	-	396	(165,477)	(165,081)
Net increase (decrease) in cash and cash equivalents	8	2	15	1,139	(8,381)	(22,983)	(30,200)
Cash and cash equivalents - beginning of year	-	-	-	-	17,302	55,118	72,420
Cash and cash equivalents - end of year	\$ 8	\$ 2	\$ 15	\$ 1,139	\$ 8,921	\$ 32,135	\$ 42,220

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, 2026

(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	\$ -	\$ -	\$ -	\$ -	\$ 3,205	\$ -	\$ 3,205
Adjustments to reconcile operating income of changes in net position to net cash provided by operating activities							
Changes in operating assets and liabilities							
Accounts receivable - borrowers	-	-	-	-	(172)	-	(172)
Accounts payable	-	-	-	-	58	-	58
Net cash provided by operating activities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,091</u>	<u>\$ -</u>	<u>\$ 3,091</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 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, 2026, 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 ____, 2026, 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.

Certified Public Accountants

Little Rock, Arkansas
_____, 2026

**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, 2026. 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, 2026.

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.

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.

Certified Public Accountants

Little Rock, Arkansas

____, 2026

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

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Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2026

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:

Assistance Listing Number (“ALN”) 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: \$ 1,000,000

Auditee qualified as a low-risk auditee? ☒ Yes ☐ No

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

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Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2026

<u>Reference Number</u>	<u>Summary of Finding</u>	<u>Status</u>
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No matters were reported in the June 30, 2025 Schedule of Findings and Questioned Costs.

STATE OF ARKANSAS SAFE DRINKING WATER
REVOLVING LOAN FUND PROGRAM

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Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2026

(In Thousands)

<u>Federal Grantor/Pass-Through Grantor Program or Cluster Title</u>	<u>ALN</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	\$ 53,015	\$ 62,471

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, 2026

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 (the "Program") under programs of the federal government for the year ended June 30, 2026. 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 Program, it is not intended to and does not present the net position, changes in net position or cash flows of the 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 Program has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.
3. During the year fiscal year ended June 30, 2026, the Program implemented a significant change to its SEFA reporting of direct federal expenditures to match Environmental Protection Agency guidance regarding federal "equivalency" reporting. Based on this change, there will be a difference between actual federal dollar expenditures reported in the combined financial statements and federal "equivalency" expenditures reported in the SEFA.

The term "equivalency" as it applies to the Program is documented in the Drinking Water State Revolving Fund ("DWSRF") regulation found in the Federal Register Vol. 65, No. 152, Section VII (S). An excerpt from the State Revolving Fund Equivalency Handbook in Appendix 1 on page 12, (released in June 2024), summarizes "equivalency" impact on the SEFA as follows:

"The DWSRF regulations' preamble highlights that, because the variance funding streams in a DWSRF fund are fungible (i.e. "each state's Fund consists of an indistinguishable combination of Federal, State, and recycled monies"), the equivalency requirements apply to projects in an amount equal to the federal capitalization grant, not necessarily to every project that receives disbursements for the federal grant. See also 40 CFR 35.3575(b), which explains that projects for which a state provides assistance in amounts up to the amount of the capitalization grant deposited into the infrastructure loan fund must comply with the federal cross-cutting requirements."

The Program requires infrastructure project borrowers to execute federal equivalency assistance agreements. These assistance agreements tie a project to one or more federal grants. The amount committed in an equivalency assistance agreement total can exceed the grant(s) for which it is tied because the entire project must be considered "equivalency" or "not equivalency" even if the amount reported as "federal" funds is less than the agreement amount. However, only the amount up to the grant amount is reported to meet Federal Funding Accountability and Transparency Act ("FFATA") requirements. Each equivalency assistance agreement is reported in SAM.gov to comply with the FFATA reporting requirements. Additionally, a federal grant may have multiple federal equivalency agreements tied to it.

Notes to Schedule of Expenditures of Federal Awards (cont.)

For the Year Ended June 30, 2026

For the SEFA, the guidance requires all current year disbursements for projects with an equivalency assistance agreement to be reported. For each agreement, the total disbursements are only reported up to the total allocated to each grant. Disbursements are applied towards the oldest grant first using a “first-in, first-out” method. Current year disbursements that exceed the assigned grant amount of the most current tied grant will not be reported in the current SEFA. In other words, if the most current tied grant amount is exhausted by matching disbursements in a fiscal year, future year disbursements will not be reported for that assistance agreement.

For the Program, in addition to federal equivalency assistance agreements, the federal grant set-sides are counted towards meeting each federal grant’s equivalency requirement; therefore, reducing the grant amount available for commitment to equivalency assistance agreements. Therefore, all federal expenditures of set-aside funds are reported as federal equivalency dollars in the SEFA along with the disbursements to federal equivalency assistance projects.

The tables below indicate current fiscal year available federal grants for the Program and their equivalency set-aside disbursement totals related to each grant for the fiscal year ended June 30, 2026:

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

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Notes to Schedule of Expenditures of Federal Awards (cont.)

For the Year Ended June 30, 2026

<u>Fed Grant Number</u>	<u>ALN</u>	<u>Federal Equivalency</u>				<u>Total Federal Equivalency</u>
		<u>Fayetteville (02357-DW)</u>	<u>Conway Corp (02347-DW)</u>	<u>Alma (02428-DW)</u>	<u>Magnolia (02508-DW)</u>	
4D-02F23301-0 (2022 IIJA GS)	66.468	\$ 750	\$ -	\$ -	\$ -	\$ 750
4E-02F27301-0 (2022 IIJA EC)	66.468	-	3,895	-	-	3,895
4L-02F27401-0 (2022 IIJA LSL)	66.468	-	-	-	-	-
FS-98600126-0 (2023 Base Cap Grant)	66.468	4,316	-	-	-	4,316
4D-02F23302-0 (2023 IIJA GS)	66.468	21,176	-	-	-	21,176
4E-02F27302-2 (2023 IIJA EC)	66.468	-	-	3,517	-	3,517
FS-98600127-0 (2024 Base Cap Grant)	66.468	3,850	-	-	-	3,850
4D-02F23303-0 (2024 IIJA GS)	66.468	15,264	-	-	-	15,264
4E-02F27303-0 (2024 IIJA EC)	66.468	-	-	-	247	247
FS-98600128-0 (2025 Base Cap Grant)	66.468	-	-	-	-	-
4D-02F23304-0 (2025 IIJA GS)	66.468	-	-	-	-	-
4E-02F27304-0 (2025 IIJA EC)	66.468	-	-	-	-	-
		<u>\$ 45,356</u>	<u>\$ 3,895</u>	<u>\$ 3,517</u>	<u>\$ 247</u>	<u>\$ 53,015</u>

<u>Fed Grant Number</u>	<u>ALN</u>	<u>Federal Set-Asides</u>					<u>Total Federal Equivalency</u>
		<u>Small System Technical Assistance</u>	<u>Well Head Protection</u>	<u>Capacity Development</u>	<u>Arkansas Department of Health State Program Management</u>	<u>Arkansas Natural Resources Commission Fees and Expense</u>	
4D-02F23301-0 (2022 IIJA GS)	66.468	\$ 128	\$ -	\$ -	\$ -	\$ -	\$ 128
4E-02F27301-0 (2022 IIJA EC)	66.468	-	-	-	-	55	55
4L-02F27401-0 (2022 IIJA LSL)	66.468	-	-	3,795	-	57	3,852
FS-98600126-0 (2023 Base Cap Grant)	66.468	1	3	70	303	-	377
4D-02F23302-0 (2023 IIJA GS)	66.468	44	-	-	2,577	670	3,291
4E-02F27302-2 (2023 IIJA EC)	66.468	-	-	-	-	-	-
FS-98600127-0 (2024 Base Cap Grant)	66.468	-	2	15	340	-	357
4D-02F23303-0 (2024 IIJA GS)	66.468	-	-	-	1,397	-	1,397
4E-02F27303-0 (2024 IIJA EC)	66.468	-	-	-	-	-	-
FS-98600128-0 (2025 Base Cap Grant)	66.468	-	-	-	-	-	-
4D-02F23304-0 (2025 IIJA GS)	66.468	-	-	-	-	-	-
4E-02F27304-0 (2025 IIJA EC)	66.468	-	-	-	-	-	-
		<u>\$ 173</u>	<u>\$ 5</u>	<u>\$ 3,880</u>	<u>\$ 4,617</u>	<u>\$ 782</u>	<u>\$ 9,456</u>

Grand total \$ 62,471

TAB 8

MEMORANDUM

To: ADFA Board Audit Committee
From: Megan Summitt, Internal Auditor
Date: October 1, 2026
Subject: Summary of the Annual Audit of the Arkansas Institutional Fund (AIF)

The audit of the Arkansas Institutional Fund (AIF) was performed by Landmark PLC and completed on June 25, 2026. The conclusion of the audit is that ADFA adhered to normal operations of the Fund. There were no findings of fraud or misconduct.

Page 4 of the audit report shows a Net Income of \$2,388,563 for the year ending 2025. The recognized impairments of \$24,079 were due to two investment funds winding down operations.

Members' Equity remains positive at \$3,405,630 the year ending 2025.

The remaining investments at cost value shown on Page 3 are \$3,069,631 with an outstanding balance on the line of credit against those investments of \$0.

Due to Act 944, the annual report on activities of the AIF is no longer required to be filed with the Governor's office, Bureau of Legislative Research, House and Senate Committees on Agriculture, Forestry, and Economic Development, and the Trustees of the AVCIT.



Arkansas Venture Capital Investment Trust (Fund Manager)
P. O. Box 8023
Little Rock, AR 72201

Arkansas Development Finance Authority (Fund Administrator)
P. O. Box 8023
Little Rock, Arkansas 72201

Cimarron Capital Associates I, LLC (Class A Member)
13905 Quail Pointe Drive, Suite A
Oklahoma City, Oklahoma 73134

We have audited the financial statements of **Arkansas Institutional Fund, LLC (the Fund)** as of and for the year ended December 31, 2025, and the related notes to the financial statements and have issued our report thereon dated June 25, 2026.

The Arkansas Development Finance Authority (ADFA) Board of Directors appointed the Arkansas Venture Capital Investment Trust as the Fund Manager, with ADFA serving as the Fund Administrator. Throughout this letter, the word “management” is intended to refer to the Fund Manager and the Fund Administrator, collectively or individually, as appropriate.

Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated March 31, 2026, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve management of any responsibilities with respect to the Fund.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Fund solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to management’s responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to management.

Landmark PLC, Certified Public Accountants

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to the Fund Manager in our engagement letter dated March 31, 2026.

In performing an audit in accordance with auditing standards generally accepted in the United States (U.S. GAAS), we identify and assess risks of material misstatement of the 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 financial statements. The identification of significant risks of material misstatement is necessary to determine matters that require focused audit attention. We identified management override of controls, improper revenue recognition and the reported carrying value of investments, including consideration of impairment loss, as significant risks of material misstatement. We obtained an understanding of the design and implementation of policies and procedures related to these risks, and we planned tailored audit procedures to address them. Based on our audit procedures, we did not identify any other significant risks of material misstatement to the financial statements.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm and our firm have complied with all relevant ethical requirements regarding independence.

Previously, we assisted with the development of an Excel workbook, referred to as the "Investment Allocation Workbook," that is used each year to allocate indirect expenses to each limited liability company and limited partnership in which the Fund invests. Each year, we may assist with data entry into the workbook. We also assist management in drafting the financial statements and related note disclosures. These are "nonattest services," which are services above and beyond those required to perform an audit in accordance with generally accepted auditing standards. With respect to these nonattest services, management is responsible for maintaining the Investment Allocation Workbook and for ensuring that the data entered in the workbook is accurate and complete. In addition, management is ultimately responsible for the adequacy of the methodology used to allocate indirect expenses. Management is responsible for the accuracy and completeness of the financial statements and related note disclosures, and for ensuring that such are presented in accordance with generally accepted accounting principles. Management has reviewed, approved and accepted responsibility for the results of all nonattest services we have provided. All nonattest services were subject to supervisory review by experienced members of the audit engagement team and the engagement director. In addition, the financial statement and the notes to the financial statements have been subjected to a technical review by an experienced auditor who was not directly involved in the Fund's audit.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Fund is included in Note 2 to the financial statements. There has been no initial selection of accounting policies, nor have there been any changes in significant

Qualitative Aspects of the Entity's Significant Accounting Practices (Continued)

Significant Accounting Policies (Continued)

accounting policies or their application during 2025. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions or (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates and Disclosures

Accounting estimates and related disclosures are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from those expected. The most sensitive accounting estimates affecting the financial statements are the estimated fair values of the Fund's investments and the evaluation of investments for impairment, as disclosed in Note 3 to the financial statements. Management's estimate of the fair value of each of the Fund's investments is based on the value reported by the management of the respective limited liability company or limited partnership in which the Fund invests. We did not apply auditing procedures to these fair value estimates, and they are not covered by our opinion.

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the Fund's financial statements are included in Note 2 and Note 3 to the financial statements, which describe the nature of the entities in which the Fund invests and the significant amount of subjectivity involved in estimating the fair values of the Fund's investments and evaluating these investments for impairment. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole, however we did not apply auditing procedures to the fair value estimates, and, as stated above, they are not covered by our opinion.

There are no other particularly sensitive or significant note disclosures. The financial statement disclosures are neutral, consistent and clear.

Significant Unusual Transactions

For the purposes of this communication, professional standards require us to communicate significant unusual transactions identified during our audit. There were no transactions that were deemed both significant and unusual during our audit.

Identified or Suspected Fraud

We have not identified, nor have we obtained information, that indicates that fraud may have occurred.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards also require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. There were no misstatements identified as a result of our audit procedures.

Disagreements with Management

For purposes of this communication, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting or auditing matter, which could be significant to the Fund's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Circumstances that Affect the Form and Content of the Auditor's Report

For purposes of this communication, professional standards require that we communicate to you any circumstances that affect the form and content of the auditor's report. We issued an unmodified opinion on the financial statements of the Fund. Our report includes an emphasis of matter paragraph to communicate that the estimated fair value of the Fund's investments, which is disclosed in Note 3 to the financial statements, has not been subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we do not express an opinion or provide any assurance on it.

Representations Requested from Management

We have requested certain written representations from management, which are included in the attached letter dated June 25, 2026

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, Issues

In the normal course of our professional association with the Fund, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the entity, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Fund's auditors.

Arkansas Venture Capital Investment Trust (Fund Manager)
Arkansas Development Finance Authority (Fund Administrator)
Cimarron Capital Associates I, LLC (Class A Member)
Page Five

Other Significant Matters, Findings, Issues (*Continued*)

This report is intended solely for the information and use of the Arkansas Venture Capital Investment Trust, Arkansas Development Finance Authority and Cimarron Capital Associates I, LLC and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Landmark PLC". The word "Landmark" is written in a cursive script, and "PLC" is written in a simpler, more upright font.

Little Rock, Arkansas
June 25, 2026



ROBERT "RO" ARRINGTON
PRESIDENT
ARKANSAS DEVELOPMENT
FINANCE AUTHORITY

June 25, 2026

Landmark PLC
200 West Capitol Ave, Suite 1700
Little Rock, Arkansas 72201

This representation letter is provided in connection with your audits of the financial statements of **Arkansas Institutional Fund, LLC** (the "Fund"), which comprise the balance sheets as of December 31, 2025 and 2024, and the related statements of operations, changes in members' equity, and statements of cash flows for the years then ended, and the related notes to the financial statements (collectively, the "financial statements"), for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, the financial position of the Fund in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

Arkansas Venture Capital Investment Trust is the Fund Manager and is responsible for oversight and administration of the daily operations of the Fund. The Arkansas Development Finance Authority (ADFA) serves as the administrator of the Fund. Together or individually, as appropriate in the circumstances, these entities are hereinafter referred to as "Management of the Fund".

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of June 25, 2026:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated March 31, 2026, including our responsibility for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP.
2. The financial statements referred to above are fairly presented in conformity with U.S. GAAP and include all financial information of the Fund required by U.S. GAAP to be included.
3. We acknowledge our responsibility for the design, implementation, and maintenance of the system of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
5. The methods, data, and significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement, or disclosure that is reasonable in the context of U.S. GAAP.

Arkansas Development Finance Authority
One Commerce Way, Suite 602 * Little Rock, AR 72202
ADFA.ARKANSAS.GOV

Financial Statements (Continued)

6. We have disclosed to you the identity of all related parties and all related party relationships and transactions of which we are aware. Other than those relationships and transactions disclosed in the notes to the financial statements, there are no related party relationships or transactions, including revenues, expenses, loans, transfer, leasing arrangements, guarantees and amounts receivable from or payable to related parties that are required to be accounted for or disclosed in accordance with the requirements of U.S. GAAP.
7. All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
8. We are not aware of any pending or threatened litigation, claims and assessments whose effects should be considered when preparing the financial statements and we have not consulted legal counsel concerning litigation, claims, or assessments.
9. With respect to nonattest services you provided, including assisting management in drafting the Fund's financial statements and related note disclosures in conformity with U.S. GAAP based on information provided by management and providing information, as we requested, to the Fund's tax accountants to assist in the calculation of profit allocations and tax distribution amounts in accordance with the Fund's LLC Agreement and Operating Agreement, we have performed the following:
 - Made all management decisions and performed all management functions;
 - Assigned a competent individual to oversee the services;
 - Evaluated the adequacy of the services performed;
 - Evaluated and accepted responsibility for the result of the service performed; and
 - Established and maintained internal controls, including monitoring ongoing activities.

Information Provided

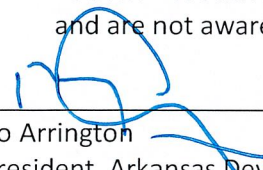
10. We have provided you with:
 - a. Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters;
 - b. Additional information that you have requested from us for the purpose of the audit; and
 - c. Unrestricted access to persons within ADFA from whom you determined it necessary to obtain audit evidence.
11. All transactions have been recorded in the accounting records and are reflected in the financial statements.
12. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
13. We have provided to you our analysis of the entity's ability to continue as a going concern, including significant conditions and events present.

Information Provided (Continued)

14. We have no knowledge of any fraud or suspected fraud that affects the Fund and involves:
 - a. Management;
 - b. Employees who have significant roles in internal control; or
 - c. Others when the fraud could have a material effect on the financial statements.
15. We have no knowledge of any allegations of fraud, or suspected fraud, affecting the Fund's financial statements communicated by ADFA employees, former ADFA employees, analysts, regulators, or others.
16. There are no known instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.
17. The Fund has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral except as disclosed in Note 5 to the financial statements.
18. We are in agreement with the adjusting journal entries you have recommended to convert the tax basis trial balance to the accrual basis to ensure financial reporting in accordance with U.S. GAAP, and they have been properly reflected in the Fund's financial statements. We understand that you have assisted us in preparing these journal entries, but that we, as the Fund's Management Agent, are ultimately responsible for reviewing and approving these entries.
19. As Replacement Fund Manager, we have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities of the Fund.
20. The estimated fair values of the Fund's investments that may be subject to a material change in the near term have been properly disclosed in the footnotes to the financial statements. We understand that *near term* means the period within one year of the date of the financial statements. In addition, we have no knowledge of concentrations existing at the respective dates of the financial statements that make the Fund vulnerable to the risk of severe impact that have not been properly disclosed in the financial statements. We understand that you have not audited the fair values of the Fund's investments, and you are expressing no opinion or other form of assurance on them.
21. The Fund has complied in all material respects with all contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
22. We are not aware of conditions or circumstances that would cause us to believe that Fulcrum Growth Fund II QP, LLC; Memphis Biomed Ventures II, L.P.; Meritus Ventures, L.P.; Noro-Moseley Partners VII, L.P.; Petra Growth Fund II, L.P.; or Technology Operators Fund II, L.P. *will not* continue as a going concern for at least one year from December 31, 2025. Fund for Arkansas' Future, LLC and Fund for Arkansas' Future II, LLC were liquidated during the year ended December 31, 2025.
23. The Fund does not own a controlling interest in nor does it have the ability to exercise significant influence over the operations of any investee limited partnership or limited liability company.

Information Provided (Continued)

24. We have performed an evaluation of estimated fair values in relation to recorded cost for each of the Fund's investments, taking into consideration our knowledge of the facts and circumstances relevant to each fund gained through our review of information provided to us by the funds' managing general partners or managing general members, as applicable. For the year ended December 31, 2025, we consider two of the Fund's reported investments to be permanently impaired, and an impairment loss has been reflected in the audited financial statements. To the best of our knowledge and belief, the Fund has the ability to hold all other investments for a reasonable period of time sufficient for recovery of fair value up to or beyond the cost of the investment except the two funds which liquidated during the year ended December 31, 2025, as mentioned in #22 above. As of the date of this letter, we have no evidence that the cost of investments, net of cumulative impairment losses, as reported at December 31, 2025, may not be recoverable.
25. Section 7.3.1 of the Second Amended and Restated Limited Liability Company Agreement of the Fund (the "Operating Agreement") provides that the Fund will make a cash distribution to the Class A Member in an amount sufficient to pay the aggregate tax liability incurred by the Class A Member that is attributable to ownership in the Fund if a performance distribution has not already been made. There are no amounts owed by the Fund to the Class A Member, which calculation is performed by tax accountants representing the Class A Member applying methodology which has previously been reviewed by legal counsel who is familiar with the details of the Operating Agreement. We have reviewed this underlying calculations and believe the absence of payable to the Class A Member at December 31, 2025 is consistent with the requirements of the Operating Agreement.
26. We acknowledge that the verbiage regarding the calculation of the performance distributions in Section 7.2 and the verbiage regarding allocations of net gain and loss in Section 8.2 of the Operating Agreement may be subject to varying interpretations. At the advice of legal counsel, it is our position that the 10% allocations of net gain and loss on the first and second investment rounds, if applicable, are calculated based on cumulative net gains or losses attributable to each investment round, and are not calculated on the basis of individual portfolio fund performance.
27. We acknowledge that you previously assisted with the development of an Excel workbook, referred to as the "Investment Allocation Workbook" (the Workbook), that is used each year to allocate indirect expenses to each limited liability company and limited partnership in which the Fund invests. Although you may assist with data entry into the workbook, we are responsible for the accuracy of all data in the Workbook, all controls over access to the Workbook and the resulting calculations in the Workbook. You may have assisted us to update the Workbook by entering the "Ending Capital Balance" and the "K-1 Income (Loss)" amounts for each Investment Capital Fund. You may also have entered amounts in the Historical P&L table for "Income," "Impairment Loss," "Fund Manager Fees," "Guarantee Fee," "Loan Commitment Fee," "Professional Fees" and "Other." We have reviewed, approved and accept responsibility for the data entry you performed and are not aware of any material adjustments or changes to the Workbook.



Ro Arrington
President, Arkansas Development Finance Authority
Trustee, Arkansas Venture Capital Investment Trust

AIF | ARKANSAS INSTITUTIONAL FUND

**Financial Statements
December 31, 2025**

(With Independent Auditor's Report Thereon)

Arkansas Institutional Fund, LLC

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INDEPENDENT AUDITOR'S REPORT

The Members
Arkansas Institutional Fund, LLC
Little Rock, Arkansas

We have audited the accompanying financial statements of **Arkansas Institutional Fund, LLC (the Fund)**, which comprise the balance sheets as of December 31, 2025, and the related statements of operations and changes in members' equity and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as of December 31, 2025, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (U.S. GAAS). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Fund 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 opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Fund's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

therefore, is not a guarantee that an audit conducted in accordance with U.S. GAAS 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 financial statements.

In performing an audit in accordance with U.S. GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the 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 financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Fund'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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Fund'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 audit, significant audit findings and certain internal control-related matters that we identified during the audit.

Other Matter

The estimated fair value of the Fund's investments, which is disclosed in Note 3 to the financial statements, has not been subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we do not express an opinion or provide any assurance on it.

A handwritten signature in black ink that reads "Landmark PLC". The signature is written in a cursive, flowing style.

Little Rock, Arkansas
June 25, 2026

Arkansas Institutional Fund, LLC

Balance Sheets December 31, 2025

	2025	2024
ASSETS		
Cash	\$ 490,072	\$ 308
Accounts Receivable	149,976	-
Investments, at cost	3,069,631	3,727,781
TOTAL ASSETS	\$ 3,709,679	\$ 3,728,089
LIABILITIES AND MEMBERS' EQUITY		
Liabilities		
Accounts payable	\$ 19,153	\$ 515
Distributions payable to member	284,896	-
Accrued interest payable	-	24,376
Line of credit	-	2,300,749
Total Liabilities	304,049	2,325,640
Members' Equity	3,405,630	1,402,449
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$ 3,709,679	\$ 3,728,089

See accompanying notes to financial statements.

Arkansas Institutional Fund, LLC

Statements of Operations and Changes in Members' Equity Years Ended December 31, 2025

	2025	2024
INCOME (LOSS)		
Investment Income (Loss), Net		
Investment income	\$ 2,507,827	\$ 25,918
Impairment loss	(24,079)	(32,896)
Total Investment Income (Loss), Net	2,483,748	(6,978)
Interest income	-	6,847
Total Income (Loss)	2,483,748	(131)
EXPENSES		
Guaranty fee	-	50,000
Interest expense	37,736	91,912
Management fees	18,639	21,775
Professional fees and investment expenses	38,350	53,195
Other	460	497
Total Expenses	95,185	217,379
NET INCOME (LOSS)	2,388,563	(217,510)
MEMBERS' EQUITY, BEGINNING OF YEAR	1,402,449	1,619,959
Distributions to member	(385,382)	-
MEMBERS' EQUITY, END OF YEAR	\$ 3,405,630	\$ 1,402,449

See accompanying notes to financial statements.

Arkansas Institutional Fund, LLC

Statements of Cash Flows Years Ended December 31, 2025

	<u>2025</u>	<u>2024</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income (Loss)	\$ 2,388,563	\$ (217,510)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided (Used) by Operating Activities		
Impairment loss	24,079	32,896
Changes in operating assets and liabilities:		
Accounts receivable	(149,976)	-
Other asset	-	40,532
Accounts payable	18,638	-
Accrued interest payable	(24,376)	21,950
Net Cash Provided (Used) by Operating Activities	<u>2,256,928</u>	<u>(122,132)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Return of capital	634,071	594,272
Net Cash Provided by Investing Activities	<u>634,071</u>	<u>594,272</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit	-	126,020
Repayment of line of credit	(2,300,749)	(597,607)
Distributions to members	(100,486)	(553)
Net Cash Used by Financing Activities	<u>(2,401,235)</u>	<u>(472,140)</u>
NET INCREASE IN CASH	489,764	-
CASH, BEGINNING OF YEAR	<u>308</u>	<u>308</u>
CASH, END OF YEAR	<u>\$ 490,072</u>	<u>\$ 308</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u>\$ 62,112</u>	<u>\$ 69,962</u>

See accompanying notes to financial statements.

Arkansas Institutional Fund, LLC

Notes to Financial Statements December 31, 2025

NOTE 1: NATURE OF OPERATIONS, ORGANIZATION AND MANAGEMENT OF THE FUND

The Arkansas Institutional Fund, LLC (the Fund) was organized in 2003, as a limited liability company under the laws of the state of Arkansas (the State). With the passage of the Arkansas Venture Capital Investment Act of 2001 (the VC Investment Act), the Arkansas Development Finance Authority (ADFA) was granted the authority to implement a Venture Capital Investment Program. The VC Investment Act calls for the identification and retention of a Designated Investor Group, as defined therein, to perform services required for implementation of the provisions of the VC Investment Act. The Fund is the entity appointed by ADFA to serve as the Designated Investor Group contemplated under the VC Investment Act and was reappointed as such in 2016. ADFA may, under certain circumstances, remove and replace the Designated Investor Group.

The Fund is not an investment company regulated under the Investment Company Act of 1940 and does not possess the characteristics of an investment company. The mission of the Fund is to increase the availability of equity and near-equity capital for emerging, expanding, relocating and restructuring enterprises in the State, with the ultimate goal of strengthening the State's economic base and the creation of jobs. The Fund will continue operations in perpetuity until it is dissolved by consent of the Class A Member-Cimarron Capital Associates I, LLC (a Delaware limited liability company, hereinafter referred to as "Cimarron") and ADFA or by operation of law.

The general operations of the Fund are specified in the Limited Liability Company Operating Agreement, as amended (the Operating Agreement), by and between Cimarron and the Class B Member, Arkansas Venture Capital Investment Trust (a public trust of the state of Arkansas, hereinafter referred to as the "Trust"). The ADFA Board of Directors provides oversight to the Fund. Written consent of ADFA is required to amend the Fund's Articles of Organization or Operating Agreement, or to dissolve the Fund. Consent of ADFA, along with that of Cimarron, is required before any distributions can be made from the Fund. The daily operations of the Fund are the responsibility of the Trust as the Fund Manager. The Trust has entered into an Administrative Services Agreement with ADFA to perform these daily operations.

The scope of services to be provided by the Designated Investor Group; the formation and management of the Fund; Fund Manager responsibilities, goals and compensation; permissible investments; allowable Fund expenses; the issuance and guarantee of Fund obligations and Fund reporting requirements are delineated in the Designated Investor Group Agreement, as amended (the DIG Agreement), by and between the Fund, the Trust, Cimarron and ADFA. The DIG Agreement, which is effective until terminated by written notice from ADFA to the Fund, specifies the scope of services to be provided by the Designated Investor Group to include management of commitments to capitalize the Fund, administration of the tax credit funding mechanism, management of the Fund's investments, and meeting all relevant reporting requirements.

As required by the terms of the Operating Agreement and the DIG Agreement, the Fund Manager must provide all office facilities, supplies and personnel necessary to perform the services specified in these agreements. The Operating Agreement sets forth general operating requirements of the Fund,

Arkansas Institutional Fund, LLC

Notes to Financial Statements December 31, 2025

NOTE 1: NATURE OF OPERATIONS, ORGANIZATION AND MANAGEMENT OF THE FUND (Continued)

including authorization of the payment of fees to the Fund Manager as compensation for management and oversight of daily operations. In addition, the Operating Agreement authorizes a loan (line of credit) to the Arkansas Venture Development Fund, LLC (AVDF), a separate legal entity for which the Trust serves as the sole member.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Fund are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Investments

The Fund invests in private equity, seed and venture capital funds organized as limited partnerships or limited liability companies (Investment Capital Funds), focusing on investment in companies that may have a positive impact on the economy in Arkansas. The investments of the Fund are focused principally on interests in private venture capital funds and not in direct investments in individual businesses. The Fund's interest in each Investment Capital Fund may not be assigned, sold, transferred or otherwise disposed of without written consent of the general partners or managers of the respective funds.

Investment Capital Funds are investments without readily determinable fair values. The Fund owns less than 20% of the total equity of each limited partnership or limited liability company in which it is invested, and the Fund is not a controlling partner or member of and does not exercise significant influence over the operations or financial policies of any of the Investment Capital Funds. Therefore, Investment Capital Funds are not accounted for under the equity method and are measured at cost, less any impairment. Capital contributions are recorded as increases to the carrying value of the investment. Income recognized by the Fund is limited to distributions of earnings received, except that distributions that exceed the Fund's cumulative share of earnings reduce the carrying value of the investment. Costs to perform legal review and negotiation procedures related to investment opportunities are expensed as incurred.

Management obtains a set of audited financial statements and fair value calculations of investments in underlying companies from the managing general partner or managing member of each of the Investment Capital Funds to which the Fund has committed more than \$100,000 unless this is financially infeasible due to the Investment Capital Fund having limited activity or no investments outstanding. This information is relied upon by ADFA in a qualitative consideration of potential impairment and in determining whether the impairment is temporary or other than temporary based on consideration of currently known facts and circumstances. If the impairment is determined to be other than temporary, the recorded amount of the investment is reduced and an impairment loss is recorded. At December 31, 2025, management recorded a reduction in the cost basis of approximately \$24,000 and \$33,000, respectively.

Arkansas Institutional Fund, LLC

Notes to Financial Statements December 31, 2025

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Given the nature of the Fund's investments, determining the estimated fair value of the Fund's interest in the Investment Capital Funds involves a great degree of subjectivity. Estimated fair values may differ significantly from the values that would result if a ready and active market for these investments existed, and such differences could be material. In addition, these estimated fair values could be subject to material changes in the near future, and such changes could have a significant impact on the Fund's financial statements.

Income Taxes

The Fund is treated as a partnership for income tax purposes, thus each member is allocated a share of the taxable income or loss, whether or not it is actually distributed, according to the terms of the Operating Agreement. Therefore, no provision for income taxes has been included in these financial statements. Certain transactions of the Fund may be subject to accounting methods for income tax purposes that differ from the accounting methods utilized for financial statement purposes. Accordingly, the net income or loss of the Fund and the resulting balances in the members' capital accounts reported for income tax purposes may differ from the balances reported in these financial statements.

Accounting standards require the Fund to evaluate its tax positions and recognize a tax liability (or asset) if the Fund has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. The Fund has analyzed its tax positions and has concluded that as of December 31, 2025, there are no uncertain positions taken or expected to be taken. The Fund may be subject to audit by the Internal Revenue Service; however, there are currently no audits for any tax periods in progress.

Estimates

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

NOTE 3: INVESTMENTS

The DIG Agreement authorized two rounds of investments. ADFA reserves the right to approve each investment commitment. The first round of investments (First Investment Round) consists of \$33.2 million and has been funded entirely from proceeds of the Fund's guaranteed obligation or loans from ADFA (see Note 5). The second round of investments (Second Investment Round), consists of \$4 million and has been funded with proceeds from a combination of contributions from the Trust, proceeds of the Fund's guaranteed obligation or loans from ADFA.

Arkansas Institutional Fund, LLC

Notes to Financial Statements December 31, 2025

NOTE 3: INVESTMENTS (Continued)

At December 31, 2025, the Fund's investments are as follows:

Investment Capital Fund	Total Commitment	Cumulative Investment Amount	Carrying Amount at Cost
Fulcrum Growth Fund II QP, LLC	\$ 4,000,000	\$ 4,615,944	\$ 748,921
Fund for Arkansas' Future, LLC	100,000	100,000	-
Fund for Arkansas' Future II, LLC	100,000	100,000	-
Memphis Biomed Ventures II, LP	4,000,000	4,000,000	221,516
Meritus Ventures, LP	2,000,000	2,000,000	-
Noro-Moseley Partners VII, LP	5,000,000	5,000,000	1,316,531
Petra Growth Fund II, LP	4,500,000	2,250,000	459,366
Technology Operators Fund II, LP	4,000,000	4,068,352	323,297
	<u>\$ 23,700,000</u>	22,134,296	<u>\$ 3,069,631</u>
Less Cumulative Returns of Capital and Impairment Loss		<u>(19,064,665)</u>	
Total Cost Basis		<u>\$ 3,069,631</u>	

At , the Fund's investments are as follows:

Investment Capital Fund	Total Commitment	Cumulative Investment Amount	Carrying Amount at Cost
Fulcrum Growth Fund II QP, LLC	\$ 4,000,000	\$ 4,615,944	\$ 871,355
Fund for Arkansas' Future, LLC	100,000	100,000	-
Fund for Arkansas' Future II, LLC	100,000	100,000	23,925
Memphis Biomed Ventures II, LP	4,000,000	4,000,000	222,096
Meritus Ventures, LP	2,000,000	2,000,000	-
Noro-Moseley Partners VII, LP	5,000,000	5,000,000	1,823,313
Petra Growth Fund II, LP	4,500,000	2,250,000	463,795
Technology Operators Fund II, LP	4,000,000	4,068,352	323,297
	<u>\$ 23,700,000</u>	22,134,296	<u>\$ 3,727,781</u>
Less Cumulative Returns of Capital and Impairment Loss		<u>(18,406,515)</u>	
Total Cost Basis		<u>\$ 3,727,781</u>	

Arkansas Institutional Fund, LLC

Notes to Financial Statements December 31, 2025

NOTE 3: INVESTMENTS (Continued)

At December 31, 2025, there were no remaining commitments outstanding.

During the year ended December 31, 2025, Fund for Arkansas' Future I & II made their final distributions, and those Investment Capital Funds were terminated.

The estimated fair values of the Fund's investments at December 31, 2025 totaled approximately \$8.8 million and \$15.0 million, respectively. These fair values are not covered by the independent auditor's opinion.

NOTE 4: LINE OF CREDIT

A \$36,000,000 line of credit agreement was executed with ADFA in 2017. Pursuant to the line of credit revolving promissory note with ADFA, interest is due at the discretion of the Fund, but at least annually at 3.45% on the outstanding balance. The related loan and security agreement requires compliance with certain covenants relating to financial reporting, sale of assets, mergers and consolidations, investments, transactions with affiliates and additional indebtedness. Borrowings under the line of credit are secured by the Fund's right and interest in a Tax Credit Transfer Agreement executed by the Fund and ADFA in 2003 insofar as such rights relate to the tax credits to be issued by ADFA in satisfaction of any demand made under the Guaranty Agreement. Under the terms of the Guaranty Agreement, ADFA committed \$10,000,000 of its Bond Guaranty Reserve Fund, created and maintained as required under related Arkansas laws, and agreed the balance of the indebtedness would be payable in transferable, non-recallable, non-rescindable Arkansas state income tax credits.

In March 2023, the line of credit was extended to March 2025, the amount available under the line was reduced to \$24,000,000 and the minimum interest rate was increased to 3.50%. During the year ended December 31, 2025, the line of credit was extended to March 2027, but was paid off in full in August 2025. The Fund has no intention of drawing on the line of credit and it will not be renewed.

NOTE 5: MEMBERS' EQUITY

As stipulated by the Operating Agreement, the Fund will allocate 5% of net profits of each Investment Capital Fund (inclusive of allocable losses and after allocation of specific direct costs) attributable to such Investment Capital Fund in the First Investment Round to Cimarron. Thereafter, 10% of net profits (inclusive of allocable losses and after allocation of specific direct and indirect costs) attributable, on a pooled basis, to all Investment Capital Funds in the First Investment Round, are to be allocated to Cimarron. All remaining profits and losses are allocated 0.1996% to Cimarron and 99.8004% to the Trust. The Second Investment Round is treated in a similar manner.

The liability of Cimarron and the Trust to the Fund is limited to any unpaid capital contributions and other payments agreed to in the Operating Agreement. The Fund may distribute to Cimarron an

Arkansas Institutional Fund, LLC

Notes to Financial Statements December 31, 2025

NOTE 5: MEMBERS' EQUITY (Continued)

amount equal to the aggregate federal, state and local income tax liability that Cimarron incurs as a result of Cimarron's ownership interest in the Fund (a tax distribution). In addition, to the extent balances are available after satisfaction of tax distribution obligations and the obligations related to the line of credit, such amounts are to be distributed to the members in accordance with the Operating Agreement. There were no fund by fund performance distributions at December 31, 2024. There were no tax distributions for the year ended December 31, 2024. The Fund paid and accrued discretionary performance distributions to Cimarron totaling approximately \$385,000 for the year ended December 31, 2025. There were no tax distributions for the year ended December 31, 2025.

The changes in members' equity during 2025 and 2024 are as follows:

	Cimarron (Class A)	Trust (Class B)	Total
Balance, January 1, 2024	\$ 529,688	\$ 1,090,271	\$ 1,619,959
Net loss	<u>(434)</u>	<u>(217,076)</u>	<u>(217,510)</u>
Balance, December 31, 2024	529,254	873,195	1,402,449
Net Income	136,755	2,251,808	2,388,563
Member distributions	<u>(385,382)</u>	<u>-</u>	<u>(385,382)</u>
Balance, December 31, 2025	<u>\$ 280,627</u>	<u>\$ 3,125,003</u>	<u>\$ 3,405,630</u>

NOTE 6: RISKS AND UNCERTAINTIES

The Fund's ability to recover its investment in the Capital Investment Funds is dependent upon a number of factors, including the ability of the individual Capital Investment Funds to generate and distribute cash flows to the Fund, their ability to execute investment exit strategies in accordance with their individual objectives, the economic and industry conditions in the geographic areas in which the Capital Investment Funds operate and other factors that may affect national securities markets.

NOTE 7: SUBSEQUENT EVENTS

The Fund has evaluated subsequent events through June 25, 2026, the date at which the financial statements were available to be issued.

TAB 9

ARKANSAS DEVELOPMENT FINANCE AUTHORITY
ADFA BOARD – HOUSING REVIEW COMMITTEE

AUGUST 20, 2026

VIA ZOOM

Housing Review Committee Members Present: Rod Coleman, Committee Chair; Jon Chadwell Committee Vice Chair; and Katelyn Martin.

Housing Review Committee Members Absent: Russ Martin.

ADFA Board Members Present: Martin Eggensperger; Andy Goodman; Alan McVey (Designee, Jim Hudson, Secretary, Department of Finance and Administration); Carey Smith; Kirkley Thomas; Kenneth Burleson (Designee, John Thurston, Arkansas Treasurer of State).

ADFA Board Members Absent: Hugh McDonald, Cabinet Secretary of Department of Commerce; and Denise Sweat.

ADFA Staff Present Via Zoom: Robert “Ro” Arrington, President, Arkansas Development Finance Authority; John Blackwell, Vice President, Tax Credits; Jake Bleed, General Counsel; Lori Brockway, Federal Programs Manager; Blake Bumgardner, CDBG-DR Specialist; Charles “Chuck” Cathey, Vice President, Development Finance; Patricia Cearns, CDBG-DR Grants Administration Coordinator; Alex Clark, Senior Accountant; Kristy Cunningham, CFO; Luke Cooper, Finance Analyst; Sean Doolin, Assistant Controller; Paula Farthing, Loan Servicing Manager; Cathy Ganaway, Senior Accountant; Tracy Grant, Assistant Controller; Alisa Green, HOME-ARP Program Specialist; Lanita Hastings, Federal Housing Programs Grant Coordinator; Kimmy Helble, Executive Assistant to President; Amanda Hill, Federal Housing Programs Coordinator; Carol Leek, Federal Housing Programs Coordinator; Sam Leslie, Construction Inspector; Hope Lewis, Controller; Yedda Matthews, Senior Accountant; Julia Phelps, Senior Financial Accountant; Drew Rogers, Attorney Specialist; Derrick Rose, Director of Communication; Nick Sherwood, HOME-ARP Compliance Coordinator; Megan Summitt, Internal Auditor; Jenise Tucker, Accountant; Tammy White, Compliance Manager; Tony Williams, Director, Arkansas Student Loan Authority; and Birkett Wootton, Construction Inspector.

Others Present: Eric Munson, Bank of OZK; Casey Kleinhenz, Community Development Northwest Arkansas; Ryan Bowman, Taylor Marshall, and Michael Moyers. Friday Law Firm; Anne Burger Entekin, Hilltop Securities; Kathleen Orlandi, Hawkins Delafield and Wood; Nick Emenhiser, Mercy Housing; Taylor Chancellor; PDC Companies; Ted Fellman and Cheryl Schluterman, Raymond James; Kristina Knight, RichSmith Development; Traci Williams, Rockwell Housing Solutions; Jim Folwer, Rose Law Firm; Jason Holsclaw and Lindsey Ollar, Stephens Inc; and Nona McVay and Lornea Wells, The McVay Firm.

Call to Order: Mr. Coleman called the meeting to order at approximately 10:00 AM.

Opening Statement: Mr. Coleman stated that he appreciated the approval of the policy that allowed the meeting to be convened via Zoom. Mr. Coleman asked whether everyone could hear clearly as per the policy and asked that be confirmed during the roll call.

For each Board member present it was verbally noted that they were able to hear the person speaking and in return their audio was clear.

Minutes: Mr. Coleman presented the Housing Review Committee minutes from the July 16, 2026, meeting and entertained a motion to accept the minutes as presented.

Ms. Martin made a motion to accept the minutes.

Mr. Chadwell seconded the motion. The motion passed.

Mr. Coleman presented the Housing Review Committee Qualified Allocation Plan (QAP) minutes from the July 21, 2026, meeting and entertained a motion to accept the minutes as presented.

Ms. Martin made a motion to accept the minutes.

Mr. Chadwell seconded the motion. The motion passed.

Action Memo: 2027 Qualified Allocation Plan (QAP) - Final Draft: Mr. Blackwell stated that only six changes had been proposed by the Housing Review Committee and provided a summary of those revisions.

Mr. Blackwell explained that the language regarding the state Low Income Housing Tax Credits (LIHTC) had been clarified by revising one sentence to specify that the state LIHTC applied only for 9% applicants and was awarded to the highest-scoring application. He noted that various tie-breakers were included should a tie occur.

Mr. Blackwell continued the second change was the increase in the per unit credit and cost limits for LIHTC. These limits had been raised by 5%, and the Single Family Detached Option had been eliminated. He clarified the Single Family Detached development remained permissible, but would now be subject to all other New Construction Credit Per Unit Limits. He further noted that the 4% LIHTC Per Unit Cost Limit had been increased from \$245,000 to \$300,000.

Mr. Blackwell stated the third item that was changed was a clarification to the Credit Exchange Policy, adding that to request a credit exchange, the 10% test must be completed on the development and construction begun.

The fourth item changed was an increase of \$10,000 to the Total Development Cost Per Unit Scale. Previously, 15 points were awarded for \$200,000 and below; the threshold had been raised to \$210,000 and below, with each subsequent category also increased by \$10,000.

Mr. Blackwell continued that the fifth change was an increase to the 9% LIHTC Reserve for allocation to one individual development, which had been raised from \$1,250,000 to \$1,300,000.

He stated the sixth change was an addition to the 4% LIHTC policy to unlock the subsidy. Mr. Blackwell provided brief history, noting that unlocking the 4% subsidy previously required meeting the 50% test. The One Big Beautiful Bill Act had reduced that to 25%. The new addition would establish a cap of 30% of the sum of aggregate eligible basis and land or supportable permanent debt, as determined by ADFA underwriting.

Mr. Blackwell submitted the 2027 Qualified Allocation Plan (QAP) to the Committee for approval.

Being no comments or questions, Mr. Coleman entertained a motion to approve the 2027 QAP.

Ms. Martin made a motion to approval the 2027 QAP as presented.

Mr. Chadwell seconded the motion. The motion passed.

Action Memo: Approval of the CDBG-DR Multi-Family Guidelines: Ms. Brockway presented the CDBG-DR Multi-Family Guidelines and confirmed with the Committee that they had the opportunity to review them.

Ms. Brockway entertained questions or comments from the Committee.

Mr. Coleman provided a reminder of the storms and problems from 2023 and 2024 that affected Benton, Cross, and Pulaski counties, outside the city of Little Rock. These guidelines cover a very limited scope.

Being no comments or questions, Mr. Coleman entertained a motion to approve the CDBG-DR Multi-Family Guidelines.

Ms. Martin made a motion to approve.

Mr. Chadwell seconded the motion. The motion passed.

Action Memo: Approval of the Homebuyer Assistance Program: Ms. Brockway stated that ADA staff had been looking to provide homebuyer assistance funding for new construction homes. After working with a consultant, staff felt this was the best approach to a homebuyer assistance program.

Ms. Brockway stated that the policies were not final. She was seeking approval of the concept to continue to move forward with this program.

Mr. Coleman stated that this program would assist the Benton, Cross, and Pulaski counties, outside of Little Rock.

Being no comments or questions, Mr. Coleman entertained a motion to approve the Homebuyer Assistance Program as presented.

Ms. Martin made a motion to approve.

Mr. Chadwell second the motion. The motion passed.

Reports: Federal Housing Programs: For information only. No action needed.

Adjournment: Mr. Coleman concluded the meeting at approximately 10:13 AM.

Minutes approved and signed on this 20th day of August 2026.

Rod Coleman,
Housing Review Committee Chair

TAB 10

STAFF HOUSING REVIEW COMMITTEE ACTION MEMORANDUM

Staff HRC Meeting: October 1, 2026
Prepared By: Alisa Green

Presented By: Lori Brockway

HOUSING PARTNER

Name of Entity:	ARVAC
Address of Entity:	227 SR 333 Russellville, AR 72802
Contact Person:	Stephanie Garner, Chief Executive Officer
Phone	479-219-5292, ext. 1105
Email Address:	sgarner@arvacinc.org

Name of Development:	Mustard Seed Village 400 Lake Front Drive, Russellville, AR 72802 Pope, County MITAS# 5728
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ACTION REQUESTED

- ARVAC is seeking \$1,168,876.38 in HOME-ARP NCS and \$5,830,924.62 Non-Federal funds to construct 14 NCS units with 29 beds (19 adult beds and 10 crib/baby beds).

DEVELOPMENT INFORMATION

Amount Requested: ADFA HOME- ARP: \$1,168,876.38 and Non-Federal \$5,830,924.62 funding in the form of a forgivable loan.

Developer in Compliance: There are no outstanding issues with monitoring results from other Federal or State Agencies.

Application Score: 87

Background Information: Total development budget is \$6,999,801.00 to construct 14 units with a total capacity of 29 beds (19 adult beds and 10 crib/baby beds). The NCS housing is new construction of a 1-story development dedicated to serve the QP Domestic and Fleeing individuals/families. There will be 8 studio units for single adults, 4 two-bedroom family units for parents with children, 1 ADA fully accessible one-bedroom unit, and 1 fully ADA accessible two-bedroom family unit are all efficiencies that will allow a private bathroom, and a small kitchenette. The project includes administrative offices, private intake and assessment rooms, multipurpose community room, shared laundry facilities, and common areas for resident programming and support groups. Outdoor amenities include a secure playground, perimeter fencing, and monitored entry systems.

ARVAC has leveraged land valued at \$1,200,000.00 for the NCS project.

Funding Sources:

Total Budget:	\$ 6,999,801.00
HOME-ARP NCS Construction	\$ 1,168,876.38
Non-Federal Funds:	\$ 5,830,924.62

HOME-ARP request	\$ 1,168,876.38
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FINAL RECOMMENDATION OF STAFF HOUSING REVIEW COMMITTEE

Recommended for Approval

STAFF HOUSING REVIEW COMMITTEE ACTION MEMORANDUM

Staff HRC Meeting: October 1, 2026
Prepared By: Alisa Green

Presented By: Lori Brockway

HOUSING PARTNER

Name of Entity: Immerse Arkansas
Address of Entity: 5300 Asher Ave
Little Rock, AR 72204
Contact Person: Eric Gilmore, Chief Executive Officer
Phone: 501-404-9890 ext. 700
Email Address: eric@immersearkansas.org

Name of Development: NWA Youth Center
Near 1210 North 54th Avenue, Fayetteville AR 72704
Washington, County
MITAS# 5724

ACTION REQUESTED

- Immerse AR is seeking \$5,977, 994.00 in HOME-ARP NCS funds to construct 15 NCS units.

DEVELOPMENT INFORMATION

Amount Requested: ADFA HOME- ARP: \$ 5,977,994.00 in the form of a forgivable loan.

Developer in Compliance: There are no outstanding issues with monitoring results from other Federal or State Agencies.

Application Score: 80

Background Information: Total development budget is \$6,667,994 to construct 15 units. The NCS housing is new construction of a 1-story development dedicated to serve QP Unaccompanied Youth 18-24 exiting foster care. The units are all efficiencies that will allow a private bathroom, and a small kitchenette; with two larger units to accommodate young parent(s) with children. All units are Audio-visual accessible, with 1 ADA accessible unit. The project also offers common kitchen area, community living and recreation areas, therapy and coaching rooms, and outdoor spaces for recreation.

Funding Sources:
Total Budget: \$ 6,677,994.00
HOME-ARP NCS Construction: \$ 5,977,994.00
Private Foundation: \$ 700,000.00

HOME-ARP request	\$ 5,977,994
Nonprofit share	\$ 700,000

FINAL RECOMMENDATION OF STAFF HOUSING REVIEW COMMITTEE

Recommended for Approval

TAB 11

HOME

Activities Report

STATUS OF HOME ACTIVITIES - IDIS

9/30/20026

FUNDING STATUS - PROJECTS

IDIS Activity	Activity Type	Activity Name	Activity Status	Last Draw Date	Home Units	Total Units	Committed Amount	Drawn Amount	% HOME Expended
14915	NC	Cottage Lane Village	Open	5/6/2026	11	40	\$1,760,000.00	\$1,584,000.00	90%
14978	NC	McAuley Place Apartments	Open	6/18/2026	11	60	\$1,980,000.00	\$1,782,000.00	90%
14979	NC	McAuley Place Apartments - Ph II	Open	6/18/2026	17	60	\$3,000,000.00	\$2,700,000.00	90%
14995	NC	The Bluffs at Shackleford	Open	8/5/2026	11	61	\$2,000,000.00	\$1,800,000.00	90%
15009	NC	Harrison Estates	Open	5/6/2026	10	60	\$1,858,964.00	\$1,358,067.60	73%
15010	NC	Harrison Estates Senior Housing	Open	8/5/2026	11	60	\$1,835,829.00	\$1,652,246.10	90%
15013	NC	Walnut Commons 2024 (HOME)	Open	8/12/2026	11	60	\$1,800,000.00	\$1,620,000.00	90%
15036	TBRA	Brad Black River Area Development (ADMIN)	Open	9/24/2026			\$22,548.00	\$5,307.12	24%
15037	TBRA	Brad Black River Area Development (HAP/PD)	Open	9/24/2026	40	15	\$261,480.00	\$62,521.20	24%
15040	TBRA	HA of the City of Conway (ADMIN)	Open	8/13/2026			\$143,245.00	\$872.60	1%
15041	TBRA	HA of the City of Conway (HAP/PD)	Open	8/13/2026	100	0	\$1,477,450.00	\$17,276.00	1%
15095	NC	Waystone Batesville Family	Open		11	60	\$2,114,431.00	\$0.00	0%
15096	NC	Waystone Batesville Senior	Open		9	40	\$1,692,778.00	\$0.00	0%
15103	NC	Pine Ridge Place	Open		10	61	\$2,000,000.00	\$0.00	0%
					242	516	\$21,946,725.00	\$12,582,290.62	

Portion Funded

\$145,912.20

Portion Funded

\$149,712.00

DEADLINE STATUS - PROJECTS

IDIS Activity	Activity Type	Activity Name	Earliest Grant Yr	Expenditure Deadline	Period of Performance	SF-425 Filing Deadline	Grant Closeout Deadline	Written Agreement Date	IDIS - 4 YR Project Completion Deadline	NOTES	Inspection Date	% Construction Completion	Inspection Phase
14915	NC	Cottage Lane Village	2021	9/30/2029	9/30/2029	1/28/2030	9/30/2030	5/28/2024	5/28/2028		8/28/2026	99%	CONSTRUCTION
14978	NC	McAuley Place Apartments	2021	9/30/2029	9/30/2029	1/28/2030	9/30/2030	2/24/2025	2/24/2029		9/4/2026	98%	CONSTRUCTION
14979	NC	McAuley Place Apartments - Ph II	2021	9/30/2029	9/30/2029	1/28/2030	9/30/2030	2/24/2025	2/24/2029		9/22/2026	100%	FINAL
14995	NC	The Bluffs at Shackleford	2021	9/30/2029	9/30/2029	1/28/2030	9/30/2030	6/26/2025	6/26/2029		6/25/2026	99%	CONSTRUCTION
15009	NC	Harrison Estates	2021	9/30/2029	9/30/2029	1/28/2030	9/30/2030	7/1/2025	7/1/2029		9/1/2026	75%	CONSTRUCTION
15010	NC	Harrison Estates Senior Housing	2021	9/30/2029	9/30/2029	1/28/2030	9/30/2030	7/1/2025	7/1/2029		8/4/2026	100%	FINAL
15013	NC	Walnut Commons 2024 (HOME)	2021	9/30/2029	9/30/2029	1/28/2030	9/30/2030	8/6/2025	8/6/2029		9/22/2026	95%	CONSTRUCTION
15095	NC	Waystone Batesville Family	2022	9/30/2030	9/30/2030	1/28/2031	9/30/2031	6/10/2025	6/10/2029		9/22/2026	<1%	PRE-CONSTRUCTION
15096	NC	Waystone Batesville Senior	2022	9/30/2030	9/30/2030	1/28/2031	9/30/2031	7/1/2025	7/1/2029		7/30/2026	2%	CONSTRUCTION
15103	NC	Pine Ridge Place	2022	9/30/2030	9/30/2030	1/28/2031	9/30/2031	7/1/2026	7/1/2030		9/22/2026	1%	CONSTRUCTION

Written Agreement Date

TBRA - 2 YR COMPLETION

Portion Funded

\$145,912.20

Portion Funded

\$149,712.00

FUNDING STATUS - ADMIN

15044	ADMIN	ADFA HOME ADMIN / RECORDING 2020	Open	9/30/2028		\$500.00	\$240.00	48.0%
14677	ADMIN	ADFA ADMINISTRATION 2021	Open	9/30/2029		\$1,261,846.40	\$597,675.06	0.0%
14762	ADMIN	ADFA ADMINISTRATION 2022	Open			\$1,730,109.66	\$0.00	0.0%
14940	ADMIN	ADFA ADMINISTRATION 2023	Open			\$1,616,016.87	\$0.00	0.0%
14953	ADMIN	ADFA ADMINISTRATION 2024	Open			\$1,532,651.77	\$0.00	0.0%
15043	ADMIN	ADFA ADMINISTRATION 2025	Open			\$2,231,886.43	\$0.00	0.0%
						\$8,373,011.13	\$597,915.06	
						TOTAL HOME	\$30,319,736.13	\$13,180,205.68

HOME AVAILABLE TO COMMITT

\$25,432,849.46

NHTF
Activities Report

STATUS OF NHTF ACTIVITIES - IDIS															
9/30/20026															
FUNDING STATUS - PROJECTS															
IDIS Activity ID	Program Year	Activity Type	Activity Name	Activity Status	Last Draw Date	Initial Funding Date	HTF Units	Total Units	Committed Amount	Drawn Amount	PCT				
14995	2024	NC	THE BLUFFS AT SHACKLEFORD (NHTF)	Open	7/8/2026	6/27/2025	5	61	\$1,000,000.00	\$900,000.00	90.0%				
15011	2024	NC	WALNUT COMMONS (NHTF)	Open	8/12/2026	7/21/2025	4	60	\$754,000.00	\$678,600.00	82.3%				
15094	2025	NC	WAYSTONE BATESVILLE FAMILY LP - (NHTF)	Open		6/19/2026	2	60	\$379,500.00	\$0.00	0.0%				
15104	2026	NC	PINE RIDGE PLACE (NHTF)	Open		9/29/2026	3	61	\$466,486.00	\$0.00	0.0%				
							11	181	\$2,599,986.00	\$1,578,600.00					
DEADLINE STATUS - PROJECTS															
IDIS Activity ID	Program Year	Activity Type	Activity Name	Earliest Grant Yr	Expenditure Deadline	Period of Performance	SF-425 Filing Deadline	Grant Closeout Deadline	Written Agreement Date	4 YR Project Completion Deadline	NOTES	Inspection Date	% Construction Completion	Inspection Phase	
14998	2024	NC	THE BLUFFS AT SHACKLEFORD (NHTF)	2023	8/1/2028	8/1/2030	11/29/2030	8/1/2031	6/11/2025	6/11/2029		9/22/2026	100%	FINAL	
15011	2024	NC	WALNUT COMMONS 2024 (NHTF)	2023	8/1/2028	8/1/2030	11/29/2030	8/1/2031	7/18/2025	7/18/2029		9/22/2026	95%	CONSTRUCTION	
15094	2024	NC	WAYSTONE BATESVILLE FAMILY LP - (NHTF)	2024	12/17/2029	12/17/2031	4/15/2032	12/17/2032	6/10/2026	6/10/2030		9/22/2026	<1%	PRE-CONSTRUCTION	
15104	2026	NC	PINE RIDGE PLACE (NHTF)	2024	12/17/2029	12/17/2031	4/15/2032	12/17/2032	6/10/2026	6/10/2030		9/22/2026	1%	CONSTRUCTION	
FUNDING STATUS - ADMIN															
IDIS Activity ID	Program Year	Activity Type	Activity Name	Activity Status	Expenditure Deadline	Initial Funding Date			Committed Amount	Drawn Amount	PCT	Expenditure Deadline			
14512	2021	ADMIN	ADFA NHTF ADMIN 2021	Open	9/24/2026	11/23/2021			\$412,310.90	\$404,695.15	98%	10/31/2026			\$7,615.75 At Risk
14725	2022	ADMIN	ADFA NHTF ADMIN 2022	Open		2/13/2023			\$457,393.80	\$0.00	0%	8/29/2027			
14921	2023	ADMIN	ADFA NHTF ADMIN 2023	Open		8/9/2024			\$300,053.71	\$0.00	0%	8/1/2028			
14921	2024	ADMIN	ADFA NHTF ADMIN 2024	Open		2/10/2025			\$301,732.55	\$0.00	0%	12/17/2029			
15042	2025	ADMIN	ADFA NHTF ADMIN 2025	Open		4/6/2025			\$311,525.51	\$0.00	0%	12/17/2029			
									\$1,783,016.47	\$404,695.15					
							TOTAL NHTF	\$4,383,002.47	\$1,983,295.15						
							NHTF AVAILABLE TO COMMITT	\$3,069,148.81							
							Verify	\$4,383,002.47	\$1,983,295.15						

HOME - ARP
Activities Report

HOME-ARP											
Organization	Proposed Use	Status	ADFA HOME-ARP NCS Project Funding	DR Submitted	Approved	Retainage 10%	Committed Funds Remaining to Expend	% Expended	Completion %	TBD	TBD
Women & Children First	Non-Congregate Shelter	Final Cost Certification	\$ 7,000,000.00	\$ 6,523,989.46	\$5,871,590.51	\$652,398.95	\$ 476,010.54	93.20%	98%		
Next Step Day Room Inc	Non-Congregate Shelter	Notice To Proceed	\$ 3,696,295.23	\$ -		\$0.00	\$ 3,696,295.23	0.00%	0.00%		
Arkansas Enterprises for the Developmentally Disabled, Inc (AEDD)	Non-Congregate Shelter	Final Cost Certification	\$ 4,618,543.00	\$ 4,618,543.00	\$4,156,688.70	\$461,854.30	\$ -	100.00%	100%		
Our House Inc	Non-Congregate Shelter	Final Cost Certification	\$ 3,772,485.00	\$ 2,530,693.98	\$2,277,624.58	\$253,069.40	\$ 1,241,791.02	67.08%	95%		
NOFA for 2026 NCS Applications: \$7,146,870.38			\$ 19,087,323.23	\$ 13,673,226.44	\$12,305,903.79	\$1,367,322.65	\$ 5,414,096.79	72%	73%		
*Report as of September 30 , 2026											

ESG Activities Report

ESG - 2024-2025 Award Report														
					Approved Disbursement									
Organization	Program Funding	Status	Awarded Funding	ADMIN Max Allowed 1%	2023 Funds	2024 Funds	Total	% Expended	De-Obligated	SO	ES	RRH	HP	HMIS- Max Allowed 5%
St Bernards Foundation	ESG	Completed	\$10,000.00	\$0.00	\$2,292.34	\$3,048.97	\$5,341.31	53%	\$4,658.69	\$10,000	\$0.00	\$0.00	\$0.00	\$0.00
Riverview Hope Campus	ESG	Completed	\$291,818.00	\$2,753.00	\$18,526.34	\$217,542.89	\$236,069.23	81%	\$55,748.77	\$5,000	\$200,000.00	\$60,300.00	\$10,000.00	\$13,765.00
Margies Haven House Inc	ESG	Completed	\$25,295.50	\$245.50	\$7,450.10	\$17,700.09	\$25,150.19	99%	\$145.31	\$0	\$24,550.00	\$0.00	\$0.00	\$500.00
ARVAC, Inc	ESG	Completed	\$789,500.00	\$1,500.00	\$221,922.38	\$347,156.26	\$569,078.64	72%	\$220,421.36	\$35,000	\$450,000.00	\$115,000.00	\$158,000.00	\$30,000.00
St Francis House	ESG	Completed	\$50,500.00	\$500.00	\$7,643.62	\$37,984.56	\$45,628.18	90%	\$4,871.82	\$0	\$45,000.00	\$5,000.00	\$0.00	\$0.00
Second Chance DV SA Shelter	ESG	Completed	\$15,900.00	\$150.00	\$2,850.79	\$10,314.35	\$13,165.14	83%	\$2,734.86	\$0	\$15,000.00	\$0.00	\$0.00	\$750.00
River City Ministry of Pulaski County	ESG	Completed	\$80,800.00	\$800.00	\$15,495.92	\$64,931.71	\$80,427.63	100%	\$372.37	\$0	\$80,000.00	\$0.00	\$0.00	\$0.00
Crowley's Ridge Development Council	ESG	Completed	\$90,100.00	\$850.00	\$10,233.69	\$79,308.19	\$89,541.88	99%	\$558.12	\$0.00	\$0.00	\$85,000.00	\$0.00	\$4,250.00
The Salvation Army - El Dorado	ESG	Completed	\$126,075.00	\$500.00	\$15,584.83	\$56,378.32	\$71,963.15	57%	\$54,111.85	\$0.00	\$70,225.00	\$0.00	\$55,350.00	\$0.00
Our House Shelter Program	ESG	Completed	\$72,500.00	\$500.00	\$8,856.68	\$63,643.32	\$72,500.00	100%	\$0.00	\$0.00	\$72,000.00	\$0.00	\$0.00	\$0.00
Women & Children First	ESG	Completed	\$44,990.40	\$400.00	\$6,943.99	\$29,485.45	\$36,429.44	81%	\$8,560.96	\$0.00	\$43,590.40	\$0.00	\$0.00	\$1,000.00
City of Hot Springs	ESG	Completed	\$59,974.00	\$574.00	\$0.00	\$59,974.00	\$59,974.00	100%	\$0.00	\$6,000.00	\$51,400.00	\$0.00	\$0.00	\$2,000.00
The Salvation Army -NWA	ESG	Completed	\$100,000.00	\$0.00	\$25,044.10	\$74,514.42	\$99,558.52	100%	\$441.48	\$0.00	\$70,000.00	\$30,000.00	\$0.00	\$0.00
River Valley Shelter for Battered Women	ESG	Completed	\$37,013.00	\$363.00	\$0.00	\$36,915.77	\$36,915.77	100%	\$97.23	\$0.00	\$36,300.00	\$0.00	\$0.00	\$350.00
Micah68 Initiative	ESG	Completed	\$142,000.00	\$0.00	\$0.00	\$117,279.73	\$117,279.73	83%	\$24,720.27	\$0.00	\$90,000.00	\$25,000.00	\$25,000.00	\$2,000.00
Peace at Home Family Shelter	ESG	Completed	\$31,800.00	\$300.00	\$9,696.78	\$22,103.22	\$31,800.00	100%	\$0.00	\$0.00	\$30,000.00	\$0.00	\$0.00	\$1,500.00
Mission Outreach of Northeast AR, Inc	ESG	Completed	\$36,350.00	\$350.00	\$3,144.88	\$26,481.51	\$29,626.39	82%	\$6,723.61	\$0.00	\$35,000.00	\$0.00	\$0.00	\$1,000.00
Next Step Day Room, Inc	ESG	Completed	\$100,700.00	\$950.00	\$20,506.19	\$69,007.52	\$89,513.71	89%	\$11,186.29	\$20,000.00	\$75,000.00	\$0.00	\$0.00	\$4,750.00
Serve NWA	ESG	Completed	\$98,555.80	\$975.80	\$25,688.30	\$72,867.50	\$98,555.80	100%	\$0.00	\$0.00	\$97,580.00	\$0.00	\$0.00	\$0.00
Harrison House of Hope	ESG	Completed	\$112,100.00	\$1,100.00	\$771.91	\$0.00	\$771.91	1%	\$0.00	\$0.00	\$50,000.00	\$30,000.00	\$30,000.00	\$1,000.00
Totals			\$2,315,971.70	\$12,811.30	\$402,652.84	\$1,406,637.78	\$1,809,290.62	78.12%	\$395,352.99	\$76,000.00	\$1,535,645.40	\$350,300.00	\$278,350.00	\$62,865.00
2023 Funding: \$ 598,695.48 2024 Funding: \$ 2,296,487.00												Report as of September 30, 2026		

ADMIN 2024 Expended Award			Total
	2023	2024	
ADFA	\$44,902.15	\$128,734.34	\$173,636.49
Subgrantees	\$0.00	\$6,016.64	\$6,016.64

ESG - 2025-2026 Award Report														
					Approved Disbursement									
Organization	Program Funding	Status	Awarded Funding	ADMIN Max Allowed 1%	2024	2025	Total	% Expended	TBD	SO	ES	RRH	HP	HMIS- Max Allowed 5%
Depaul	ESG	Notice to Proceed	\$171,849.00	\$1,701.00	\$17,919.62	\$0.00	\$17,919.62	10%		\$0	\$170,148.00	\$0.00	\$0.00	\$0.00
Mississippi County Union Mission	ESG	Notice to Proceed	\$103,880.00	\$980.00	\$17,573.66	\$0.00	\$17,573.66	17%		\$0	\$75,000.00	\$23,000.00	\$0.00	\$4,900.00
Better Community Development	ESG	Notice to Proceed	\$203,800.00	\$1,760.00	\$26,258.91	\$0.00	\$26,258.91	13%		\$0	\$193,440.00	\$0.00	\$0.00	\$8,600.00
Mission Outreach of Northeast AR, Inc	ESG	Notice to Proceed	\$31,800.00	\$300.00	\$6,977.88	\$0.00	\$6,977.88	22%		\$0	\$30,000.00	\$0.00	\$0.00	\$1,500.00
Grant County Unified Community Resource Council	ESG	Notice to Proceed	\$84,000.00	\$0.00	\$13,366.31	\$0.00	\$13,366.31	16%		\$0	\$24,000.00	\$44,000.00	\$16,000.00	\$0.00
Arkansas River Valley Area Council (ARVAC)	ESG	Notice to Proceed	\$185,500.00	\$1,750.00	\$39,473.62	\$0.00	\$39,473.62	21%		\$0	\$145,000.00	\$15,000.00	\$15,000.00	\$8,750.00
Sanctuary, Inc.	ESG	Notice to Proceed	\$35,350.00	\$350.00	\$2,359.42	\$0.00	\$2,359.42	7%		\$0	\$35,000.00	\$0.00	\$0.00	\$0.00
River Valley Shelter for Battered Women	ESG	Notice to Proceed	\$102,826.17	\$837.77	\$7,233.44	\$0.00	\$7,233.44	7%		\$0.00	\$97,799.52	\$0.00	\$0.00	\$4,188.88
Serve NWA	ESG	Notice to Proceed	\$156,064.52	\$1,545.19	\$27,849.06	\$0.00	\$27,849.06	18%		\$0.00	\$154,519.33	\$0.00	\$0.00	\$0.00
Hope in Action, Inc.	ESG	Notice to Proceed	\$73,629.00	\$729.00	\$12,845.64	\$0.00	\$12,845.64	17%		\$0.00	\$72,900.00	\$0.00	\$0.00	\$0.00
Crowley's Ridge Development Council, Inc.	ESG	Notice to Proceed	\$90,100.00	\$850.00	\$37,979.41	\$0.00	\$37,979.41	42%		\$0.00	\$0.00	\$85,000.00	\$0.00	\$4,250.00
River City Ministry of Pulaski County, Inc.	ESG	Notice to Proceed	\$30,290.00	\$290.00	\$20,228.33	\$85.12	\$20,313.45	67%		\$0.00	\$29,000.00	\$0.00	\$0.00	\$1,000.00
Riverview Hope Campus	ESG	Notice to Proceed	\$216,780.00	\$2,130.00	\$68,614.94	\$0.00	\$68,614.94	32%		\$0.00	\$150,000.00	\$53,000.00	\$10,000.00	\$1,650.00
Margie's Haven House, Inc.	ESG	Notice to Proceed	\$25,295.50	\$245.50	\$1,059.37	\$0.00	\$1,059.37	4%		\$0.00	\$24,550.00	\$0.00	\$0.00	\$500.00
Next Step Day Room, Inc	ESG	Notice to Proceed	\$165,000.00	\$0.00	\$53,589.80	\$0.00	\$53,589.80	32%		\$20,000.00	\$145,000.00	\$0.00	\$0.00	\$0.00
Peace at Home Family Shelter	ESG	Notice to Proceed	\$30,300.00	\$300.00	\$13,197.66	\$4,000.00	\$17,197.66	57%		\$0.00	\$30,000.00	\$0.00	\$0.00	\$0.00
At the Table, Inc dba Hub of Hope	ESG	Notice to Proceed	\$60,752.70	\$573.00		\$0.00		0%		\$0.00	\$0.00	\$57,314.00	\$0.00	\$2,865.70
Lula Mae's Day Center, Inc.	ESG	Notice to Proceed	\$11,000.00	\$0.00	\$717.57	\$0.00	\$717.57	7%		\$11,000.00	\$0.00	\$0.00	\$0.00	\$0.00
Seven Hills Homeless Center	ESG	Notice to Proceed	\$75,750.00	\$750.00		\$0.00		0%		\$75,000.00	\$0.00	\$0.00	\$0.00	\$0.00
Our House, Inc.	ESG	Notice to Proceed	\$72,500.00	\$500.00	\$30,233.78	\$0.00	\$30,233.78	42%		\$0.00	\$72,000.00	\$0.00	\$0.00	\$0.00
City of Little Rock	ESG	Notice to Proceed	\$156,550.00	\$1,550.00	\$8,361.00	\$0.00	\$8,361.00	5%		\$5,000.00	\$0.00	\$115,000.00	\$35,000.00	\$0.00
St. Francis House	ESG	Notice to Proceed	\$33,175.00	\$165.00	\$6,529.23	\$1,937.10	\$8,466.33	26%		\$0.00	\$31,360.00	\$1,650.00	\$0.00	\$0.00
Community Action Program for Central Arkansas (CAPCA)	ESG	Notice to Proceed	\$196,100.00	\$1,850.00	\$62,219.93	\$0.00	\$62,219.93	32%		\$2,000.00	\$118,000.00	\$50,000.00	\$19,250.00	\$5,000.00
Micah6:8 Initiative	ESG	Notice to Proceed	\$55,000.00	\$0.00	\$16,448.14	\$0.00	\$16,448.14	30%		\$0.00	\$30,000.00	\$0.00	\$25,000.00	\$0.00
Totals			\$2,367,291.89	\$19,156.46	\$491,036.72	\$6,022.22	\$497,058.94	21.00%		\$113,000.00	\$1,627,716.85	\$443,964.00	\$120,250.00	\$43,204.58
2024 Funding: \$ 667,920.00 2025 Allocation: \$ 2,271,567.00											Report as of September 30, 2026			

ADMIN 2025 Expended Award			Total
	2024	2025	
ADFA	\$0.00	\$80,191.27	\$80,191.27
Subgrantees	\$1,877.36	\$712.42	\$2,589.78

CDBG-DR Activities Report

Grant Financial Summary - by Project & Activity
2019 DE1:2019 Disasters - B-19-DF-05-0001

Project Title	Activity Title	Total Budget	Total Disbursed	Disbursed %	Funds Available
2 - Housing - Multi-Family Rental Recovery Program	2019/2020 Multi Family New Const	\$8,493,000.00	\$0.00	0%	\$8,493,000.00
1 - 2019/2020 Administration	State Administration	\$447,000.00	\$123,092.22	28%	\$323,907.78
Total		\$8,940,000.00	\$123,092.22	1%	\$8,816,907.78

Grant Financial Summary - by Project & Activity
2023/24 Disasters:2023/24 Maui Wildfires and Other Disasters - B-25-DU-05-0001

Project Title	Activity Title	Total Budget	Total Disbursed	Disbursed %	Funds Available
1 - 2025 ADMIN	2025 ADMIN	\$2,952,400.00	\$291,535.15	10%	\$2,660,864.85
2 - 2025 Planning	2025 Planning - DR	\$990,000.00	\$0.00	0%	\$990,000.00
2 - 2025 Planning	2025 Planning - Mitigation	\$10,000.00	\$0.00	0%	\$10,000.00
3 - 2025 -Non-Fed Match	2025 Non-Fed Match MIT-LMI	\$24,382.40	\$0.00	0%	\$24,382.40
3 - 2025 -Non-Fed Match	2025 Non-Fed Match LMI	\$585,177.60	\$0.00	0%	\$585,177.60
3 - 2025 -Non-Fed Match	2025 Non-Fed Match MIT-UN	\$219,441.60	\$0.00	0%	\$219,441.60
3 - 2025 -Non-Fed Match	2025 Non-Fed Match - UN	\$5,266,598.40	\$0.00	0%	\$5,266,598.40
3.2 - 2025 Infrastructure Housing	2025 Infrastructure Housing - LMI	\$4,800,000.00	\$0.00	0%	\$4,800,000.00
3.2 - 2025 Infrastructure Housing	2025 Infrastructure Housing - MIT - LMI	\$200,000.00	\$0.00	0%	\$200,000.00
2025 Single Family New Const	2025 Single Family New Const - LMI	\$12,600,000.00	\$0.00	0%	\$12,600,000.00
2025 Single Family New Const	2025 Single Family New Const - MIT - LMI	\$1,400,000.00	\$0.00	0%	\$1,400,000.00
2025 Single Family New Const	2025 Single Family New Const - UN	\$5,400,000.00	\$0.00	0%	\$5,400,000.00
2025 Single Family New Const	2025 Single Family New Const - MIT - UN	\$600,000.00	\$0.00	0%	\$600,000.00
2025 Multi Family New Const	2025 Multi Family New Const - LMI	\$21,600,000.00	\$0.00	0%	\$21,600,000.00
2025 Multi Family New Const	2025 Multi Family New Const - MIT - LMI	\$2,400,000.00	\$0.00	0%	\$2,400,000.00
Total		\$59,048,000.00	\$291,535.15	0%	\$58,756,464.85

TAB 12

July to September 2026 Compliance Monitoring Activities						Score = Non Compliance
						No Findings 1 >0 - 15% 2 16 - 30% 3 31 - 40% 4 41 - 50% 5 51+%
Property Name	Review Date	Auditor	Units Reviewed	Files Reviewed	Units/Files Non-Compliant	Score
File Audits						
Park Place Hot Springs	7/1/2026	Nedra Whitaker		15	10	5>50%
Eastview Apartments - Green Forrest	7/2/2026	Gabby Cruz		5	5	5>50%
Kenwood Village I - Past year 15	7/10/2026	Nedra Whitaker		5	5	5>50%
Chateau Desha - Past year 15	7/10/2026	Gabby Cruz		11	9	5>50%
Ridgecrest Apartments - Past year 15	7/13/2026	Nedra Whitaker		6	1	2 16-30%

July to September 2026 Compliance Monitoring Activities						Score = Non Compliance
						No Findings 1 >0 - 15% 2 16 - 30% 3 31 - 40% 4 41 - 50% 5 51+%
Property Name	Review Date	Auditor	Units Reviewed	Files Reviewed	Units/Files Non-Compliant	Score
Peaks at Hope	7/15/2026	Meshawn Conner		9	6	5>50%
Old Conway Village	7/17/2026	Gabby Cruz		7	7	5>50%
Midtown Park Apartments - Past year 15	7/20/2026	Nedra Whitaker		21	5	2 16-30%
South Pointe Apartments	7/22/2026	Nedra Whitaker		16	12	5>50%
Craighead Place	7/24/2026	Gabby Cruz		7	7	5>50%
Keiser Apartments - HOME Only	7/29/2026	Gabby Cruz		5	4	5>50%

July to September 2026 Compliance Monitoring Activities						Score = Non Compliance
						No Findings 1 >0 - 15% 2 16 - 30% 3 31 - 40% 4 41 - 50% 5 51+%
Property Name	Review Date	Auditor	Units Reviewed	Files Reviewed	Units/Files Non-Compliant	Score
Woodbend Apartments - Past year 15	7/29/2026	Nedra Whitaker		20	7	3 31-40%
Stone Brook Park of Forrest City	7/30/2026	Meshawn Conner		6	2	3 31-40%
Physical Inspections						
Dogwood Cottages Estates	7/6/2026	Monica Smith	8		5	5>50%
Savannah Park of Farmington -REAC	7/7/2026	Monica Smith	18		7	3 31-40%
Briarwood Estates at Jonesboro	7/7/2026	Monica Smith	8		4	5>50%

July to September 2026 Compliance Monitoring Activities						Score = Non Compliance
						No Findings 1 >0 - 15% 2 16 - 30% 3 31 - 40% 4 41 - 50% 5 51+%
Property Name	Review Date	Auditor	Units Reviewed	Files Reviewed	Units/Files Non-Compliant	Score
Ridge Estates at Jonesboro	7/7/2026	Monica Smith	7		1	1 0-15%
Independence Village - FAF Only	7/7/2026	Monica Smith	5		2	4 41-50%
Mammoth Springs Senior Estates - FAF Only	7/8/2026	Monica Smith	5		1	1 0-15%
Pinewood Apartments	7/9/2026	Monica Smith	6		5	5 >50%
Sunset Estates of Joneboro	7/9/2026	Monica Smith	7		4	5>50%
Rolling Hills Estates	7/10/2026	Monica Smith	7		0	No Findings

July to September 2026 Compliance Monitoring Activities						Score = Non Compliance
						No Findings 1 >0 - 15% 2 16 - 30% 3 31 - 40% 4 41 - 50% 5 51+%
Property Name	Review Date	Auditor	Units Reviewed	Files Reviewed	Units/Files Non-Compliant	Score
Veterans Cottages of Jonesboro - NHTF Only	7/10/2026	Monica Smith	5		5	5>50%
Frisko Park	7/10/2026	Monica Smith	13		7	5>50%
Ashdown Apartments - REAC	7/28/2026	Monica Smith	21		5	1 0-15%
Cliffridge Apartments	7/28/2026	Monica Smith	22		6	1 0-15%
Asbury Park - REAC	7/28/2026	Monica Smith	25		18	5 >50%
NLR RAD Family Homes	7/28/2026	Monica Smith	30		16	5>50%

July to September 2026 Compliance Monitoring Activities						Score = Non Compliance
						No Findings 1 >0 - 15% 2 16 - 30% 3 31 - 40% 4 41 - 50% 5 51+%
Property Name	Review Date	Auditor	Units Reviewed	Files Reviewed	Units/Files Non-Compliant	Score
Auxora Arms- REAC - Past year 15	7/30/2026	Monica Smith	25		14	5<50%
Stuttgart Apartments I - REAC	7/31/2026	Monica Smith	21		18	No scoring per TW
Monthly Total Units / Total Files			233	133	198	
Meadows at Malvern	8/4/2026	Gabby Cruz		13	3	2 16-30%
Kenwood Village II - Past year 15	8/5/2026	Nedra Whitaker		5	5	5 >50%
Garden Wlakor Ozark-Past year 15	8/7/2026	Meshawn Conner		5	1	2 16-30%
Peaks at Hot Springs - Past year 15	8/13/2026	Meshawn Conner		8	3	3 31-40%

July to September 2026 Compliance Monitoring Activities						Score = Non Compliance
						No Findings 1 >0 - 15% 2 16 - 30% 3 31 - 40% 4 41 - 50% 5 51+%
Property Name	Review Date	Auditor	Units Reviewed	Files Reviewed	Units/Files Non-Compliant	Score
Twin City Manor	8/17/2026	Nedra Whitaker		13	3	2 16-30%
Bluffs on McCain II	8/17/2026	Gabby Cruz		27	22	5 >50%
Walnut Park Estates I - Past year 15	8/18/2026	Nedra Whitaker		5	4	5>50%
Gateway Senior Apartments	8/19/2026	Gabby Cruz		6	5	5>50%
Pinewood Apartments - Corning	8/20/2026	Meshawn Conner		8	7	5>50%
Walnut Park Estates II	8/20/2026	Nedra Whitaker		6	2	3 31-40%

July to September 2026 Compliance Monitoring Activities						Score = Non Compliance
						No Findings 1 >0 - 15% 2 16 - 30% 3 31 - 40% 4 41 - 50% 5 51+%
Property Name	Review Date	Auditor	Units Reviewed	Files Reviewed	Units/Files Non-Compliant	Score
Mill Creek Apartments III Springdale - HOME Only	8/21/2026	Meshawn Conner		5	5	5 >50%
Walker Courts North	8/25/2026	Nedra Whitaker		10	1	1 >0-15%
Ridge at Fort Smith - Past year 15	8/25/2026	Meshawn Conner		9	5	5>50%
Walker Courts South	8/27/2026	Nedra Whitaker		12	3	2 16-30%
Monthly Total Units / Total Files			0	132	69	
File Audits						
Riverside Park I	9/2/2026	Nedra Whitaker		12	1	1 0-15%

July to September 2026 Compliance Monitoring Activities						Score = Non Compliance
						No Findings 1 >0 - 15% 2 16 - 30% 3 31 - 40% 4 41 - 50% 5 51+%
Property Name	Review Date	Auditor	Units Reviewed	Files Reviewed	Units/Files Non-Compliant	Score
Valley Springs Cottages	9/4/2026	Gabby Cruz		7	7	5 >50%
Riverside Park II	9/9/2026	Nedra Whitaker		12	5	4 41-50%
Westgate Apartments	9/10/2026	Nedra Whitaker		8	0	No Findings
Peaks at Springdale I	9/11/2026	Meshawn Conner		10	9	5 >50%
Pines Cottages	9/14/2026	Gabby Cruz		11	11	5 >50%
Ridge at West Memphis III	9/15/2026	Meshawn Conner		10	4	3 31-40%

July to September 2026 Compliance Monitoring Activities						Score = Non Compliance
						No Findings 1 >0 - 15% 2 16 - 30% 3 31 - 40% 4 41 - 50% 5 51+%
Property Name	Review Date	Auditor	Units Reviewed	Files Reviewed	Units/Files Non-Compliant	Score
Our Way Apartments - Past yr 15	9/18/2026	Gabby Cruz		28	15	5 >50%
Ridge at North Little Rock III	9/21/2026	Meshawn Conner		11	4	3 31-40%
Whitaker Manor	9/23/2026	Nedra Whitaker		19	13	5 >50%
Northgate	9/28/2026	Nedra Whitaker		8	0	No Findings
Turrell Meadows- Past yr 15	9/28/2026	Gabby Cruz		5	4	5 >50%
Physical Inspections						

July to September 2026 Compliance Monitoring Activities						Score = Non Compliance
						No Findings 1 >0 - 15% 2 16 - 30% 3 31 - 40% 4 41 - 50% 5 51+%
Property Name	Review Date	Auditor	Units Reviewed	Files Reviewed	Units/Files Non-Compliant	Score
Stuttgart Apartments II - REAC	9/9/2026	Monica Smith	21		6	2 16-30%
Greenbrier Gardens II	9/14/2026	Monica Smith	6		6	5 >50%
Old Conway Village	9/14/2026	Monica Smith	7		7	5 >50%
Stone Ridge at Conway II	9/14/2026	Monica Smith	8		7	5 >50%
Hamlet at Conway	9/15/2026	Monica Smith	22		21	5 >50%
Hickory View RAD	9/17/2026	Monica Smith	24		21	5 >50%

July to September 2026 Compliance Monitoring Activities						Score = Non Compliance
						No Findings 1 >0 - 15% 2 16 - 30% 3 31 - 40% 4 41 - 50% 5 51+%
Property Name	Review Date	Auditor	Units Reviewed	Files Reviewed	Units/Files Non-Compliant	Score
Midtown Park Apartments - Past year 15	9/18/2026	Monica Smith	22		22	5 >50%
Cumberland Towers	9/21/2026	Monica Smith	24		22	5 >50%
Nantucket Apartments	9/21/2026	Monica Smith	13		4	2 16-30%
Vineyards at Cabot	9/21/2026	Monica Smith	2		1	4 41-50%
Stone Ridge Fort Smith	9/22/2026	Monica Smith	10		3	3 31-40%
9th Street Cottages - HOME Only	9/22/2026	Monica Smith	5		0	No Findings

July to September 2026 Compliance Monitoring Activities						Score = Non Compliance
						No Findings 1 >0 - 15% 2 16 - 30% 3 31 - 40% 4 41 - 50% 5 51+%
Property Name	Review Date	Auditor	Units Reviewed	Files Reviewed	Units/Files Non-Compliant	Score
Garden Walk on 2nd	9/23/2026	Monica Smith	9		1	1 0-15%
Meadowview Estates II	9/23/2026	Monica Smith	5		3	5 >50%
West End Village	9/23/2026	Monica Smith	6		5	5 >50%
Garden Walk of Ozark - Past yr 15	9/24/2026	Monica Smith	5		2	2 16-30%
Loraine Park of Lowell	9/25/2026	Monica Smith	12		0	No Findings
Garden Walk of Bentonville	9/25/2026	Monica Smith	5		0	No Findings

July to September 2026 Compliance Monitoring Activities						Score = Non Compliance
						No Findings 1 >0 - 15% 2 16 - 30% 3 31 - 40% 4 41 - 50% 5 51+%
Property Name	Review Date	Auditor	Units Reviewed	Files Reviewed	Units/Files Non-Compliant	Score
Park at Olive	9/25/2026	Monica Smith	9		2	2 16-30%
Monthly Total Units / Total Files			215	141	206	
Quarterly Total Units / Total Files			448	406	473	

TAB 13

ARKANSAS DEVELOPMENT FINANCE AUTHORITY
ADFA BOARD – OPERATIONS COMMITTEE
JULY 16, 2026
DEPARTMENT OF COMMERCE, 1 COMMERCE WAY
CENTRAL HIGH/OLD MILL MEETING ROOM
LITTLE ROCK, AR

ADFA Board Operations Committee Members Present: Carey Smith, Committee Chair; Rod Coleman, Committee Vice Chair; Alan McVey (Designee, Jim Hudson, Secretary, Department of Finance and Administration); Kirkley Thomas; and Kenneth Burleson (Designee, John Thurston, Arkansas Treasurer of State).

ADFA Board Operation Committee Members Absent: Denise Sweat.

ADFA Board Members Present: Jon Chadwell; Martin Eggensperger; Andy Goodman; Katelyn Martin; Russ Martin;

ADFA Board Members Absent: Hugh McDonald, Cabinet Secretary of Department of Commerce.

ADFA Staff Present: Robert “Ro” Arrington, President, Arkansas Development Finance Authority; John Blackwell, Vice President of Tax Credits; Jake Bleed, General Counsel; Charles “Chuck” Cathey, Vice President, Development Finance; Kristy Cunningham, Chief Financial Officer; Ginger Burton Duncan, Director of Single Family Outreach; Paula Farthing, Loan Servicing Manager; Barlow Brenner, Intern; Blake Bumgardner, CDBG-DR Specialist; Luke Cooper, Finance Analyst; Sean Doolin, Assistant Controller; Tracy Grant, Assistant Controller; Lanita Hastings, Federal Housing Programs Grant Coordinator; Kimmy Helble, Executive Assistant to President; Amanda Hill, Federal Housing Program Coordinator; Hope Lewis, Controller; Julia Phelps, Senior Accountant; Drew Rogers, Attorney Specialist; Derrick Rose, Director of Communication; Todd Sprague, Loan Operations Coordinator; Megan Summitt, Internal Auditor; Tammy White, Compliance Manager; Tony Williams, Director, Arkansas Student Loan Authority; and Ashlyn Winters, Federal Housing Programs Finance Coordinator.

Others Present: Eric Munson, Bank of OZK; Lydia Alston and Casey Kleinhenz, Community Development of NWA; Bryn Meredith, MGM Development; Ted Fellman, Raymond James; Traci Williams, Rockwell Housing Solutions; Nona McVay, The McVay Firm.

President’s Remarks: Following the morning session roll call, Mr. Arrington recalled that it had been one year since the passage of Act 944 of 2025, and prior to that, ADFA had not experienced significant legislative activity since Act 1062 of 1985. He noted that he is six months into his permanent presidency and was beginning to engage in the substantive work of the direction in which the Authority should proceed.

Mr. Arrington stated that he had recently returned from the NCSHA Executive Directors meeting and expressed appreciation for ADFA's organizational structure, which enabled the agency to manage a wide variety of activities with a relatively small staff.

Mr. Arrington announced the addition of new employees: Mr. Luke Cooper, who would join the Finance division; Mr. Todd Sprague, who would join Loan Servicing; and intern, Mr. Barlow Brenner, who would assist Mr. Bleed.

Mr. Arrington announced the Board's upcoming schedule, stating the next scheduled meeting will take place in August, followed by another meeting in October during the fall Board of Directors retreat in Fayetteville.

Call to Order: Mr. Smith, called the Operations Committee meeting to order at approximately 10:36 AM.

Minutes: Mr. Smith presented the minutes from May 21, 2026, meeting seeking approval after giving opportunity for comments or questions.

Mr. Burleson made a motion to approve the minutes as presented.

Mr. Thomas seconded the motion. The motion passed.

Action Memo: 2026 Broker Dealer List: Mr. Blackwell stated that the Broker Dealer List was a housekeeping item that was brought before the Board annually after brokers and dealers had been reviewed. He explained that these were the approved brokers and dealers from whom ADFA could purchase investments in accordance with policy.

Mr. Blackwell noted that BrokerCheck through Financial Industry Regulatory Authority (FINRA) had been used to determine whether any disclosure events existed. There were none.

Mr. Blackwell further stated there were no changes to the list and sought the Committee's approval.

Ms. Cunningham remarked that ADFA would begin utilizing the list this year to assist in investments for a variety of ways and noted that Mr. Cooper would be part of that process.

Mr. Smith entertained a motion to approve the 2026 Broker Dealer List as presented.

Mr. Burleson made a motion to approve.

Mr. McVey seconded the motion. The motion passed.

Action Memo: RFP - Arkansas Natural Resources Commission - Underwriter: Mr. Arrington recalled that more than six and a half years had passed since a Request for Proposals (RFP) had last been issued for this particular series of underwriting, which would support a Revolving Loan Fund Revenue Bonds issuance in the amount of \$275MM. He noted that this RFP was specifically for the Revolving Loan Fund Underwriter.

Mr. Arrington recommended the following underwriting team for approval: as Senior Management, Stephens, Inc. at 40% of the transaction, followed by Carty & Company, Crews & Associates, and Raymond James at 20% of the transaction each. He stated a review would be conducted at two-year intervals.

After a brief discussion, Mr. Smith entertained a motion to approve the RFP as presented.

Mr. Thomas made a motion to approve.

Mr. Burleson seconded the motion. The motion passed.

Presentation: Quarterly Financial Report as of March 30, 2026: Ms. Cunningham reported that pages one and two were balance sheets that reflected normal course of business from the last quarterly financial report to this report as of March 30, 2026. She noted the Single Family pipeline report showed \$365MM at par, with \$6M left unreserved. Ms. Cunningham stated that ADFA had prepared for the 2026 A and B, which would be included in a future report.

Ms. Cunningham stated that in the Income Statement on pages three and four showed a noticeable difference due to a transfer that occurred on March 1st. HUD had determined that the Neighborhood Stabilization Program (NSP) should be transferred to Community Development Block Grant (CDBG). As a result, ADFA was required to transfer the loan portfolio to the administering state agency, Arkansas Economic Development Commission (AEDC). She explained that the Authority had entered into an agreement with AEDC to continue with the loan servicing and compliance for a service fee.

For clarification of programs, there was additional discussion between Board members and Ms. Cunningham. Ms. Cunningham provided a satisfactory response.

Ms. Cunningham stated there were no significant changes of the financials for the Venture Capital Investment Trust Fund on pages five and six. Ms. Cunningham noted the fiscal year for the Arkansas Institutional Fund (AIF) ended on December 31st, resulting in only three months of activity reflected in the report.

On page seven, Ms. Cunningham reported the ADFA Bond and Note Summary had no new issuances. She stated that a bond redemption occurred on January 1st within the Single Family program. She added that the \$169M for Single Family would post in the next quarter. Ms. Cunningham also reported that J & E Food Group had a bond call on March 1st.

Ms. Cunningham stated that page eight, Sources of Cash, showed operational line items that were consistent with the previous year. She noted that interagency programs reporting servicing compensation from AEDC had been added.

Ms. Cunningham reported that pages nine and ten displayed all the loan balances, including details and differences from March 2025 and March 2026. She noted that the NSP had made a significant impact compared to the prior year. Ms. Cunningham further stated that page ten included bar graphs tracking delinquencies.

Ms. Cunningham stated that page eleven, the Down Payment Assistance (DPA) report, primarily tracked the net interest, which continued to increase in this program. She noted that the Loan Servicing Department was working to assist the program as the volume continued to increase.

Mr. Arrington noted that the DPA program had remained slow, consistent, and conservative. While other grant-driven, interest-rate-driven programs, in other states were dwindling, due to insufficient interest rate spreads, the ADFA program continues to be sustainable.

Mr. Smith entertained a motion to accept the Operating Results and General Fund Review as March 31, 2026.

Mr. Coleman made a motion to approve the quarterly report as presented.

Mr. Thomas seconded the motion. The motion passed.

Adjournment: Mr. Smith concluded the meeting at approximately 10:57 AM.

Minutes approved and signed on this 16th day of July 2026.

Carey Smith,
Operations Committee Chair

TAB 14



ARKANSAS DEVELOPMENT FINANCE AUTHORITY

- OPERATING RESULTS AND
- GENERAL FUND REVIEW
- As of June 30, 2026

*Reported to the Board Operations Committee on
Thursday, October 15, 2026*

Arkansas Development Finance Authority
Balance Sheet
June 30, 2026 and 2025 (unaudited)

	June 30, 2025	June 30, 2026	Difference	%	
ASSETS:					
Cash and cash equivalents	377,392,900	522,408,417	145,015,517	28%	A
Accounts receivable	4,089,993	3,715,172	(374,821)	-10%	
Accrued interest receivable	3,108,984	4,369,787	1,260,803	29%	
Accrued rent receivable	374,321	310,956	(63,365)	-20%	
Investments, at amortized cost	235,958,072	385,020,595	149,062,523	39%	B
Loans receivable, net of allowance for loan losses of \$79,993,533 and \$81,976,584 at June 30, 2026 and 2025, respectively	399,094,370	399,857,467	763,097	0%	C
Real Estate Owned	-	1,000,000	1,000,000	100%	
Deferred charges	1,253,784	1,096,940	(156,844)	-14%	
Direct financing leases	121,782,453	111,688,563	(10,093,890)	-9%	C
Capitalized assets	2,080,185	1,983,166	(97,019)	-5%	
Other Assets	3,272,846	3,044,295	(228,551)	-8%	
TOTAL ASSETS	<u>1,148,407,908</u>	<u>1,434,495,358</u>	<u>286,087,450</u>	<u>20%</u>	
LIABILITIES:					
Bonds and notes payable, net of unamortized discounts and premiums	538,128,709	814,024,812	275,896,103	34%	D
Accrued interest payable	4,498,776	9,257,564	4,758,788	51%	D
Accounts payable	10,389,095	10,376,119	(12,976)	0%	
OPEB and pension liability	5,542,576	4,938,449	(604,127)	-12%	
Deposits against financing arrangements	53,564,644	54,307,898	743,254	1%	
Total liabilities	<u>612,123,800</u>	<u>892,904,842</u>	<u>280,781,042</u>	<u>31%</u>	
FUND BALANCES:					
Restricted by bond resolution and programs	371,951,700	372,530,963	579,263	0%	
Invested in capital assets	2,080,185	1,983,166	(97,019)	-5%	
Unrestricted *	162,252,223	167,076,387	4,824,164	3%	
TOTAL LIABILITIES & FUND BALANCES	<u>1,148,407,908</u>	<u>1,434,495,358</u>	<u>286,087,450</u>	<u>20%</u>	

* Includes amounts designated by board for various programs.

Arkansas Development Finance Authority
Balance Sheet
June 30, 2026 and 2025 (unaudited)

A) Increase is mainly related to Single Family Mortgage Revenue Bond program receiving a combined \$299.3 million in bond proceeds (par) in August, December and May net of investment and loan/lease activity. (See B) investment activity, C) loan/lease activity and D) bond activity).

B) Increase is primarily due to approximately \$168.9 million of Single Family mortgage-backed securities (MBS) purchases net of monthly MBS remittances of approximate \$17.3 million.

C) Net decrease with loans/leases is primarily related to NSP loans transfer to AEDC of \$16.4 million and principal repayments received on various loans/leases net of loan fundings with HOME (\$16.0 mil), NHTF (\$2.9 mil), Student Loan (\$18.1 mil) and DPA (\$13.8 mil) programs.

D) Increase primarily related to Single Family bonds being issued of \$299.3 million at par during the year net of redemptions of \$30.9 million. See ADFA Bond and Note Summary Report. Page # 7.

Arkansas Development Finance Authority
Statement of Revenue, Expenses and Change in Fund Balances
For the years ending 2026 and 2025 (unaudited)

	June 30, 2025	June 30, 2026	Difference	%	
REVENUES:					
Interest income:					
Loans and direct leases	17,715,880	17,907,968	192,088	1%	
Investments	18,987,209	25,787,710	6,800,501	26%	Z
Amortization of discounts and premiums on loans and investments, net	29,111	24,440	(4,671)	-19%	
Financing fee income	6,024,468	6,814,605	790,137	12%	Y
Total Interest Income	42,756,668	50,534,723	7,778,055	15%	
Federal Grants	18,420,164	29,394,531	10,974,367	37%	V
Other Grants	-	100,000	100,000	0%	
Rental Income	265,142	225,530	(39,612)	-18%	
Default Management Services	271,689	331,609	59,920	18%	
Other income	55,909	49,787	(6,122)	-12%	
TOTAL REVENUES	61,769,572	80,636,180	18,866,608	23%	
EXPENSES:					
Interest on bonds and notes:					
Current interest/accreted interest	18,386,484	26,087,022	7,700,538	30%	X
Amortized (premium)/discount	(85,473)	(299,043)	(213,570)	71%	X
Provision for losses	2,674,729	200,308	(2,474,421)	-1235%	W
Federal assistance payments	2,998,422	15,940,086	12,941,664	81%	V
Loan Servicing and Other Contractual Services	183,871	266,336	82,465	31%	
Default Management Services expense	302,836	319,051	16,215	5%	
Rental expense	244,651	552,630	307,979	56%	U
Salaries and benefits	4,912,002	4,804,462	(107,540)	-2%	
Operations and maintenance	1,002,720	3,325,410	2,322,690	70%	U
Other	3,610,107	2,105,488	(1,504,619)	-71%	U
TOTAL EXPENSES	34,230,349	53,301,750	19,071,401	36%	
REVENUES OVER EXPENSES	27,539,223	27,334,430	(204,793)	-1%	
Transfer (to) from other funds	(5,373,636)	(22,028,022)	(16,654,386)	76%	T
REVENUES OVER EXPENSES	22,165,587	5,306,408	(16,859,179)	-318%	
FUND BALANCES:					
Beginning of period	514,118,521	536,284,108	22,165,587	4%	
End of period	536,284,108	541,590,516	5,306,408	1%	
<i>Net interest income</i>	<i>24,370,184</i>	<i>24,447,701</i>	<i>77,517</i>	<i>0%</i>	S

Arkansas Development Finance Authority
Statement of Revenue, Expenses and Change in Fund Balances
For the years ending 2026 and 2025 (unaudited)

Z) Steady increase relates mainly to Single Family mortgage-backed securities portfolio purchases of yields ranging 4.5%-5.4%.

Y) See Sources of Cash Report. Page # 8.

X) Increase relates to the Single Family bond issues.

W) See separate schedule for details on Provision for Loan Losses. Page #'s 11-13.

V) Federal financial assistance revenue and expense fluctuates each year depending on type and amount of disbursement activity. The majority is related to HOME-American Rescue Plan program in the current year.

U) Fluctuations in these accounts relate to the reclassification of general ledger accounts made due to our transition from the State's accounting system. Overall net increase relates mainly to the costs of issuance expenses related to the Single Family bond deals.

T) Increase is related mainly to HUD directing that for the NSP closeout process the loans and program income be transferred to the CDBG program which AEDC administers.

S) Attributable to net interest margin:

Single Family programs	\$	(153,000)
Federal Housing programs	\$	124,000
Multi Family programs	\$	(39,000)
Bond Guaranty programs	\$	(219,000)
State Facility programs	\$	9,000
Other Economic Development programs	\$	(328,000)
Tobacco program	\$	-
General Fund programs	\$	832,000
ASLA programs	\$	(148,000)

ARKANSAS VENTURE CAPITAL INVESTMENT TRUST FUND - COMPONENT UNIT
BALANCE SHEET - UNAUDITED
JUNE 30, 2026

	VCIT	AIF	Eliminations	Total
ASSETS:				
Cash and cash equivalents	1,386,231	623,675		2,009,906
Accounts receivable	-	-		-
Accrued interest receivable	-	-	-	-
Accrued rent receivable	-	-		-
Investments, at amortized cost	17,262,756	3,069,631		20,332,387
Loans receivable, at amortized cost, net	5,539,336	-	-	5,539,336
Real Estate Owned	-	-		-
Deferred charges	-	-		-
Direct Financing Leases	-	-		-
Other Asset	-	-		-
TOTAL ASSETS	24,188,322	3,693,307	-	27,881,629
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Bonds and notes payable, net of unamortized discounts and premiums	-	-	-	-
Accrued interest payable	-	-	-	-
Accounts payable	-	285,409		285,409
OPEB and pension liabilities	-	-		-
Deposits against financing arrangements	-	-		-
Total liabilities	-	285,409	-	285,409
FUND BALANCES:				
Restricted by bond resolution and programs	24,188,322	3,407,898		27,596,220
Invested in capital assets	-	-		-
Unrestricted *	-	-		-
TOTAL LIABILITIES AND FUND BALANCES	24,188,322	3,693,307	-	27,881,629
	-	-	-	-

ARKANSAS VENTURE CAPITAL INVESTMENT TRUST FUND - COMPONENT UNIT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE FOR
Period Ending June 30, 2026 - UNAUDITED

	7/1/2025 - 6/30/2026 VCIT	1/1/2026 - 6/30/2026 AIF *	Eliminations	Total
REVENUES:				
Interest income:				
Loans and direct leases	-	-	-	-
Investments	(720,582)	2,592	-	(717,990) **
Amortization of discounts and premiums on loans and investments, net	-	-	-	-
Financing fee income	18,639	-	(18,639)	-
Total Interest Income	(701,943)	2,592	(18,639)	(717,990)
Federal financial assistance	-	-	-	-
State financial assistance	-	-	-	-
Other income	-	-	-	-
TOTAL REVENUES	(701,943)	2,592	(18,639)	(717,990)
EXPENSES:				
Interest on bonds and notes:				
Current interest	-	-	-	-
Accreted interest	-	-	-	-
Total interest on bonds and notes	-	-	-	-
Administrative expenses:				
Salaries and benefits	-	-	-	-
Operations and maintenance	-	-	-	-
Other	151,622	325	-	151,947
TOTAL EXPENSES	151,622	325	-	151,947
REVENUES OVER EXPENSES	(853,565)	2,267	(18,639)	(869,937)
Transfer from other funds	1,770,068	-	-	1,770,068
REVENUES OVER EXPENSES	916,503	2,267	(18,639)	900,131
FUND BALANCES:				
Beginning of period	23,271,819	3,405,631	-	26,677,450
Distributions to member	-	-	-	-
Prior change in accounting period	-	-	18,639	18,639
End of Period	24,188,322	3,407,898	0	27,596,220
<i>Net interest income</i>	<i>(701,943)</i>	<i>2,592</i>	<i>(18,639)</i>	<i>(717,990)</i>

* Note: Total is shown in order to capture information as of 6/30/2026. For audit purposes, the reporting period for AIF will be as of 12/31/2025.

** Note: Investment income is reported based on estimated information at time of distribution. Actual may vary upon valuation of K-1s and other year end information.

ADFA Bond and Note Summary

Fiscal YTD Through: June 30, 2026

	Issuance	Average Yield	Optional Bond Calls	Average Yield	Scheduled Redemptions	Average Yield	Full Redemptions or Refundings	Average Yield	Total Redemptions	Net Issuance (Redemptions)
Single Family	\$ 299,255,000	4.05%	\$ 4,625,000	4.22%	\$ 1,785,000	3.87%	\$ -	-	\$ 6,410,000	\$ 292,845,000
PRLF	\$ -	-	\$ -	-	\$ 143,256	1.00%	\$ -	-	\$ 143,256	\$ (143,256)
Multi-Family	\$ -	-	\$ -	-	\$ -	-	\$ -	-	\$ -	\$ -
Bond Guaranty	\$ -	-	\$ -	-	\$ 2,276,818	3.78%	\$ 1,690,000	3.35%	\$ 3,966,818	\$ (3,966,818)
State Facilities	\$ -	-	\$ -	-	\$ 15,442,721	3.28%	\$ -	-	\$ 15,442,721	\$ (15,442,721)
Tobacco	\$ -	-	\$ -	-	\$ 4,965,107	4.89%	\$ -	-	\$ 4,965,107	\$ (4,965,107)
Amendment 82	\$ -	-	\$ -	-	\$ -	-	\$ -	-	\$ -	\$ -
ASLA	\$ -	-	\$ -	-	\$ -	-	\$ -	-	\$ -	\$ -
GF advances	\$ -	-	\$ -	-	\$ -	-	\$ -	-	\$ -	\$ -
	<u>\$ 299,255,000</u>		<u>\$ 4,625,000</u>		<u>\$ 24,612,902</u>		<u>\$ 1,690,000</u>		<u>\$ 30,927,902</u>	<u>\$ 268,327,098</u>

PRLF - Notes with US Department of Rural Housing Development (Preservation Revolving Loan Fund)

ASLA - Arkansas Student Loan Authority

COB - Convertible Option Bond

Issuance during year:

Single Family:

2025 Series B	\$ 65,000,000
2025 Series C	65,000,000
2026 Series A	60,000,000
2026 Series B (Convertible Option Bond - 2.875%)	109,255,000
Total	<u>\$ 299,255,000</u>

Full Redemptions/Refundings:

Bond Guaranty:

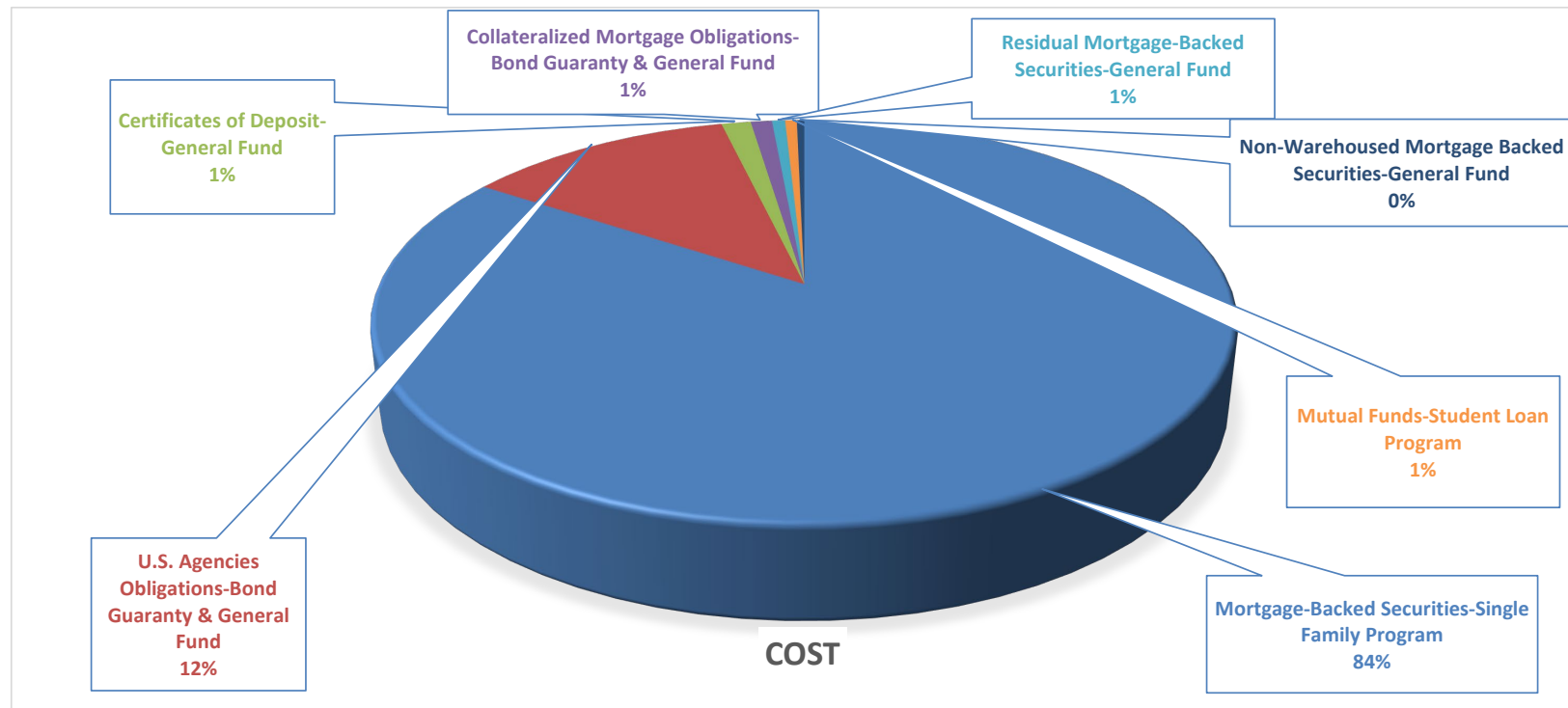
2019 J&E Food Group	\$ 1,690,000
Total	<u>\$ 1,690,000</u>

Sources of Cash to Fund Operations and Other Cash Needs of the Authority

	June 30, 2024	June 30, 2025	June 30, 2026
Single Family Programs			
Administrative fees	\$ 61,427	68,303	\$ 172,840
Mortgage credit certificate (MCC) fees	450	-	-
TBA Mortgage programs	2,436,698	2,107,309	2,317,288
Multi Family Programs			
Tax credit and Multifamily issuance/administrative fees	1,082,283	1,898,957	1,894,853
TCAP asset management fees	221,385	228,025	234,851
AHAP administrative reimbursement	2,350	1,828	-
Federal Housing Programs			
HOME administrative reimbursement	989,222	1,025,145	971,254
NSP I and III administrative reimbursement	12,328	10,965	-
ESG administrative reimbursement	-	12,098	24,478
CDBG administrative reimbursement	-	-	120,785
National Housing Trust Fund	174,362	205,485	306,601
Homeownership Assistance Fund (HAF)	23,725	3,359	3,168
Public Finance/Economic Development Programs			
Admin fees - State Facilities, Bond Guaranty & Conduit (limited	655,146	649,412	621,678
Issuance fees - Conduit, State Facilities & Bond Guaranty	330,000	317,253	894,610
General Fund			
Interest earnings (cash and investments)	3,670,426	3,730,941	3,424,669
Loan interest income	2,031,704	2,688,226	2,853,542
Tobacco Bonds - administrative fees	33,370	32,569	31,731
Interagency Programs			
ANRC Water programs administrative/issuance fees	513,544	529,386	683,871
College Tech Revolving Loan Program	4,713	9,625	10,560
AEDC - CDBG/NSP administrative fees	-	-	10,273
E&E/AEO Loan Programs (LLR and RLLF)	67,445	50,811	49,257
	<u>\$ 12,310,577</u>	<u>13,569,697</u>	<u>\$ 14,626,310</u>

ADFA Investments Mix
Cost vs. Market (in thousands)
6/30/2026

Investment Types	Cost	% of Total	Market Value	% of Total	Unrealized Gain/Loss
Mortgage-Backed Securities-Single Family Program	\$ 324,661	84.32%	\$ 321,801	84.68%	\$ (2,860)
U.S. Agencies Obligations-Bond Guaranty & General Fund	\$ 46,103	11.97%	\$ 44,657	11.75%	\$ (1,446)
Certificates of Deposit-General Fund	\$ 5,044	1.31%	\$ 5,044	1.33%	\$ -
Collateralized Mortgage Obligations-Bond Guaranty & General Fund	\$ 3,660	0.95%	\$ 3,013	0.79%	\$ (647)
Residual Mortgage-Backed Securities-General Fund	\$ 2,259	0.59%	\$ 2,292	0.60%	\$ 33
Mutual Funds-Student Loan Program	\$ 2,008	0.52%	\$ 2,008	0.53%	\$ -
Non-Warehoused Mortgage Backed Securities-General Fund	\$ 1,286	0.33%	\$ 1,206	0.32%	\$ (80)
Total Investments	\$ 385,021	100.00%	\$ 380,021	100.00%	\$ (5,000)



LOANS CHARGED OFF BY PROGRAM - DURING FISCAL YEAR 2026

PROGRAM NAME	LOAN INFORMATION	ORIGINAL LOAN BALANCE	BALANCE AT TIME OF CHARGE OFF	CHARGE-OFF AMOUNT	6/30/2026 RELATED REO BALANCE
BOND GUARANTY FUND ECONOMIC DEVELOPMENT	J&E Food Group	\$ 3,000,000	\$ 2,965,000	\$ 1,965,000	\$ 1,000,000
DPA LOANS	Various borrowers	-	\$ 217,683	\$ 217,683	\$ -
	TOTAL		\$ 3,182,683	\$ 2,182,683	\$ 1,000,000

Loan Loss Reserves (\$ in thousands)

	June 30, 2026	June 30, 2025	June 30, 2024
Balance Sheet:			
Federal Housing Programs			
HOME Loans Receivable	\$ 129,654	137,483	113,094
Loan Loss Reserve	\$ 34,612	38,745	34,210
% Reserve to Receivable	26.70%	28.18%	30.25%
TCAP Loans Receivable*	\$ 16,298	16,429	16,511
Loan Loss Reserve	\$ 16,014	16,133	16,202
% Reserve to Receivable	98.26%	98.20%	98.13%
NSP Loans Receivable**	\$ 0	0	13,855
Loan Loss Reserve	\$ 0	0	4,194
% Reserve to Receivable	0.00%	0.00%	30.27%
NSP 3 Loans Receivable**	\$ 0	0	3,642
Loan Loss Reserve	\$ 0	0	546
% Reserve to Receivable	0.00%	0.00%	14.99%
PRLF Loans Receivable	\$ 2,970	3,090	3,206
Loan Loss Reserve	\$ 256	265	274
% Reserve to Receivable	8.62%	8.58%	8.55%
CDBG Loans Receivable	\$ 7,700	7,700	7,700
Loan Loss Reserve	\$ 7,700	7,700	7,700
% Reserve to Receivable	100.00%	100.00%	100.00%
NHTF Loans Receivable	\$ 20,872	18,109	14,207
Loan Loss Reserve	\$ 11,882	9,255	7,860
% Reserve to Receivable	56.93%	51.11%	55.32%
Multi-Family			
FAF/NBMIR Loans Receivable	\$ 4,957	5,152	5,353
Loan Loss Reserve	\$ 2,653	2,711	2,775
% Reserve to Receivable	53.52%	52.62%	51.84%
Affordable Hsg/fka DHS Assist Loans Rec	\$ 814	860	909
Loan Loss Reserve	\$ 137	143	142
% Reserve to Receivable	16.83%	16.63%	15.62%

* Tax Credit Assistance Program (TCAP) - surplus cash loans reserved 100%.

** These loans were moved to the HOME program during FY 2025, they were transferred to AEDC in March of 2026.

Loan Loss Reserves (\$ in thousands)

	June 30, 2026	June 30, 2025	June 30, 2024
Balance Sheet (continued):			
Bond Guaranty			
Bond Guaranty Loans Receivable	\$ 13,224	20,409	25,203
Loan Loss Reserve	\$ 370	1,982	2,250
% Reserve to Receivable	2.80%	9.71%	8.93%
Other Economic Development Programs			
SSBCI Loans Receivable	\$ 2,124	2,290	898
Loan Loss Reserve	\$ 547	604	560
% Reserve to Receivable	25.75%	26.38%	62.36%
General Fund			
Direct Loans	\$ 3,465	7,251	10,550
Loan Loss Reserve	\$ 404	354	396
% Reserve to Receivable	11.66%	4.88%	3.75%
Downpayment Assistance Loans	\$ 47,592	42,077	35,966
Loan Loss Reserve	\$ 2,379	2,104	1,798
% Reserve to Receivable	5.00%	5.00%	5.00%
Tourism Loans	\$ 100	109	117
Loan Loss Reserve	\$ 3	3	4
% Reserve to Receivable	3.00%	2.75%	3.42%
RECDS Loans Receivable	\$ 0	0	102
Loan Loss Reserve	\$ -	-	-
% Reserve to Receivable	0.00%	0.00%	0.75%
Settlement Fund Loans	\$ 3,318	3,495	3,667
Loan Loss Reserve	\$ 653	664	676
% Reserve to Receivable	19.68%	19.00%	18.43%
Student Loan			
Student Loans	\$ 34,409	19,177	10,103
Loan Loss Reserve	\$ 2,381	1,315	680
% Reserve to Receivable	6.92%	6.86%	6.73%

Loan Loss Reserves (\$ in thousands)

	June 30, 2026	June 30, 2025	June 30, 2024
Income Statement:			
Provisions for Loan Loss by Program:			
HOME	\$ (4,132)	596	(715)
TCAP	(119)	(69)	(135)
NSP	-	(74)	(154)
NSP3	-	-	-
PRLF	(9)	(8)	(8)
CDBG	-	-	-
NHTF	2,628	1,394	2,808
FAF/NBMIR Loans	(57)	(65)	(40)
Affordable Hsg Assist Program	(5)	1	2
Bond Guaranty	348	(273)	110
Other ED - SSBCI	(57)	44	(28)
Direct Loans	51	(42)	(16)
Tourism Loans	-	-	-
RECDS	-	-	-
Downpayment Assistance Loans	481	530	475
Settlement Fund Loans	(11)	(11)	(53)
Student Loan	1,082	652	362
	<u>\$ 200</u>	<u>2,675</u>	<u>2,608</u>

ARKANSAS DEVELOPMENT FINANCE AUTHORITY
DELINQUENCY AND OTHER REAL ESTATE SUMMARY OF ADFA SERVICED LOANS

Program Name	June-2025		June-2026		Difference	
	Total	Total	Total	Total	Total	Total
	Delinquent Loan Balance	Program Loan Balance	Delinquent Loan Balance	Program Loan Balance	Delinquent Loan Balance	Program Loan Balance
Rural Housing Multifamily	0	802,804	0	742,117	0	(60,687)
Tax Credit Assistance Program (TCAP)	0	16,429,179	0	16,297,641	0	(131,537)
Guaranteed ED	3,467,320	18,611,792	380,591	11,941,020	(3,086,729)	(6,670,771)
Assisted Living Revolving Fund (ALIF)	23,839	860,262	26,909	813,534	3,070	(46,728)
CDBG	0	7,700,000	0	7,700,000	0	0
PRLF	0	3,089,688	214,049	2,969,876	214,049	(119,811)
National Housing Trust Fund	1,125,000	18,109,135	0	20,872,459	(1,125,000)	2,763,323
SSBCI	459,310	2,311,450	0	2,145,526	(459,310)	(165,924)
Settlement Funds Repayable Loans (SH)	208,441	3,417,100	342,551	3,249,557	134,110	(167,543)
Habitat for Humanity - Saline County	0	82,007	0	72,415	0	(9,591)
FAF/BMIR	375,685	5,201,477	391,497	5,005,942	15,812	(195,535)
CTC (College Tech)	0	6,724,830	0	8,076,239	0	1,351,410
DPA (Repurchased)	11,254	11,254	11,254	11,254	0	0
Habitat for Humanity- Pulaski County	0	103,119	0	92,619	0	(10,500)
Project Fund (Direct Loans) Housing	70,770	884,693	27,994	1,452,932	(42,776)	568,239
Project Fund (Direct Loans) Economic Developme	458,866	6,156,036	324,874	1,681,952	(133,992)	(4,474,084)
SF First Mortgage	0	221,984	341,873	341,873	341,873	119,890
Tourism Reserve Fund	0	109,311	0	100,173	0	(9,138)
Bond Guaranty Fund	1,294,079	1,807,774	1,294,079	1,294,079	0	(513,695)
HOME	7,541,268	138,155,098	8,474,827	130,257,219	933,559	(7,897,879)
Neighborhood Stabilization (NSP)	0	0	0	0	0	0
Neighborhood Stabilization (NSP)III	0	0	0	0	0	0
Mastered Serviced - Multi-Family	0	1,786,002	0	1,656,006	0	(129,996)
Mastered Serviced - Single Family	0	77,740	0	63,521	0	(14,219)
TOTAL	\$ 15,035,831	\$ 232,652,734	\$ 11,830,497	\$ 216,837,957	\$ (3,205,334)	\$ (15,814,777)

OTHER REAL ESTATE OWNED		
Program	Property Name	Value
ECON	J & E Foods	1,000,000
		\$ 1,000,000

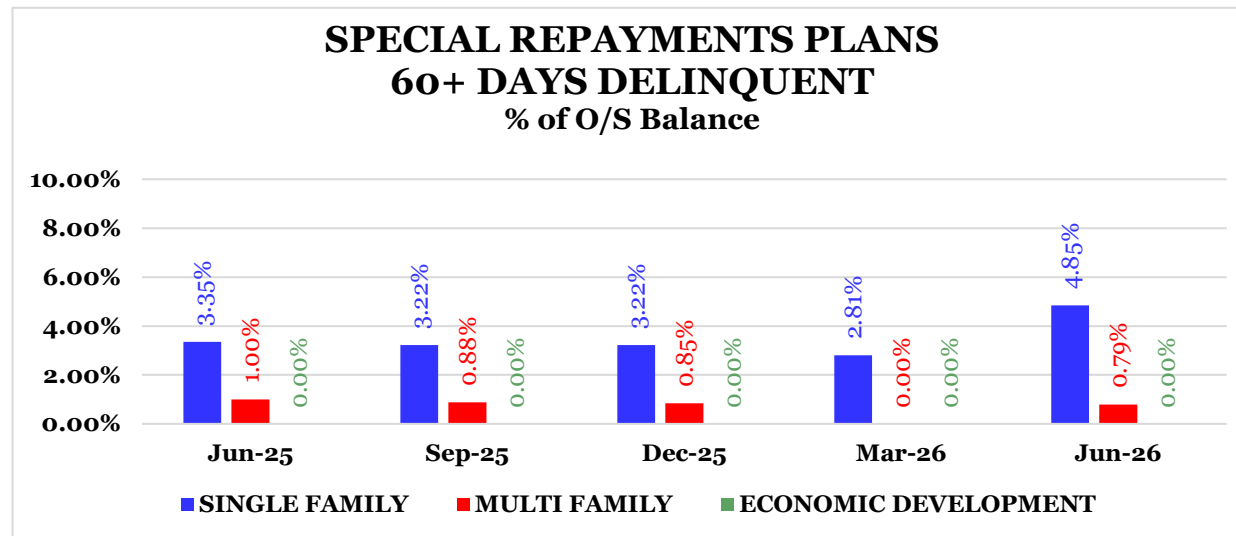
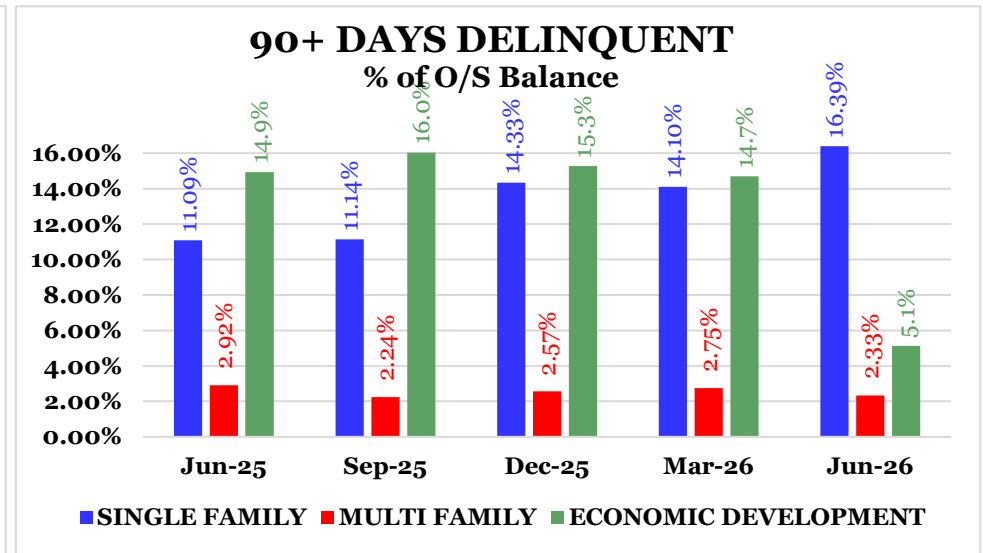
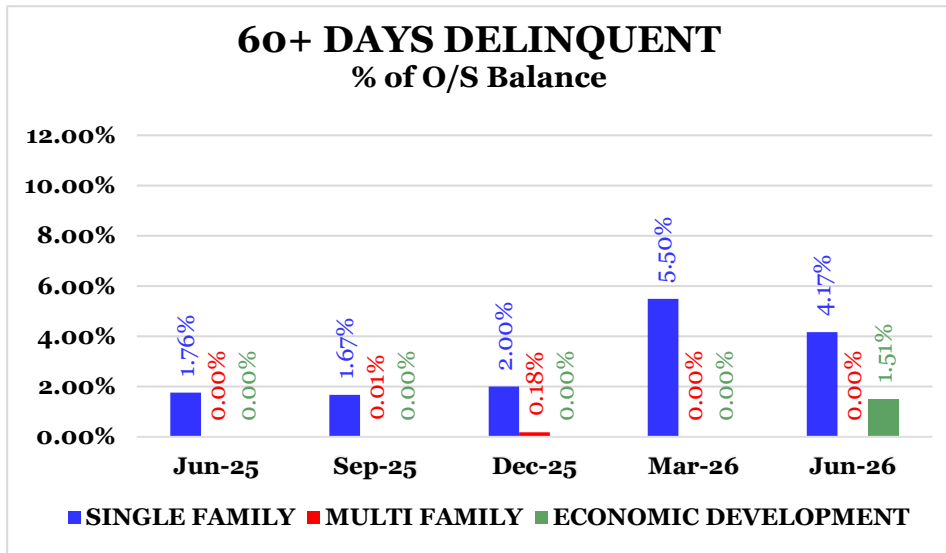
FINANCED LEASES OF REO		
HOME / TCAP / Exchange	U of A - Rich Mountain (The Oaks of Mena)	988,427
		\$ 988,427

IN SUBSTANCE FORECLOSURES	
PROJECT FUND (DIRECT LOAN)	\$ -

DELINQUENCY REPORT PRESENTED TO THE BOARD OF DIRECTORS FOR JUNE 2026

ADFA AND VENDOR SERVICED LOANS

DELINQUENCY REPORT (AS A % OF OUTSTANDING LOAN BALANCES)

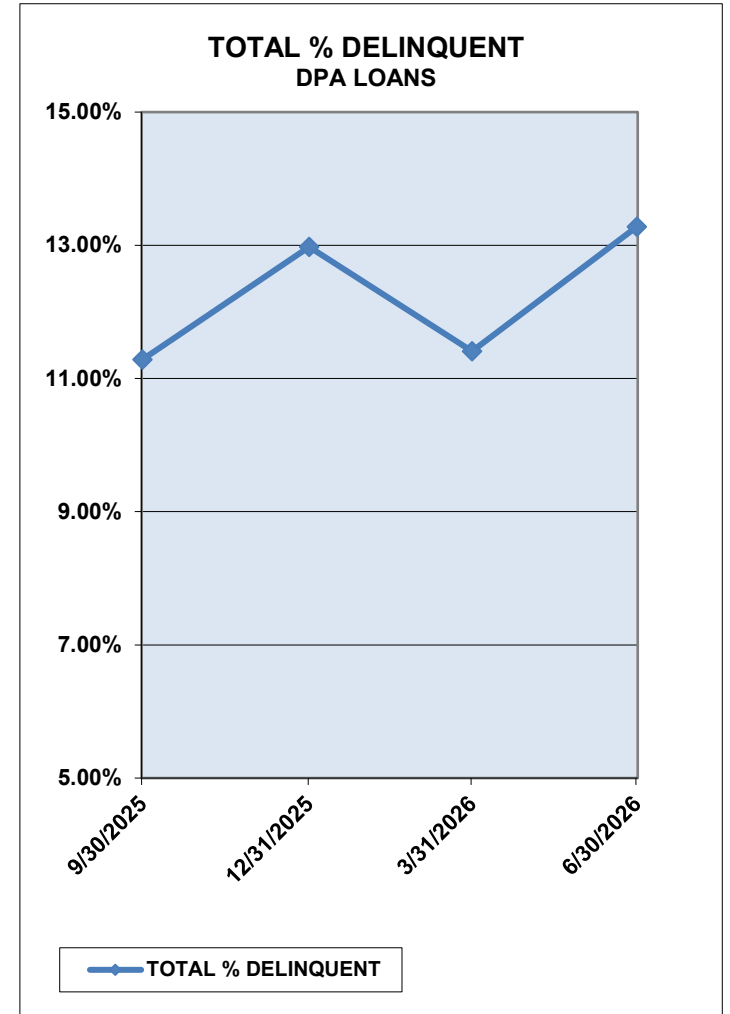


A loan is considered 90 days delinquent when it has three or more payments past due and it is not involved any special repayment agreements. The "90 days delinquent" chart reflects any loan that is 90 or more days delinquent. A loan balance will be included in the "Special Repayment Plan" chart when it is at least 60 days delinquent and the borrower and ADFA have reached a specific agreement to spread a delinquency over time in order to bring the loan current. If the agreement is kept, the loan will appear in the Special Repayment Plan numbers until it is less than 60 days delinquent.

ARKANSAS DEVELOPMENT FINANCE AUTHORITY
GENERAL FUND DPA LOANS
LOAN SERVICING REPORT as of 06/30/2026

	DELINQUENT BALANCES			
	9/30/2025	12/31/2025	3/31/2026	6/30/2026
30 DAYS	\$ 2,309,129.85	\$ 2,345,563.78	\$ 1,932,638.77	\$ 2,341,546.23
% DELINQUENT	5.15%	5.10%	4.12%	4.92%
60 DAYS	\$ 773,534.39	\$ 1,065,360.86	\$ 773,583.58	\$ 905,588.59
% DELINQUENT	1.73%	2.32%	1.65%	1.90%
90 DAYS	\$ 373,024.05	\$ 594,305.02	\$ 372,789.07	\$ 555,814.37
% DELINQUENT	0.83%	1.29%	0.79%	1.17%
120 + DAYS	\$ 1,599,761.68	\$ 1,962,178.13	\$ 2,276,015.97	\$ 2,515,734.60
% DELINQUENT	3.57%	4.27%	4.85%	5.29%
TOTAL DELINQUENT	\$ 5,055,449.97	\$ 5,967,407.79	\$ 5,355,027.39	\$ 6,318,683.79
TOTAL PRINCIPAL	\$ 44,797,227.17	\$ 45,987,941.74	\$ 46,933,472.05	\$ 47,586,197.22
TOTAL % DELINQUENT	11.29%	12.98%	11.41%	13.28%

	Interest Receipts	Write-offs	Interest Yield	Interest, Net of Write-offs
FISCAL YEAR ENDED JUNE 30, 2026	\$ 2,458,424.18	\$ 217,683.39	5.41%	4.93%
YEAR ENDED JUNE 30, 2025	\$ 2,090,450.11	\$ 227,410.84	5.29%	4.72%
YEAR ENDED JUNE 30, 2024	\$ 1,528,102.08	\$ 119,630.64	4.68%	4.31%
YEAR ENDED JUNE 30, 2023	\$ 980,259.82	\$ 74,399.93	3.82%	3.52%
3-YEAR AVERAGE	\$ 1,532,937.34	\$ 140,480.47	4.60%	4.18%



TAB 15

Memo

To: The Board of Director of the Arkansas Development Finance Authority
From: Jake Bleed, General Counsel
Date: Oct. 2, 2026
Re: Request for Delegation of Authority to Purchase Options for the purchase of real estate

The purpose of this memo is to request a delegation of the Board's authority to purchase an interest in real property for the purpose of supporting the State of Arkansas' efforts to recruit or retain large economic development projects.

In October 2025, the Board of the Directors of ADFA (Board) adopted a resolution requiring the Board's prior approval before the ADFA President can take certain actions. Those actions include the "[a]cquisition or disposition of any legal interest in real property valued at more than \$500,000." For purposes of this policy and in the interest of fully complying with the spirit of this resolution, a purchase option will be considered an interest in land.

The Arkansas Development Finance Authority (ADFA) has traditionally served as a partner to the State of Arkansas in the purchase and development of real property for various purposes, including economic development. In addition, ADFA maintains a relationship with the Arkansas Department of Commerce, whose division, the Arkansas Economic Development Commission (AEDC), is tasked with recruiting and retaining large economic development projects within the state.

As part of that mission, AEDC and the Department of Commerce have identified several parcels of real property that may be appropriate for large-scale economic development. In the interest of retaining control of those parcels in the event such a development becomes available, AEDC has requested ADFA obtain options to purchase these parcels at agreed-upon prices.

Two such options have been presented to ADFA for purchase. Both involve land in eastern Arkansas, and the purchase price of each option is \$10,000. Both options would expire before June 30, 2027. The appraised values of each parcel are expected to each be greater than \$500,000. Additional information on the specific nature and location of the real estate is being withheld as it would give an advantage to competitors or bidders.

The requested delegation would authorize the ADFA President to purchase the options at a future date. The intent of this purchase is to transfer rights under the options to a separate entity of the State to be exercised in the event an economic development project requires the land in question. The requested authority specifically excludes the power to exercise the options or take title to any land. Instead, ADFA staff will take no action to exercise these options or otherwise purchase these parcels without the additional, prior approval of the ADFA board.

In the event the options are transferred and exercised, a report will be provided to the board detailing the transaction at the first regular meeting of the board to occur after closing.

TAB 16

Memo

To: The Board of Directors of the Arkansas Development Finance Authority
From: Jake Bleed, General Counsel
Date: September 1, 2026
Re: Report on Resolution of Private Activity Bond Volume Cap Shortage

Pursuant to Arkansas Code Annotated Section 15-5-604(d)(3) and Code of Arkansas Rules 15 CAR Section 73-109(f), the following report is submitted:

For the 2026 Calendar year, the State of Arkansas was allocated Private Activity Bond Volume Cap in the amount of \$420,496,785. Pursuant to Arkansas Code, the volume cap allocation has been awarded to various qualifying projects.

Pursuant to that process, Arkansas Development Finance Authority (ADFA) received reservations in the following amounts:

1	HYBAR #2	\$	100,000,000
2	Weyerhaeuser	\$	150,000,000
3	2026 MRB COB	\$	170,800,000

Following the declaration of a shortage April 6, 2026, volume cap in the amounts of \$100,000,000 was issued to HYBAR#2 and \$170,800,000 to the 2026 MRB COB. The reservation for Weyerhaeuser was held at that time. Since then, additional reservations for volume cap have been received from the following entities and in the following amounts:

4	Garland County Facilities Board (Hot Springs Village)	\$	\$36,000,000
5	IRS Settlement	\$	1,352,421
6	Ford Avenue Flats	\$	23,000,000

The reservation filed on behalf of Ford Avenue Flats utilized the Multi Family allocation of volume cap and did not trigger a shortage.

All remaining reservations, as well as the pending reservation filed on behalf of Weyerhaeuser, must utilize volume cap available under Ark. Code Ann. Section 15-5-604 (i.e. the "General" category). On Sept. 1, 2026, a shortage was duly declared pursuant to 15 CAR Section 73-109.

Exercising his authority established under 15 CAR Section 73-109, the President awarded \$100,000,000 of the General category to the reservation for Weyerhaeuser and \$1,352,421 was reserved for settlement of outstanding volume cap issues with the federal Internal Revenue Services. All remaining 2026 volume cap in the amount of \$20,067,029, was issued to Garland County Facilities Board.

Attachment A: Volume Cap Shortage Report, 9.1.26

Private Activity Bond Volume Cap Analysis
ADFA[illegible]