

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

June 30, 2020 and 2019

**Combined Financial Statements
And
Supplementary Information**

With

Independent Auditor's Report



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Independent Auditor's Report

Commissioners of the Arkansas Natural
Resources Commission

Board of Directors
Arkansas Development Finance Authority
Little Rock, Arkansas

Report on the Combined Financial Statements

We have audited the accompanying 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, 2020 and 2019, 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.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express opinions on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements 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 entity's internal control. Accordingly, we express no such opinions. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the State of Arkansas Construction Assistance Revolving Loan Fund Program as of June 30, 2020 and 2019, 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.

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, 2020 and 2019, 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. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 4 through 9 be presented to supplement the basic combined financial statements. Such information, 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 auditing standards generally accepted in the United States of America, 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.

Other 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 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*, 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 27 and the schedule of expenditures of federal awards on page 34 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic combined financial statements. Such 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 auditing standards generally accepted in the United States of America. In our opinion, the supplementary information and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic combined financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2020, on our consideration of the State of Arkansas Construction Assistance Revolving Loan Fund Program's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State of Arkansas Construction Assistance Revolving Loan Fund Program's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of Arkansas Construction Assistance Revolving Loan Fund Program's internal control over financial reporting and compliance.

Frost, PLLC

Certified Public Accountants

Little Rock, Arkansas
November 2, 2020

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REVOLVING LOAN FUND PROGRAM**

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Management's Discussion and Analysis

For the Years Ended June 30, 2020 and 2019

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

Discussion of Combined Financial Statements

The June 30, 2020 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, 2019 and 2018 are also presented. Although not required, these comparative totals are intended to facilitate an enhanced understanding of the Program's financial position and results of operations for the current fiscal year in comparison to the prior fiscal years. Additional information, following the *Notes to Combined Financial Statements*, includes the combining statement of net position; the combining statement of revenues, expenses and changes in net position; as well as the combining statement of cash flows. These combining statements detail the Revolving Loan Fund and the Fees and Expenses Fund, which comprise the Program.

Condensed Financial Information – Combined Statements of Net Position

	<u>2020</u>	<u>2019</u>	<u>2018</u>
<i>(In thousands)</i>			
Total assets	\$ 435,818	\$ 422,489	\$ 413,000
Liabilities			
Current liabilities	2,960	3,107	3,247
Noncurrent liabilities	<u>15,879</u>	<u>18,850</u>	<u>21,978</u>
Total liabilities	<u>18,839</u>	<u>21,957</u>	<u>25,225</u>
Net position			
Restricted by bond resolution and program requirements	<u>\$ 416,979</u>	<u>\$ 400,532</u>	<u>\$ 387,775</u>

The Program's total assets have increased over the past three years. At June 30, 2020, the total assets increased \$13.3 million as compared to June 30, 2019. The increase is primarily attributed to the increases in cash and cash equivalents and loans receivable - restricted of \$67.4 million which is offset by a decrease in investments – current portion of \$53.9 million. The Program's investment portfolio all matured by year-end and was not reinvested. The Program did purchase a Federal Farm Credit Bank investment at par which is a private offering and cannot be remarketed. At June 30, 2019, the total assets increased \$9.5 million as compared to June 30, 2018, which is primarily attributable to an increase of \$24.4 million in loans receivable - restricted and \$21.2 million in total investments, which is offset by a decrease of \$36.1 million in cash and cash equivalents.

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Management's Discussion and Analysis (cont.)

For the Years Ended June 30, 2020 and 2019

The following table reports loan activity for each year:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
<i>(In thousands)</i>			
Loan disbursements	\$ 39,894	\$ 38,789	\$ 32,056
Loan repayments	<u>24,825</u>	<u>14,410</u>	<u>18,849</u>
Net increase in loans receivable	<u>\$ 15,069</u>	<u>\$ 24,379</u>	<u>\$ 13,207</u>

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>
<i>(In thousands)</i>			
New loans	\$ 54,900	\$ 18,000	\$ 63,150
Loan disbursements - new loans	135	25	3,058
Existing loans	\$ 219,250	\$ 174,550	\$ 150,875
Loan disbursements - existing loans	39,759	38,764	28,998

The Program continually made loans from Environmental Protection Agency (“EPA”) federal grant funds, prepayment funds, state matching funds and revolving Program funds. The Program received federal subsidy in the form of an annual capitalization grant (Base). In the current fiscal year, the Program disbursed funds for loans of \$6.1 million from federal grants, \$31.8 million from Program funds and \$2.1 million from state match. In the prior fiscal year, the Program committed an additional \$18.0 million of Program and grant funds of which only \$25,000 has been disbursed. The Program has disbursed \$38.8 million from Program funds, base federal grants and state match funds. Per EPA guidelines and Arkansas Natural Resources Commission (“ANRC”) policy, all state match funds must be matched with federal dollars on or prior to the receipt of the federal funds and ANRC has chosen to fund loans with state match funds prior to utilizing the federal capitalization grant. The 2009 Issue Prepayment Funds (Prepayments) fluctuate based upon the loan payoffs. The Program’s general bond resolution allows prepayment funds to be used to make new loans within 90 days of receipt, pay principal and interest at debt service or pay principal and interest on called bonds. In fiscal years 2020 and 2019, the Program did not utilize any Prepayment funds for loan fundings. The Program has available \$6.1 million and \$10.0 million of the Federal fiscal year 2018 and 2019 grants, respectively to utilize for additional subsidy and repayable loans.

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Management's Discussion and Analysis (cont.)

For the Years Ended June 30, 2020 and 2019

The table below reflects the amounts used from each funding source for fiscal years 2020, 2019 and 2018:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
<i>(In thousands)</i>			
EPA federal base	\$ 6,063	\$ 3,701	\$ -
State matching funds	2,078	2,100	1,732
2009 issue prepayment funds	-	-	57
Revolving Program funds	<u>31,753</u>	<u>32,988</u>	<u>30,267</u>
	<u>\$ 39,894</u>	<u>\$ 38,789</u>	<u>\$ 32,056</u>

Also, the Program utilized its cash within the Program as an additional funding source, essentially revolving the assets. The Federal fiscal year 2020 Base grant has been approved by the EPA in the amount of \$10.4 million and became available in October 2020.

The Program's total liabilities decreased to \$18.8 million at June 30, 2020 from \$22.0 million at June 30, 2019, from \$25.2 million at June 30, 2018. In fiscal years 2020 and 2019, the Program's decline in total liabilities was primarily attributable to the payment of scheduled principal payments on Revolving Loan Fund Series 2011 C ("2011 C Issue") of \$2.8 million and \$2.9 million, respectively. The 2011 C Issue has a call date of June 2021 and a final maturity in June 2028.

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Management's Discussion and Analysis (cont.)

For the Years Ended June 30, 2020 and 2019

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>
<i>(In thousands)</i>			
Operating revenues			
Total interest income	\$ 6,082	\$ 7,125	\$ 6,272
Other	<u>3,451</u>	<u>3,308</u>	<u>2,199</u>
Total operating revenues	<u>9,533</u>	<u>10,433</u>	<u>8,471</u>
 Operating expenses			
Total interest on bonds and notes	922	1,067	1,187
Total amortization expense	(331)	(384)	(427)
Federal financial assistance	5,962	741	469
Administrative expenses	<u>278</u>	<u>268</u>	<u>258</u>
Total operating expenses	<u>6,831</u>	<u>1,692</u>	<u>1,487</u>
 Operating income	2,702	8,741	6,984
 Base federal grants	12,416	4,816	766
Transfers (out) in, net	<u>1,329</u>	<u>(800)</u>	<u>(825)</u>
 Changes in net position	16,447	12,757	6,925
 Net position - beginning of year	<u>400,532</u>	<u>387,775</u>	<u>380,850</u>
 Net position - end of year	<u>\$ 416,979</u>	<u>\$ 400,532</u>	<u>\$ 387,775</u>

Total operating revenues have fluctuated over the past three years. In the current fiscal year, total operating revenues declined \$900,000. The Program's investment income and net appreciation of investments declined \$1.7 million which is offset by increases in the loan investment income and financing fee income of \$800,000. The Program's investment income declined due to the decline of money market mutual funds and State of Arkansas State Treasurer's Money Management Trust Fund ("MMTF") investment rates. The rate decline was due the Coronavirus pandemic which saw the Federal funds rate decline to 0.01% in March 2020. In the prior fiscal year, total operating revenues increased \$2.0 million. The interest on investments increased \$617,000, which was due to the increase in rates in the money market mutual funds and MMTF. The Program had \$32.0 million in investments mature and the Program's management reinvested those funds into MMTF at higher interest rate as those investments stated interest rate. The Program utilized the MMTF, an internal investment pool administrated by the State of Arkansas. The funds are available within one business days' notice and offer a higher rate of return. The net appreciation on investments increased \$900,000, which is an adjustment in the market value of the Program's investments. The Program monitors cash and investment yields and the cash needs of the Program to ensure liquidity and to maximize investment options.

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Management's Discussion and Analysis (cont.)

For the Years Ended June 30, 2020 and 2019

Interest on loans has increased over the past three years. Interest on loans increased \$552,000 and \$236,000 in fiscal years 2020 and 2019, respectively. Financing fee income, which represents the 1% financing fee paid by the borrowers, has increased over the past three years. Financing fee income increased \$249,000 and \$209,000 during fiscal years 2020 and 2019, respectively. The Program received \$11.3 million in Prepayment funds in fiscal year 2020. The Program did not receive any prepayment funds in fiscal year 2019. The Program is continually working to meet the challenges the Program is facing due to the economy, increased loan prepayment rate, the interest rate environment and the regulations placed on the Program by governing agencies. The average return on loans was 1.62%, 1.56% and 1.56% for the fiscal years ended June 30, 2020, 2019 and 2018, respectively.

Interest on investments was \$1.4 million, \$3.0 million and \$2.4 million for fiscal years ended June 30, 2020, 2019 and 2018, respectively. The Program maintains liquidity to fund projects as needed. During fiscal year 2020, the Program's investments have matured and were held as cash and cash equivalent. In the prior years, the Program invested excess funds in U. S. Treasury obligations to diversify its portfolio concentration. The Program's long-term investments matured in September 2019 and January 2020. Another investment option the Program utilized is the MMTF. The Program has \$82.6 million invested in the MMTF at fiscal year-end, which is reported as a part of cash and cash equivalents. The yield as of June 30, 2020 and 2019 was 0.51% and 2.74%, respectively. The average return on cash, cash equivalents and investments was 1.43%, 1.93% and 1.28% for the fiscal years ended June 30, 2020, 2019 and 2018, respectively.

Total operating expense increased \$5.1 million in fiscal year 2020, which is primarily attributable to an increase in federal financial assistance. Total operating expenses declined \$205,000 in fiscal year 2019 which was primarily attributable to an increase in federal financial assistance. Federal financial assistance fluctuates with the volume of principal forgiveness loans available for funding and the rate at which the borrowers request reimbursement. During fiscal years 2020 and 2019, the Program forgave principal of \$6.0 million and \$741,000, respectively. The Program's interest on bonds and notes decreased \$145,000 and \$120,000 during fiscal years 2020 and 2019, respectively, which correlated to the decrease in bonds payable. Program administration expenses totaled \$278,000, \$268,000 and \$258,000 for the fiscal years ended June 30, 2020, 2019 and 2018, respectively. These expenses included amounts paid for audit expense, trustee fees, legal fees, membership fees to national water related authorities and the administrative fee paid to the Arkansas Development Finance Authority ("ADFA").

Federal grant revenue increased to a balance of \$12.4 million in fiscal year 2020. The Program funded \$6.0 million each in repayable loans and principal forgiveness loans and \$400,000 for administration of the Program. Currently, the Program has \$6.1 million and \$10.1 million in the Federal fiscal year grants 2018 and 2019 available for future fundings. Federal grant revenue increased \$4.1 million in fiscal year 2019. At fiscal year-end 2019, the Program has \$8.1 million and \$10.1 million in Federal fiscal year 2017 and 2018 grants, respectively available for funding. The Program decided to allocate the maximum amount of \$19.5 million allowed of the 2012 through 2018 base federal grants as additional subsidy loans, which was approved by the EPA, which have not been funded, but reserved for future projects. Base federal grants guidelines allow for the funding of forgiveness of principal, repayable loans and the reimbursement of expenses of the Program. This change allows more funds to be utilized as principal forgiveness 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.

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Management's Discussion and Analysis (cont.)

For the Years Ended June 30, 2020 and 2019

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

<u>Federal Award Year</u>	<u>Beginning</u>	<u>Amount Expended In</u>		
	<u>Balance</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
		<i>(In thousands)</i>		
2014	\$ 4,686	\$ -	\$ 4,217	\$ 469
2015	8,315	8,089	226	-
2016	10,080	3,935	-	-
2017	9,978	-	-	-
	<u>\$ 33,059</u>	<u>\$ 12,024</u>	<u>\$ 4,443</u>	<u>\$ 469</u>

Transfers in and out are comprised of transfers to or from other state programs or agencies. In current fiscal year, the Program had transfers in (out), net of \$1.3 million which comprised of \$2.1 million from the ANRC Water, Waste Disposal and Pollution Abatement Facilities General Obligation Bond Fund Program to fund the Program's state match, which is offset by transfers out of \$750,000 to ANRC for administrative expenses. The funding source for the administrative expenses is the 4% set aside of the EPA base capitalization grant along with other funds deposited into the Fees and Expenses Fund.

The net position of the Program increased \$29.2 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.

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 Chief Financial Officer by telephoning 501.682.5900 or by contacting the ANRC Water Development Division Chief at 501.682.1611.

**STATE OF ARKANSAS CONSTRUCTION ASSISTANCE
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Combined Statements of Net Position

June 30, 2020 and 2019

(In Thousands)

<u>Assets</u>	<u>2020</u>	<u>2019</u>
Current assets		
Cash and cash equivalents	\$ 138,558	\$ 86,194
Accrued interest receivable		
Investments	33	191
Loans	301	283
Accounts receivable		
Borrowers	169	170
Environmental Protection Agency	-	106
Investments	2,479	56,336
Total current assets	141,540	143,280
Noncurrent assets		
Loans receivable - restricted		
Construction loans	293,944	278,722
Wetlands mitigation	334	487
Total noncurrent assets	294,278	279,209
Total assets	435,818	422,489
<u>Liabilities and Net Position</u>		
Current liabilities		
Accounts payable	254	284
Accrued interest payable	66	78
Current portion of bonds payable	2,640	2,745
Total current liabilities	2,960	3,107
Noncurrent liabilities		
Bonds payable, net of unamortized premiums	15,879	18,850
Total liabilities	18,839	21,957
Net position		
Restricted by bond resolution and enabling legislation and Program requirements	\$ 416,979	\$ 400,532

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, 2020 and 2019

(In Thousands)

	<u>2020</u>	<u>2019</u>
Operating revenues		
Interest on investments	\$ 1,391	\$ 2,986
Interest on loans	4,691	4,139
Financing fee income	2,901	2,652
Net appreciation of investments	<u>550</u>	<u>656</u>
Total operating revenues	<u>9,533</u>	<u>10,433</u>
Operating expenses		
Program administration	278	268
Federal financial assistance - base	5,962	741
Bond interest	922	1,067
Amortization of bond premiums	<u>(331)</u>	<u>(384)</u>
Total operating expenses	<u>6,831</u>	<u>1,692</u>
Operating income	2,702	8,741
Nonoperating income		
Base federal grants	<u>12,416</u>	<u>4,816</u>
Income before transfers in (out), net	15,118	13,557
Transfers in (out), net	<u>1,329</u>	<u>(800)</u>
Changes in net position	16,447	12,757
Net position - beginning of year	<u>400,532</u>	<u>387,775</u>
Net position - end of year	<u>\$ 416,979</u>	<u>\$ 400,532</u>

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

**STATE OF ARKANSAS CONSTRUCTION ASSISTANCE
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Combined Statements of Cash Flows

For the Years Ended June 30, 2020 and 2019

(In Thousands)

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities		
Financing fee income received	\$ 2,902	\$ 2,580
Cash paid for program administration	(308)	(220)
Net cash provided by operating activities	<u>2,594</u>	<u>2,360</u>
Cash flows from noncapital financing activities		
Repayment of bonds payable	(2,745)	(2,920)
Cash paid for interest	(933)	(1,079)
Nonoperating grants received	12,523	4,876
Transfers in (out), net	<u>1,329</u>	<u>(800)</u>
Net cash provided by noncapital financing activities	<u>10,174</u>	<u>77</u>
Cash flows from investing activities		
Interest received on investments	1,549	3,114
Interest received on loans	4,673	4,013
Purchase of investments	(2,501)	(52,576)
Proceeds from maturities of investments	56,906	32,013
Loan disbursements	(39,894)	(38,789)
Principal payments on loans	24,825	14,410
Federal grant funds expended	<u>(5,962)</u>	<u>(741)</u>
Net cash provided (used) by investing activities	<u>39,596</u>	<u>(38,556)</u>
Net increase (decrease) in cash and cash equivalents	52,364	(36,119)
Cash and cash equivalents - beginning of year	<u>86,194</u>	<u>122,313</u>
Cash and cash equivalents - end of year	<u>\$ 138,558</u>	<u>\$ 86,194</u>

	<u>2020</u>	<u>2019</u>
Reconciliation of changes in net assets to net cash provided by operating activities		
Operating income	\$ 2,702	\$ 8,741
Adjustments to reconcile operating income of changes in net assets to net cash provided by operating activities		
Interest on investments	(1,391)	(2,986)
Interest on loans	(4,691)	(4,139)
Bond interest	922	1,067
Amortization of bond premiums	(331)	(384)
Net depreciation of investments	(550)	(656)
Federal grants expended	5,962	741
Changes in operating assets and liabilities		
Accounts receivable - borrowers	1	(71)
Accounts payable	<u>(30)</u>	<u>47</u>
Net cash provided by operating activities	<u>\$ 2,594</u>	<u>\$ 2,360</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, 2020 and 2019

1. Nature of Operations and Summary of Significant Accounting Policies

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

As of July 2001, the Arkansas Natural Resources Commission (“ANRC”) became the lead agency for the Program (previously led by Arkansas Department of Environmental Quality). Effective July 1, 2019, ANRC is a division of the Arkansas Department of Agriculture and is still the lead agency for the Program, ANRC is responsible for performing technical project reviews, monitoring construction and coordinating the total management of the Program. Act 1243 of 2006 authorized the name change to ANRC, which has not had an impact on the Program. Arkansas Development Finance Authority (“ADFA”), which as of July 1, 2019 is a division of the Arkansas Department of Commerce, serves as financial manager for the Program under an interagency agreement. ADFA is responsible for investing and disbursing funds as authorized by the lead agency, servicing loans, preparing and submitting monthly financial reports and annual combined financial statements and procuring audit services. ADFA is reimbursed for the Program’s administration costs through a calculation based on loans outstanding in accordance with the interagency agreement. The amounts incurred to ADFA for administration costs were approximately \$226,000 and \$220,000 for the years ended June 30, 2020 and 2019, 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 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, 2020 and 2019, the AAWQLP had \$5.4 million and \$5.9 million, respectively, in deposits and investments with various financial institutions.

- b. **Use of estimates** – The preparation of combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change relate to the determination of fair values of investments.

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

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Notes to Combined Financial Statements

June 30, 2020 and 2019

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

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

Operating revenues and expenses are distinguished from nonoperating items in the Program’s statement of revenues, expenses and changes in net position. Operating revenues and expenses generally result from providing services in connection with the principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating items.

- d. **Recently issued accounting pronouncements** – Governmental Accounting Standards Board (“GASB”) Statement No. 87, “Leases.” This statement establishes a new single model for lease accounting based on the principle that leases represent the financing of the right to use an underlying asset. The effective date is for periods beginning after June 15, 2021. The Program does not expect this statement to have a material impact on its combined financial statements.

GASB Statement No. 89, “Accounting for Interest Cost Incurred before the End of a Construction Period.” This statement enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and simplifies accounting for interest cost incurred before the end of a construction period. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. This statement supersedes paragraphs 5 through 22 of GASB Statement No. 62, “Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.” This statement is effective for periods beginning after December 15, 2020. The Program does not expect this statement to have a material impact on its combined financial statements.

GASB Statement No. 93, “Replacement of Interbank Offered Rates.” This statement will enhance comparability of accounting and financial reporting requirements and will improve the consistency of authoritative literature. More comparable reporting will improve the usefulness of information for users of state and local government financial statements. The removal of the London Interbank Offered Rate as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this statement are effective for reporting periods beginning after June 15, 2020. Earlier application is encouraged. The Program has not determined the impact, if any, that this statement could have on its 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, 2020 and 2019, cash equivalents of approximately \$138.6 million and \$86.2 million, respectively, consisted primarily of money market mutual funds with variable interest rates and an internal governmental investment pool administered by the State of Arkansas.

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

Notes to Combined Financial Statements

June 30, 2020 and 2019

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

Included in cash equivalents on the Program's statement of net position is the Fees and Expenses Fund with a balance of approximately \$14.1 million and \$7.6 million at June 30, 2020 and 2019, 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. **Finance fees** – The Program receives up to a 1% annual financing fee from the borrowers as part of the 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 represents 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, 2020 and 2019, \$1.5 million and \$1.6 million of the Program's deposits (and carrying value) of \$3.0 million and \$3.3 million, respectively, were exposed to custodial credit risk as follows:

<i>(In thousands)</i>	<u>2020</u>	<u>2019</u>
Uninsured and collateral held by Pledging Financial Institution agent in the Program's name	\$ <u>1,540</u>	\$ <u>1,575</u>

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

Notes to Combined Financial Statements

June 30, 2020 and 2019

2. Deposits and Investments (cont.)

Investments

Arkansas statutes and the Program's General Resolution authorizes 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, 2020 and 2019, the Program had the following investments and maturities:

	Maturities in Years				<u>Total</u>
	<u>Less than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>More than 10</u>	
<i>(In thousands)</i>					
<u>June 30, 2020</u>					
U.S. agencies obligations	\$ 2,479	\$ -	\$ -	\$ -	\$ 2,479
Money market mutual funds	52,972	-	-	-	52,972
State Treasurer Money					
Management Trust Fund	82,634	-	-	-	82,634
	\$ 138,085	\$ -	\$ -	\$ -	\$ 138,085
 <u>June 30, 2019</u>					
U.S. agencies obligations	\$ 5,877	\$ -	\$ -	\$ -	\$ 5,877
U.S. Treasury obligations	50,459	-	-	-	50,459
Money market mutual funds	27,730	-	-	-	27,730
State Treasurer Money					
Management Trust Fund	55,166	-	-	-	55,166
	\$ 139,232	\$ -	\$ -	\$ -	\$ 139,232

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

Notes to Combined Financial Statements

June 30, 2020 and 2019

2. Deposits and Investments (cont.)

- a. **Interest rate risk** – As a means of limiting its exposure to fair value losses due to rising interest rates, the Program limits the maturity of investments to expected cash flow needs of the Program. The Program has also begun investing in an internal governmental investment pool administrated by the State of Arkansas. The Program may request withdrawal of its funds with one business days’ notice.
- b. **Credit risk** – Credit risk is the risk the issuer or other counterparty to an investment will not fulfill its obligations. Currently, the Program does not have any investments in U.S. agencies obligations not directly guaranteed by the U.S. government. The Program’s investments in money market mutual funds, or investments of those funds, were rated “AAAm” or “AAA” by Standard & Poor’s and “Aaa-mf” or “Aaa” by Moody’s Investors Service.
- c. **Custodial credit risk** – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Program will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Program’s investment in mutual funds is not classified by custodial credit risk category, as they are not evidenced by securities in physical or book entry form.
- 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>	2020		2019	
	<u>Fair Value</u>	<u>Percentage</u>	<u>Fair Value</u>	<u>Percentage</u>
<i>(In thousands)</i>				
State Treasurer Money				
Management Trust Fund	\$ 82,634	60%	\$ 55,166	40%

Summary of Carrying Values

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

	2020	2019
<i>(In thousands)</i>		
Carrying value		
Deposits	\$ 2,952	\$ 3,298
Investments	138,085	139,232
	\$ 141,037	\$ 142,530

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

June 30, 2020 and 2019

2. Deposits and Investments (cont.)

Included in the following combined statements of net position captions:

	<u>2020</u>	<u>2019</u>
<i>(In thousands)</i>		
Cash and cash equivalents	\$ 138,558	\$ 86,194
Investments	<u>2,479</u>	<u>56,336</u>
	<u>\$ 141,037</u>	<u>\$ 142,530</u>

3. Loans Receivable

The Program originates loans with Arkansas municipalities, sewer improvement districts, and water facilities boards for financing the construction of wastewater treatment facilities. The loans are payable in semiannual installments. At June 30, 2020 and 2019, such loans had a carrying value of approximately \$294.3 million and \$279.2 million, respectively, of which approximately \$126.0 million and \$55.0 million, respectively, are for projects still under construction. The loans bear interest ranging from 0.00% to 3.75% and are collateralized by special assessments, user charges or sales and use tax bonds issued by the municipalities, sewer improvement districts and water facilities board.

In fiscal 2010, the Program funded loans with American Recovery and Reinvestment Act (“ARRA”) federal funds. As of June 30, 2020, the Program’s current loan balance of ARRA loans was \$3.2 million, which was funded with ARRA and other program funds.

During the years ended June 30, 2020 and 2019, \$870.2 million and \$815.3 million, respectively, in cumulative loans had been approved for funding. At June 30, 2020 and 2019, \$119.7 million and \$104.7 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 Dates</u>	<u>2020</u>	<u>2019</u>
			<i>(In thousands)</i>	
2011-C Serial	3.25% - 5.00%	June 1, 2028	\$ 17,475	\$ 20,220
	Unamortized premiums		<u>1,044</u>	<u>1,375</u>
			<u>\$ 18,519</u>	<u>\$ 21,595</u>

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

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Notes to Combined Financial Statements

June 30, 2020 and 2019

4. Bonds Payable (cont.)

Activity in bonds payable consists of the following:

	<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>					
<u>June 30, 2020</u>					
2011-C Serial	\$ 20,220	\$ -	\$ (2,745)	\$ 17,475	\$ 2,640
 <u>June 30, 2019</u>					
2011-C Serial	\$ 23,140	\$ -	\$ (2,920)	\$ 20,220	\$ 2,745

The principal amount shown above differs from the amount on the combined statements of net position due to unamortized premiums of approximately \$1.0 million and \$1.4 million at June 30, 2020 and 2019, respectively.

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

<u>Fiscal Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>
	<i>(In thousands)</i>	
2021	\$ 2,640	\$ 796
2022	2,525	664
2023	2,530	538
2024	2,525	411
2025	2,490	285
2026 - 2028	<u>4,765</u>	<u>276</u>
	17,475	2,970
Unamortized premiums	<u>1,044</u>	<u>-</u>
	<u>\$ 18,519</u>	<u>\$ 2,970</u>

The Program has not had new bond issuances in fiscal 2020 nor 2019.

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:

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

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Notes to Combined Financial Statements

June 30, 2020 and 2019

5. Fair Value of Financial Instruments (cont.)

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

Recurring Measurements

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

	<u>Fair Value</u>	Quoted Prices in Active Markets for Identical Assets (<u>Level I</u>)	Significant Other Observable Inputs (<u>Level II</u>)	Significant Unobservable Inputs (<u>Level III</u>)
<i>(In thousands)</i>				
<u>June 30, 2020</u>				
U.S. agencies obligations	\$ 2,479	\$ -	\$ -	\$ 2,479
State Treasurer Money Management Trust Fund	<u>82,634</u>	<u>-</u>	<u>82,634</u>	<u>-</u>
	<u>\$ 85,113</u>	<u>\$ -</u>	<u>\$ 82,634</u>	<u>\$ 2,479</u>
 <u>June 30, 2109</u>				
U.S. agencies obligations	\$ 5,877	\$ -	\$ 3,236	\$ 2,641
U.S. Treasury obligations	50,459	-	50,459	-
State Treasurer Money Management Trust Fund	<u>55,166</u>	<u>-</u>	<u>55,166</u>	<u>-</u>
	<u>\$ 111,502</u>	<u>\$ -</u>	<u>\$ 108,861</u>	<u>\$ 2,641</u>

Notes to Combined Financial Statements

June 30, 2020 and 2019

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

The following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying combined financial statements, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the years ended June 30, 2020 or 2019.

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, 2020 or 2019. Level II securities include U.S. government and federal agencies and the State Treasurer Money Management Trust Fund ("MMTF") and U.S. Treasury notes. If quoted market prices are not available, then fair values are estimated by an independent third party pricing service using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. For these investments, the inputs used by the pricing service to determine fair value may include one, or a combination of observable inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data market research publications. The fair value of MMTF is calculated by the internal governmental investment pool. All these types of Program's investments are classified within Level II of the valuation hierarchy. In certain cases where Level I or Level II inputs are not available, securities are classified within Level III of the hierarchy. The Program has classified one investment as Level III. The Program has a relationship with AgriBank in where the Program purchases a Federal Farm Credit Bank bond. This investment is marketed only to the Program and the Program has concluded the fair market value to be equal to the par amount.

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

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, 2020 and 2019, the Program received 57% and 32%, respectively, of total revenue in the form of federal grants. As of June 30, 2020 and 2019, the Program has \$16.2 million of the Federal Fiscal Years 2019 and 2018 grants remaining to disburse.

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

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Notes to Combined Financial Statements

June 30, 2020 and 2019

6. Concentrations (cont.)

Principal Forgiveness Loans

In the fiscal 2013, the Program began funding principal forgiveness (“PF”) loans with base federal capitalization grant funds. The EPA required, as part of the base capitalization grant requirements, that a percentage of the grant be available as subsidy to eligible borrowers. States are not required to provide a minimum amount of additional subsidization for this grant. However, the above requirement only applies to the portion of the total base capitalization grant federal appropriation that exceeds \$1 billion.

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

The 2016 through the 2019 Cap Grant conditions has a minimum for additional subsidy. In addition to the additional subsidy that can be used at a state’s discretion as described in the WRRDA, the recipient agrees to use 10% of the funds available in the capitalization grant to provide additional subsidy to eligible recipients.

Affordability Criteria/Additional Subsidization

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

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

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

Once a project has been determined to be eligible for additional subsidization from the CWRLF, additional priority will be given to projects that meet the Green standards set by ANRC. ANRC has allocated approximately \$15.7 million for projects or project components eligible for additional subsidization.

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

Notes to Combined Financial Statements

June 30, 2020 and 2019

6. Concentrations (cont.)

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

Federal Fiscal Year	Grant Award <u>Amount</u>	PF Minimum <u>Amount</u>	PF Maximum <u>Amount</u>	Cumulative <u>Disbursements</u>	PF Amount Remaining to Fund
<i>(In thousands)</i>					
2016	\$ 8,729	\$ 873	\$ 3,491	\$ 873	\$ -
2017	8,661	866	3,464	3	863
2018	10,500	1,050	4,200	-	1,050
2019	10,394	1,039	4,158	-	3,119
			<u>\$ 876</u>	<u>\$ 5,032</u>	

The EPA has financially and programmatically closed all Cap grants through the 2015 Cap Grant. The Program has allocated the minimum amount for 2016, 2017 and 2018 and the maximum amount for 2019 base capitalization grants are presented above. The Program has the option to spend up to the maximum amount for each base capitalization grant.

The Program forgives the loans as the construction draws are disbursed. In fiscal year 2020 and 2019, \$6.0 million and \$741,000, respectively, in PF loans were expensed.

Contingencies

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

Coronavirus Disease 2019 (“COVID-19”)

The COVID-19 outbreak, characterized as a pandemic by the World Health Organization on March 11, 2020, has caused significant disruptions in international and U.S. economies and markets. The Program believes it is taking all reasonable precautions in the management of its operations in response to the COVID-19 pandemic. The duration of these uncertainties and ultimate effect on the Program’s operating results cannot be reasonably estimated at this time. The Program monitors the assets to ensure the repayment of loans and cash is available to meet future obligations of the Program.

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

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Notes to Combined Financial Statements

June 30, 2020 and 2019

7. **Subsequent Events Evaluation Date**

The Program evaluated the events and transactions subsequent to its June 30, 2020 combined statement of net position date and determined there were no significant events to report through November 2, 2020, 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, 2020

(In Thousands)

<u>Assets</u>	<u>Revolving Loan Fund</u>	<u>Fees and Expenses</u>	<u>Total</u>
Current assets			
Cash and cash equivalents	\$ 124,451	\$ 14,107	\$ 138,558
Accrued interest receivable			
Investments	30	3	33
Loans	301	-	301
Accounts receivable			
Borrowers	-	169	169
Investments	2,479	-	2,479
Total current assets	<u>127,261</u>	<u>14,279</u>	<u>141,540</u>
Noncurrent assets			
Loans receivable - restricted			
Construction loans	293,944	-	293,944
Wetlands mitigation	-	334	334
Total noncurrent assets	<u>293,944</u>	<u>334</u>	<u>294,278</u>
Total assets	<u>421,205</u>	<u>14,613</u>	<u>435,818</u>
<u>Liabilities and Net Position</u>			
Current liabilities			
Accounts payable	28	226	254
Accrued interest payable	66	-	66
Current portion of bonds payable	2,640	-	2,640
Total current liabilities	<u>2,734</u>	<u>226</u>	<u>2,960</u>
Noncurrent liabilities			
Bonds payable, net of unamortized premiums	<u>15,879</u>	-	<u>15,879</u>
Total liabilities	<u>18,613</u>	<u>226</u>	<u>18,839</u>
Net position			
Restricted by bond resolution, enabling legislation and Program requirements	<u>\$ 402,592</u>	<u>\$ 14,387</u>	<u>\$ 416,979</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, 2020

(In Thousands)

	<u>Revolving Loan Fund</u>	<u>Fees and Expenses</u>	<u>Total</u>
Operating revenues			
Interest on investments	\$ 1,252	\$ 139	\$ 1,391
Interest on loans	4,691	-	4,691
Financing fee income	-	2,901	2,901
Net appreciation of investments	<u>507</u>	<u>43</u>	<u>550</u>
Total operating revenues	<u>6,450</u>	<u>3,083</u>	<u>9,533</u>
Operating expenses			
Program administration	-	278	278
Federal financial assistance - base	5,962	-	5,962
Bond interest	922	-	922
Amortization of bond premiums	<u>(331)</u>	<u>-</u>	<u>(331)</u>
Total operating expenses	<u>6,553</u>	<u>278</u>	<u>6,831</u>
Operating (loss) income	(103)	2,805	2,702
Nonoperating income			
Base federal grants	<u>12,024</u>	<u>392</u>	<u>12,416</u>
Income before transfers in (out), net	11,921	3,197	15,118
Transfers in (out), net	<u>2,079</u>	<u>(750)</u>	<u>1,329</u>
Changes in net position	14,000	2,447	16,447
Net position - beginning of year	<u>388,592</u>	<u>11,940</u>	<u>400,532</u>
Net position - end of year	<u>\$ 402,592</u>	<u>\$ 14,387</u>	<u>\$ 416,979</u>

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, 2020

(In Thousands)

	<u>Revolving Loan Fund</u>	<u>Fees and Expenses</u>	<u>Total</u>
Cash flows from operating activities			
Financing fee income received	\$ -	\$ 2,902	\$ 2,902
Cash paid for program administration	<u>(37)</u>	<u>(271)</u>	<u>(308)</u>
Net cash (used) provided by operating activities	<u>(37)</u>	<u>2,631</u>	<u>2,594</u>
Cash flows from noncapital financing activities			
Repayment of bonds payable	(2,745)	-	(2,745)
Cash paid for interest	(933)	-	(933)
Nonoperating grants received	12,024	499	12,523
Transfers in (out)	<u>2,079</u>	<u>(750)</u>	<u>1,329</u>
Net cash provided (used) by noncapital financing activities	<u>10,425</u>	<u>(251)</u>	<u>10,174</u>
Cash flows from investing activities			
Interest received on investments	1,399	150	1,549
Interest received on loans	4,673	-	4,673
Purchase of investments	(2,501)	-	(2,501)
Proceeds from maturities of investments	52,905	4,001	56,906
Loan disbursements	(39,894)	-	(39,894)
Principal payments on loans	24,825	-	24,825
Federal grant funds expended	<u>(5,962)</u>	<u>-</u>	<u>(5,962)</u>
Net cash provided by investing activities	<u>35,445</u>	<u>4,151</u>	<u>39,596</u>
Net increase in cash and cash equivalents	45,833	6,531	52,364
Cash and cash equivalents - beginning of year	<u>78,618</u>	<u>7,576</u>	<u>86,194</u>
Cash and cash equivalents - end of year	<u>\$ 124,451</u>	<u>\$ 14,107</u>	<u>\$ 138,558</u>
Reconciliation of changes in net assets to net cash provided by operating activities			
Operating (loss) income	\$ (103)	\$ 2,805	\$ 2,702
Adjustments to reconcile operating (loss) income of changes in net assets to net cash (used) provided by operating activities			
Interest on investments	(1,252)	(139)	(1,391)
Interest on loans	(4,691)	-	(4,691)
Bond interest	922	-	922
Amortization of bond premiums	(331)	-	(331)
Net depreciation of investments	(507)	(43)	(550)
Federal grants expended	5,962	-	5,962
Changes in operating assets and liabilities			
Accounts receivable - borrowers	-	1	1
Accounts payable	<u>(37)</u>	<u>7</u>	<u>(30)</u>
Net cash (used) provided by operating activities	<u>\$ (37)</u>	<u>\$ 2,631</u>	<u>\$ 2,594</u>

See independent auditor's report.

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

Commissioners of the Arkansas Natural
Resources Commission

Board of Directors
Arkansas Development Finance Authority
Little Rock, Arkansas

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combined financial statements of the State of Arkansas Construction Assistance Revolving Loan Fund Program (the “Program”), which comprise the combined statement of net position as of June 30, 2020, 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 basic combined financial statements, and have issued our report thereon dated November 2, 2020, which contained an “emphasis of matter” paragraph regarding a definition of the reporting entity.

Internal Control Over Financial Reporting

In planning and performing our audit of the combined financial statements, we considered the Program’s internal control over financial reporting (internal control) to determine the 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 Program’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Program’s internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Frost, PLLC

Certified Public Accountants

Little Rock, Arkansas
November 2, 2020

**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

We have audited the State of Arkansas Construction Assistance Revolving Loan Fund Program’s (the “Program”) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget *Compliance Supplement* that could have a direct and material effect on each of the Program’s major federal programs for the year ended June 30, 2020. The Program’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for each of the Program’s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, 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”). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Program’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Program’s compliance.

Opinion on Each Major Federal Program

In our opinion, the Program complied, in all material respects, with the types of 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, 2020.

Report on Internal Control Over Compliance

Management of the Program is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Program's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Program's 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 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Frost, PLLC

Certified Public Accountants

Little Rock, Arkansas
November 2, 2020

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

Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2020

<u>Reference Number</u>	<u>Summary of Finding</u>	<u>Status</u>
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No matters are reportable

STATE OF ARKANSAS CONSTRUCTION ASSISTANCE
REVOLVING LOAN FUND PROGRAM

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2020

(In Thousands)

<u>Federal Grantor/Pass-Through Grantor Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Provided to Subrecipients</u>	<u>Total Federal Expenditures</u>
U.S. Environmental Protection Agency/Capitalization Grants for Clean Water State Revolving Funds (Clean Water State Revolving Fund Cluster)	66.458	\$ 12,024	\$ 12,416

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, 2020

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, 2020. 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 the cost principles contained in the U.S. Office of Management and Budget’s Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Program has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.
3. Expenditures reflected in CFDA 66.458, Capitalization Grants for the Clean Water State Revolving Funds, include loans to municipalities and other public entities for construction of water treatment facilities. The funding source for these loans includes federal grant funds, state match funds, bond funds and revolving Program funds. The funds are disbursed to the subrecipients after expenses have been incurred as forgiveness of principal and repayable loans. The Program’s outstanding loan receivable balance from subrecipients was \$293.9 million for the year ended June 30, 2020. During fiscal 2020, approximately \$6.0 million of loans were forgiven. Total federal disbursements totaled approximately \$12.0 million during fiscal year 2020, which represented funding for principal forgiveness and repayable loans. For the year ended June 30, 2020, the Program received \$392,000 in federal funds for administrative costs.