

PRELIMINARY OFFICIAL STATEMENT DATED FEBRUARY 11, 2025

**BOOK-ENTRY ONLY
NEW ISSUE**

**RATINGS: S&P: "AAA"
Fitch: "AAA"**

In the opinion of Bond Counsel to the Authority, assuming compliance with certain covenants, under existing law interest on the Series 2025 Bonds is excludable from gross income for federal income tax purposes, as more fully described under the caption "TAX MATTERS" herein. In addition, in the opinion of Bond Counsel, under existing law interest on the Series 2025 Bonds is exempt from all taxes in the State of Arkansas, including income, inheritance and property taxes.

\$69,045,000*
ARKANSAS DEVELOPMENT FINANCE AUTHORITY
Revolving Loan Fund Revenue Bonds,
Series 2025

Dated: Date of Delivery

Due: June 1, as described on the inside front cover

The \$69,045,000* Arkansas Development Finance Authority Revolving Loan Fund Revenue Bonds, Series 2025 (the "Series 2025 Bonds") are issuable as fully registered bonds and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York, to which principal and interest payments on the Series 2025 Bonds will be made so long as Cede & Co. is the registered owner of the Series 2025 Bonds. Individual purchases of the Series 2025 Bonds will be made only in book-entry form, in denominations of \$5,000, or any integral multiple thereof. Individual purchasers ("Beneficial Owners") of Series 2025 Bonds will not receive physical delivery of bond certificates.

The Series 2025 Bonds bear interest from the date of delivery, payable on June 1 and December 1 of each year, commencing December 1, 2025. All such interest payments shall be payable to the person in whose name such Series 2025 Bonds are registered on the bond registration books maintained by Regions Bank, with offices in Little Rock, Arkansas, as trustee (the "Trustee"). Principal of the Series 2025 Bonds will be payable at the corporate trust office of the Trustee in Little Rock, Arkansas. So long as DTC or its nominee is the registered owner of the Series 2025 Bonds, disbursement of such payments to DTC is the responsibility of the Trustee. Disbursement of such payments to DTC Participants is the responsibility of DTC, and disbursement of such payments to Beneficial Owners is the responsibility of DTC Participants or Indirect Participants as more fully described herein.

The Series 2025 Bonds, together with the Revolving Loan Fund Revenue Bonds, Series 2023 and any Additional Bonds (as hereinafter defined herein) of the Arkansas Development Finance Authority (the "Authority") issued from time to time under the Revolving Loan Fund Revenue Bond Program General Bond Resolution adopted by the Authority on July 20, 2023 (the "General Resolution"), are special limited revenue obligations of the Authority payable solely from (a) all of the right, title and interest of the Authority in and to the Pledged Receipts (defined herein) made pursuant to Designated Borrower Obligations (defined herein) payable by Borrowers (defined herein) and (b) to the extent provided in the General Resolution, certain amounts on deposit in the funds and accounts maintained thereunder. See "THE BORROWERS" and "SECURITY AND SOURCE OF PAYMENT FOR BONDS."

The Series 2025 Bonds are special limited revenue obligations only of the Authority and in no event shall the Series 2025 Bonds constitute an indebtedness of the State or an indebtedness for which the faith and credit of the State or any of its revenues are pledged or an indebtedness secured by a lien on or a security interest in any property of the State. The Series 2025 Bonds are not general obligations of the Authority. The Authority has no taxing power. The issuance of the Series 2025 Bonds shall not directly, indirectly or contingently obligate, morally or otherwise, the State or any political subdivision thereof (including the Borrowers identified herein) to levy or to pledge any form of taxation whatever therefor or to make any appropriation for their payment.

FOR MATURITY SCHEDULE SEE INSIDE FRONT COVER

The Series 2025 Bonds are offered when, as and if issued and received by the Underwriters named below, subject to the approval of legality by Friday, Eldredge & Clark, LLP, Little Rock, Arkansas, Bond Counsel to the Authority, and to certain other conditions referred to herein. It is expected that the Series 2025 Bonds will be available for delivery in Little Rock, Arkansas, or New York, New York, on or about March 5, 2025.

Stephens Inc.

 **Crews & Associates**

RAYMOND JAMES®

Dated _____, 2025

* Preliminary; subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment without notice. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

\$69,045,000*
ARKANSAS DEVELOPMENT FINANCE AUTHORITY
Revolving Loan Fund Revenue Bonds,
Series 2025

MATURITY SCHEDULE*

<u>Year</u> <u>(June 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>
2027	1,550,000		
2028	1,630,000		
2029	1,710,000		
2030	1,795,000		
2031	1,885,000		
2032	1,980,000		
2033	2,080,000		
2034	2,185,000		
2035	2,295,000		
2036	2,405,000		
2037	2,530,000		
2038	2,655,000		
2039	2,785,000		
2040	2,925,000		
2041	3,070,000		
2042	3,225,000		
2043	3,385,000		
2044	3,555,000		
2045	3,735,000		
2046	3,920,000		
2047	4,115,000		
2048	4,325,000		
2049	4,540,000		
2050	4,765,000		

* Preliminary; subject to change.

No dealer, broker, salesman or other person has been authorized by the Authority, the Commission (as defined herein), or the Underwriters (as defined herein) to give any information or make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the Authority, the Commission or the Underwriters. This Official Statement does not constitute an offer to sell or exchange or a solicitation of an offer to buy or exchange any of the securities offered hereby by any person in any jurisdiction in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation. The information contained in this Official Statement has been obtained from the Authority, the Commission, the Borrowers and other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness by, and it is not to be construed as a representation by, the Authority, the Commission or the Underwriters. The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of the Official Statement nor any sale or exchange made hereunder shall under any circumstances create any implication that there has been no change in the affairs of the Authority, the Commission, or the Borrowers since the date hereof.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2025 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THESE SECURITIES HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE OR AGENCY THEREOF.

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SUMMARY STATEMENT

The following summary is qualified in its entirety by reference to the detailed information appearing elsewhere in this Official Statement and to the General Resolution and the Series 2025 Series Resolution. No person is authorized to detach this Summary Statement from this Official Statement or to otherwise use it without this entire Official Statement, including the Appendices hereto. Unless otherwise specifically defined, certain capitalized terms used herein have the meanings set out in "**APPENDIX A, DOCUMENT SUMMARIES – A-I - Definitions of Certain Terms.**"

Issuer	Arkansas Development Finance Authority (the "Authority"), a public body corporate and politic of the State of Arkansas. See " THE AUTHORITY. "
Offering	\$69,045,000* Arkansas Development Finance Authority Revolving Loan Fund Revenue Bonds, Series 2025 (the "Series 2025 Bonds"), are authorized by a series resolution entitled "Series Resolution Authorizing the Issuance of Revolving Loan Fund Revenue Bonds, Series 2025 in a Principal Amount Not to Exceed \$75,000,000" adopted by the Authority on January 16, 2025, and by a confirming resolution entitled "Resolution Confirming the Aggregate Principal Amount, Maturity and Interest Rate Schedules, and Redemption Features of the Revolving Loan Fund Revenue Bonds, Series 2025" to be adopted by the Authority on or about February 20, 2025.
Maturities	The Series 2025 Bonds shall mature on June 1 of each year as shown on the inside cover of this Official Statement.
Interest Payment Dates	Interest on the Series 2025 Bonds shall be payable on June 1 and December 1 of each year, commencing on December 1, 2025.
Date of Issue	On or about March 5, 2025.
Redemption	The Series 2025 Bonds are subject to optional redemption prior to maturity on and after _____, 20___. The Series 2025 Bonds are subject to extraordinary mandatory redemption from net proceeds of the Series 2025 Bonds not used to make Loans within certain prescribed periods, as described herein.
Security	The Series 2025 Bonds are being issued on a parity of security with the Authority's Revolving Loan Fund Revenue Bonds, Series 2023 (the "Series 2023 Bonds") and any Additional Bonds issued under the General Resolution (the Series 2023 Bonds, the Series 2025 Bonds and any Additional Bonds being collectively referred to herein as the "Bonds"). The Authority has pledged to the Trustee for the benefit of the holders of the Series 2025 Bonds: (a) all Pledged Receipts and (b) all funds and accounts established for or in connection with the issuance of the Series 2025 Bonds, except the State Grants Account, the Construction Assistance Administrative Account, the Drinking Water State Administrative Account, the Drinking Water State Set Aside Account and the Rebate Fund. The pledge does not include (a) any Applicable EPA Agreements and the rights to the Authority and the Commission under such Applicable EPA Agreements and (b) certain administrative or servicing fees paid or payable to the Authority or the Commission. See " SECURITY AND SOURCE OF PAYMENT FOR BONDS " and " APPENDIX A, DOCUMENT SUMMARIES – A-II – Summary of Certain Provisions of the Resolutions. "
Ratings	S&P Global Ratings has assigned the Series 2025 Bonds a rating of "AAA." Fitch Ratings has assigned the Series 2025 Bonds a rating of "AAA." See " RATINGS. "

* Preliminary; subject to change.

Use of Proceeds	The proceeds of the Series 2025 Bonds will be used to fund, in whole or in part, Clean Water Loans and Drinking Water Loans (collectively, the "Loans") and to pay expenses of issuing the Series 2025 Bonds. See " SOURCES AND USES OF FUNDS. "
Additional Bonds	Additional Bonds may be issued subject to certain restrictions contained in the General Resolution. Additional Bonds will be issued on a parity basis with the Series 2023 Bonds and the Series 2025 Bonds and will be secured by an equal charge and lien on the Trust Estate, including the Pledged Receipts. See " APPENDIX A, DOCUMENT SUMMARIES A-II - Summary of Certain Provisions of the Resolutions. "
The Borrowers	Borrowers eligible for Loans include towns, cities, facilities boards, municipal improvement districts and suburban improvement districts and certain other owners or prospective owners of water systems, wastewater systems or other environmental projects. The Authority has pledged to the Bonds the payments on certain Clean Water Loans and Drinking Water Loans heretofore made. The identity of the current Borrowers, the principal amount of a Borrower's loan as well as other details concerning the Borrower Obligations related thereto are subject to change and cannot be assured by the Authority. See " THE BORROWERS " and " APPENDIX B – INFORMATION CONCERNING THE CLEAN WATER LOANS, THE DRINKING WATER LOANS AND CERTAIN BORROWERS. "
The Loans	The Authority has heretofore entered into Purchase Agreements with Borrowers and the payments on Designated Borrower Obligations are pledged as security for the Bonds. In addition to interest on the unpaid loan balance, the Borrowers pay a fee of up to 1% per annum of the outstanding principal balance of the Borrower Obligations as a servicing fee. The Purchase Agreements provide that monthly installments of principal and interest commence the first month following the estimated final completion date of the respective project. The Authority may waive any restrictions on additional debt of a Borrower which may be contained in a Purchase Agreement. See " APPENDIX A, DOCUMENT SUMMARIES – A-III – Summary of Certain Provisions of the Term Sheet and the Purchase Agreements for the Clean Water Program and A-IV - Summary of Certain Provisions of the Term Sheet and the Purchase Agreements for the Drinking Water Program. "
Investment Considerations	The receipt by the Authority of Pledged Receipts in sufficient amounts and at the times required to pay the Series 2025 Bonds will depend upon a number of factors. For a discussion of some of these factors, see " INVESTMENT CONSIDERATIONS. "

OFFICIAL STATEMENT

\$69,045,000*

Arkansas Development Finance Authority Revolving Loan Fund Revenue Bonds, Series 2025

This Official Statement, including the cover page and the appendices hereto, provides certain information concerning the sale by the Arkansas Development Finance Authority (the "Authority"), a public body corporate and politic of the State of Arkansas (the "State"), of its \$69,045,000* Revolving Loan Fund Revenue Bonds, Series 2025 (the "Series 2025 Bonds"). The Series 2025 Bonds will be issued pursuant to Subchapter 3 of the Arkansas Development Finance Authority Act, Arkansas Code Annotated §§ 15-5-101 *et seq.*, as amended (the "Act"). The Series 2025 Bonds will be issued under and secured by a resolution of the Authority entitled "Revolving Loan Fund Revenue Bond Program General Bond Resolution" adopted on July 20, 2023 (the "General Resolution"). The Series 2025 Bonds will also be issued under a series resolution entitled "Series Resolution Authorizing the Issuance of Revolving Loan Fund Revenue Bonds, Series 2025 in a Principal Amount Not to Exceed \$75,000,000" adopted by the Authority on January 16, 2025, and a confirming resolution entitled "Resolution Confirming the Aggregate Principal Amount, Maturity and Interest Rate Schedule, and Redemption Features of the Revolving Loan Fund Revenue Bonds, Series 2025" to be adopted on or about February 20, 2025 (collectively, the "Series 2025 Series Resolution").

The Series 2025 Bonds will be issued on a parity of security with the Authority's Revolving Loan Fund Revenue Bonds, Series 2023 (the "Series 2023 Bonds"), which were issued under the General Resolution. One or more series of Additional Bonds may be issued under the General Resolution pursuant to subsequent series resolutions. The Series 2023 Bonds, the Series 2025 Bonds and any Additional Bonds are collectively referred to herein as the "Bonds."

In the General Resolution, the Authority has designated Regions Bank, Little Rock, Arkansas, as trustee, paying agent and bond registrar (the "Trustee") for the Bonds.

Capitalized terms not otherwise defined herein shall have the meanings set forth in Appendix A-I hereto.

INTRODUCTION

The Construction Assistance Revolving Loan Fund (the "Construction Assistance RLF") was created in connection with the passage of the Federal Clean Water Act, as amended (the "Clean Water Act"), which authorizes the United States Environmental Protection Agency to award grants to qualifying states to establish and capitalize state revolving funds from which a state may provide loans and certain other forms of financial assistance for, among other things, the construction of publicly-owned wastewater treatment facilities, estuary conservation management plans, and the implementation of nonprofit source management programs (the "Clean Water Program"). The Clean Water Program requires that, under each state program, a revolving loan fund be created to accept federal capitalization grants ("Clean Water Capitalization Grants") and requires state matching funds equal to at least 20% of the Clean Water Capitalization Grants ("Clean Water State Match"). The revolving loan funds are used to provide financial assistance to local governmental entities and other qualified owners in connection with the construction, rehabilitation, expansion or improvement of environmental projects, including systems for the storage, treatment, recycling and reclamation of wastewater. The aggregate amount of \$367,302,351 has been awarded to the State for the fiscal years 1989 - 2024 as Clean Water Capitalization Grants. See "**THE REVOLVING LOAN FUND PROGRAMS – Capitalization Grants, Obligated State Matches and Intended Use Plans.**" Pursuant to the Infrastructure Investment and Jobs Act of 2021 (the "Infrastructure Act"), the Commission is eligible to receive additional grant funds in federal fiscal years 2025 and 2026.

* Preliminary; subject to change.

The Clean Water State Match is 20% in federal fiscal years 2025 and 2026. See "**THE REVOLVING LOAN FUND PROGRAMS - Infrastructure Investment and Jobs Act.**"

As contemplated by the Clean Water Act, the Arkansas General Assembly at its 1987 session enacted Act 1030, which was superseded at its 1991 session by Act 718, codified at Arkansas Code Annotated, §§ 15-5-901 to - 910, as amended (the "Construction Assistance RLF Act"), establishing the Construction Assistance RLF initially administered by the Arkansas Department of Environmental Quality (the "Department") and maintained by the Authority. Pursuant to the provisions of Act 459 of the 2001 session of the Arkansas General Assembly ("Act 459," and, together with the Construction Assistance RLF Act, the "Construction Assistance Amended RLF Act"), the Construction Assistance RLF and the powers, duties, functions, assets, records, properties, funds and appropriations related thereto, including the Construction Assistance Division of the Department, were transferred to the Arkansas Natural Resources Commission, as successor to the Arkansas Soil and Water Conservation Commission (the "Commission"), effective July 1, 2001. The Amended Construction Assistance RLF Act authorizes the Commission to direct the Authority to make loans to and purchase obligations of owners of environmental projects for the purpose of financing or refinancing all or a portion of the cost of construction or rehabilitation of environmental projects including wastewater facilities. The Amended Construction Assistance RLF Act authorizes the Commission to adopt such regulations and establish such fees as may be required to administer the Construction Assistance RLF. The Amended Construction Assistance RLF Act also authorizes the Authority to pledge the Construction Assistance RLF, except the Construction Assistance State Grants Account and the Construction Assistance Administrative Account therein, as security for its revenue bonds issued for the purpose of providing moneys for deposit to the Construction Assistance RLF to enable the Authority to make loans at below market interest rates to local governmental entities and other owners of wastewater systems and other environmental projects. The Commission is the "state water pollution control agency" for purposes of the Clean Water Act. See "**THE COMMISSION**" herein.

The Drinking Water Revolving Loan Fund (the "Drinking Water RLF") was created in connection with Chapter 6A of the Public Health Service Act, as amended (together with any regulations promulgated thereunder, the "Safe Drinking Water Act"). The Safe Drinking Water Act requires that, under each state program, a revolving loan fund be created to accept federal capitalization grants under the Safe Drinking Water Act ("Drinking Water Capitalization Grants" and together with Clean Water Capitalization Grants, the "Federal Capitalization Grants") and requires state matching funds equal to at least 20% of the Drinking Water Capitalization Grants ("Drinking Water State Match"). The revolving loan funds are used to provide financial assistance to local governmental utilities and other owners of water systems in connection with the construction, rehabilitation, expansion or improvement of drinking water system improvements. The aggregate amount of \$343,307,940 has been awarded to the State for the fiscal years 1997 - 2024 as Drinking Water Capitalization Grants. See "**THE REVOLVING LOAN FUND PROGRAMS – Capitalization Grants, Obligated State Matches and Intended Use Plans.**" Pursuant to the Infrastructure Act, the Commission is eligible to receive additional grant funds in federal fiscal years 2025 and 2026. The Drinking Water State Match is 20% in federal fiscal years 2025 and 2026. See "**THE REVOLVING LOAN FUND PROGRAMS - Infrastructure Investment and Jobs Act.**"

As contemplated by the Safe Drinking Water Act, the Arkansas General Assembly at its 1997 session enacted Act 772, codified at Arkansas Code Annotated, §§ 15-22-1101 to - 1112, as amended (the "Drinking Water RLF Act"), establishing the Drinking Water RLF administered by the Commission and maintained by the Authority. The Drinking Water RLF Act authorizes the Commission to direct the Authority to make loans to and purchase obligations of local governmental entities and other owners of water systems for the purpose of financing or refinancing all or a portion of the cost of drinking water system improvements. The Drinking Water RLF Act authorizes the Commission to adopt such regulations and establish such fees as may be required to administer the Drinking Water RLF. The Drinking Water RLF Act also authorizes the Authority to pledge the Drinking Water RLF, except the Drinking Water State Grants Account, the Drinking Water State Administrative Account and the Drinking Water State Set Aside Account therein, as security for its revenue bonds issued for the purpose of providing moneys for deposit to the Drinking Water RLF to enable the Authority to make loans at below market interest rates to local governmental entities and other owners of water systems. See "**THE COMMISSION**" herein.

Since inception of the Construction Assistance RLF and the Drinking Water RLF, the Commission has committed over \$3.2 billion in obligations to communities in the State through the Construction Assistance RLF and the Drinking Water RLF (collectively, the "Programs"). The Construction Assistance RLF has closed \$1.5 billion in Clean Water Loans. Currently the Commission has approved approximately \$137 million in new Clean Water Loans. The Drinking Water RLF has closed \$919 million in Drinking Water Loans. Currently the Commission has approved \$611 million in new Drinking Water Loans. No payment default has ever occurred on loans pledged to bonds issued for the Programs.

The Designated Borrower Obligations have been purchased with proceeds of (a) the Construction Assistance RLF comprised of proceeds of the Series 2023 Bonds, proceeds of bonds that are no longer outstanding and proceeds of Clean Water Capitalization Grants and related Clean Water State Match funds and (b) the Drinking Water RLF comprised of proceeds of the Series 2023 Bonds, proceeds of bonds that are no longer outstanding and proceeds of Drinking Water Capitalization Grants and related Drinking Water State Match funds. The Borrowers have pledged as a source of repayment of the Borrower Obligations, user charges, sales and use tax levies and special assessments levied by municipal and suburban sewer improvement districts.

Information concerning the Borrowers issuing the Designated Borrower Obligations are listed herein in "**APPENDIX B – INFORMATION CONCERNING THE CLEAN WATER LOANS, THE DRINKING WATER LOANS AND CERTAIN BORROWERS.**" The Bonds are secured equally and ratably under the General Resolution by the payments on Designated Borrower Obligations. Each Borrower is responsible for its Clean Water Loan or Drinking Water Loan and is not responsible for the default of any other Borrower's payments. The General Resolution does not limit the Authority's ability to make Clean Water Loans and Drinking Water Loans (collectively, "Loans") to Borrowers based upon the creditworthiness of the respective Borrower. Pursuant to the General Resolution, the Authority may at any time, so long as the Coverage Ratio will not be less than 115% of the Annual Debt Service Requirements for the Bonds in any Fiscal Year, deliver a notification to the Trustee for the purpose of substituting or deleting Borrowers whose Clean Water Loans and Drinking Water Loans are listed in "**APPENDIX B, INFORMATION CONCERNING THE CLEAN WATER LOANS, THE DRINKING WATER LOANS AND CERTAIN BORROWERS.**" See "**INVESTMENT CONSIDERATIONS**" and "**APPENDIX A, DOCUMENT SUMMARIES – A-II – Summary of Certain Provisions of the Resolutions.**"

The Commission and the Authority executed an Interagency Agreement dated as of October 1, 2009, which established the respective duties and responsibilities of the parties with respect to the Construction Assistance RLF and Drinking Water RLF (collectively, the "RLF"). The Interagency Agreement generally provides that the Authority serves as the financial manager and advisor of the RLF, and the Authority shall be compensated once a year based on the outstanding balance of loans in the RLF. The Commission is charged with implementing and enforcing the provisions of the Clean Water Act and the Safe Drinking Water Act in the State. The Natural Resources Division of the Arkansas Department of Agriculture, on behalf of the Commission, administers the Clean Water Program and the Drinking Water Program for the RLF. See "**THE COMMISSION**" herein.

The Authority was created in 1985 by the Act as a public body corporate and politic. The Authority is the successor to the Arkansas Housing Development Agency created in 1977. The Act authorizes the Authority to borrow money and issue from time to time its bonds, notes and other obligations in such principal amounts as the Authority determines shall be necessary to provide sufficient funds to carry out its purposes and powers.

In addition to providing financing for public facilities, the Authority is permitted under the Act to issue bonds for the purpose of financing, among other things, capital improvements for State agencies, residential housing, educational facilities, health care facilities and industrial enterprises.

The Bonds are special limited revenue obligations of the Authority, payable solely from and secured by a pledge of the Pledged Receipts and other moneys and securities held in certain funds established by the General Resolution. The Bonds do not constitute an indebtedness of the State or

an indebtedness for which the faith and credit of the State or any of its revenues are pledged or an indebtedness secured by a lien on or a security interest in any property of the State. The Authority has no taxing power.

This Official Statement contains descriptions of, and information regarding the application of the proceeds of the Series 2025 Bonds, the security and sources of payment for the Series 2025 Bonds, certain investment considerations, the Commission, the Authority and the Revolving Loan Program. Appendix A contains definitions of terms used in this Official Statement and a summary of certain provisions of the Resolutions, the Term Sheets and the Purchase Agreements for the Borrowers listed in Appendix B attached hereto. Appendix B contains certain information regarding the Borrowers issuing the Designated Borrower Obligations. The proposed form of opinion of Bond Counsel is included as Appendix C. The audited financial statements of the Programs as of and for the fiscal years ended June 30, 2024 and 2023 are included as Appendix D. The Continuing Disclosure Agreement is attached as Appendix E. A description of The Depository Trust Company and the book-entry only system is contained in Appendix F. Such descriptions and information do not purport to be comprehensive and the descriptions of documents contained herein are qualified in their entirety by reference to such documents and to laws and principles of equity relating to or affecting creditors' rights. Copies of the Resolutions, Purchase Agreements and Borrower Obligations herein described will be available for inspection at the office of the Commission in Little Rock, Arkansas upon the initial delivery of the Series 2025 Bonds.

SOURCES AND USES OF FUNDS

The proceeds of the Series 2025 Bonds will be used to fund, in whole or in part, Clean Water Loans and Drinking Water Loans and to pay expenses of issuing the Series 2025 Bonds.

The projected sources and uses of funds with respect to the Series 2025 Bonds are as follows:

Sources of Funds*	
Principal of Series 2025 Bonds	\$69,045,000
Original Issue Premium	<u>6,892,688</u>
Total Sources:	<u>\$75,937,688</u>
 Uses of Funds*	
Loan Advances	\$75,000,000
Costs of Issuance and Underwriter's Discount	<u>937,688</u>
Total Uses:	<u>\$75,937,688</u>

THE SERIES 2025 BONDS

General

The Series 2025 Bonds are dated the date of delivery. The Series 2025 Bonds will mature on June 1 in the years and amounts and bear interest from their dated date at the rates as shown on the inside cover of this Official Statement. Interest is payable on each June 1 and December 1 (each June 1 and December 1 being hereinafter referred to as an "interest payment date"), commencing December 1, 2025.

All of the Series 2025 Bonds are issuable only as fully registered bonds and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), to which principal and interest payments on the Series 2025 Bonds will be made so long as DTC or its nominee is the registered owner of the Series 2025 Bonds. See **APPENDIX F** for a description of DTC and the book-entry only system. The Series 2025 Bonds will be issued in denominations of \$5,000 or any integral multiple thereof.

* Preliminary; subject to change.

Redemption

Optional Redemption. The Series 2025 Bonds maturing on or after _____, 20__ are subject to redemption prior to maturity beginning on _____, 20__, at the option of the Authority, as a whole or in part, at any time, at a redemption price equal to the outstanding principal amount of the Series 2025 Bonds to be redeemed, plus accrued interest thereon to the date set for redemption.

If fewer than all of the Series 2025 Bonds shall be called for optional redemption, the particular maturities of such Bonds to be redeemed shall be selected by the Authority in its discretion. If fewer than all of the Series 2025 Bonds of any one maturity shall be called for redemption, the particular Series 2025 Bonds or portions of such Bonds to be redeemed from such maturity shall be selected by lot by the Trustee in such manner as the Trustee in its discretion may determine; provided, however, that so long as Cede & Co. (or a successor entity), as a nominee of DTC, is the sole owner of the Series 2025 Bonds, the particular Series 2025 Bonds, or portions thereof, to be redeemed within a maturity shall be selected by lot by DTC, in such manner as DTC shall determine.

Extraordinary Mandatory Redemption. Section 149(f) of the Internal Revenue Code of 1986 (the "Code") imposes certain requirements on bonds issued by state and local governments for pooled financing programs, such as the Series 2025 Bonds, in order for the interest to be and remain exempt from federal income taxation. One such requirement mandates the redemption of bonds in circumstances in which the bond proceeds are not used to originate Loans within certain prescribed periods. In particular, section 149(f) of the Code requires the following: the Authority and the Commission (i) must reasonably expect that, within the one-year period beginning on the date of issue, at least 30 percent of the net proceeds of the Series 2025 Bonds will be used directly or indirectly to originate Loans (the "One-Year Computation Period"); and (ii) must redeem outstanding Series 2025 Bonds within 90 days after the end of such one-year period to the extent of, and in an amount equal to unused proceeds, *i.e.*, the difference between the amount actually used and an amount equal to 30 percent of the net proceeds of the Series 2025 Bonds; and the Authority and the Commission (i) must reasonably expect that within the three-year period beginning on the date of issue, at least 95 percent of the net proceeds of the Series 2025 Bonds will be used directly or indirectly to originate Loans (the "Three-Year Computation Period"); and (ii) must redeem outstanding Series 2025 Bonds within 90 days after the end of such three-year period to the extent of, and in the amount equal to the unused proceeds, *i.e.*, the difference between the amount actually used and an amount equal to 95 percent of the net proceeds of the Series 2025 Bonds.

At the date of issuance of the Series 2025 Bonds, a portion of the Series 2025 Bond proceeds will be applied from time to time after the issuance of the Series 2025 Bonds to originate Loans. See "**SOURCES AND USES OF FUNDS.**" The Authority and the Commission reasonably expect to expend more than 30 percent and 95 percent of such proceeds, during the one-year and three-year periods, respectively. To comply with the foregoing requirement in the event these expectations are not achieved, the Series 2025 Bonds are subject to extraordinary mandatory redemption at the end of the one-year and three-year periods as required by section 149(f) of the Code. To the extent proceeds of the Series 2025 Bonds are held to originate Loans and are not expended within such one-year or three-year periods, any such unexpended proceeds will be used to redeem the Series 2025 Bonds as further described below. In accordance with section 149(f)(7) of the Code, only the portion of the proceeds of the Series 2025 Bonds that is reasonably expected, as of the issue date of the Series 2025 Bonds, to be used to originate Loans to Borrowers is subject to the redemption requirements set forth in section 149(f) of the Code.

The Series 2025 Bonds maturing on and after June 1, 2027, are subject to extraordinary mandatory redemption prior to their scheduled maturities on _____, 2026 (the "One-Year Extraordinary Mandatory Redemption"), in an amount equal to the Computation Amount (as hereinafter defined) applicable to the One-Year Computation Period for the Series 2025 Bonds, plus accrued interest to the date of such extraordinary redemption at the redemption prices set forth below (approximately ___% of the accreted value or amortized issue price for each maturity of the Series 2025 Bonds), expressed as percentages of the principal amount of each maturity of the Series 2025 Bonds so redeemed.

The Series 2025 Bonds maturing on and after June 1, 2028, are subject to extraordinary mandatory redemption prior to their scheduled maturities on _____, 2028 (the "Three-Year Extraordinary Mandatory Redemption"), in an amount equal to the Computation Amount applicable to the Three-Year Computation Period for the Series 2025 Bonds, plus accrued interest to the date of such extraordinary redemption at the redemption prices set forth below (approximately ___% of the accreted value or amortized issue price for each maturity of the Series 2025 Bonds), expressed as percentage of the principal amount of each maturity of the Series 2025 Bonds so redeemed.

Extraordinary Mandatory Redemption Price (%)

CUSIP No. Prefix _____

<u>Maturity (June 1)</u>	<u>On</u> _____, 2026	<u>On</u> _____, 2028	<u>CUSIP No. Suffix</u>
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"Computation Amount" is defined as surplus proceeds (rounded to the next higher \$5,000 denomination) equal to the remainder of (A) thirty percent (30%) of the Net Proceeds less proceeds of the Series 2025 Bonds directly or indirectly used to make loans or grants to Borrowers as of the last day of the One-Year Computation Period (but not less than zero) or (B) ninety-five percent (95%) of the Net Proceeds less the proceeds of the Series 2025 Bonds directly or indirectly used to make loans or grants to Borrowers as of the last day of the Three-Year Computation Period (but not less than zero). "Net Proceeds" is defined as the amounts received from the sale of the Series 2025 Bonds less proceeds used to pay costs of issuance, including underwriters' discount, during all or any portion of the One-Year Computation Period or the Three-Year Computation Period, as the case may be.

Following the earlier of (i) the 90th day after the Three-Year Computation Period for the Series 2025 Bonds and (ii) the date on which 95 percent of the proceeds of the Series 2025 Bonds have been used to originate Loans, if such date occurs prior to the end of the Three-Year Computation Period for the Series 2025 Bonds, the Series 2025 Bonds shall no longer be subject to extraordinary mandatory redemption.

The foregoing notwithstanding, the Series 2025 Bonds are not subject to such extraordinary mandatory redemption if the Authority obtains an opinion of nationally recognized bond counsel to the effect that, if the Authority does not cause the extraordinary mandatory redemption to occur, it will not adversely affect the excludability of interest on such Series 2025 Bonds from gross income for federal income tax purposes.

For purposes of the One-Year Extraordinary Mandatory Redemption and the Three-Year Extraordinary Mandatory Redemption, as the case may be, the Series 2025 Bonds subject to such redemption will be selected on a "Pro Rata Basis" (defined below); provided, that if any amount required to be redeemed remains after such selection, such remaining amount will be applied to the redemption of \$5,000 in principal amount of each maturity of the Series 2025 Bonds in inverse order of maturity. The term "Pro Rata Basis" means that the principal amount of a particular maturity to be redeemed will be determined by multiplying the Computation Amount by the ratio which the principal amount of Series 2025 Bonds of such maturity then outstanding bears to the aggregate principal amount of Series 2025 Bonds then outstanding and subject to redemption.

Notice of Redemption. As long as the Series 2025 Bonds are registered in the name of Cede & Co. (or a successor entity) in the book-entry system, the Trustee shall give notice of the call for any redemption by certified mail or other standard means, including electronic or facsimile communication, at least 30 days before the redemption date to Cede & Co. (or a successor entity) as the owner of each Series 2025 Bond or portion of such Bond to be redeemed at the address appearing on the registration books maintained by the Trustee as Registrar. At such time as the Series 2025 Bonds are no longer held by Cede & Co. (or a successor entity), the Trustee shall give notice of the call for any redemption by mailing or sending a copy of such notice not less than 30 nor more than 60 days prior to the redemption date by registered or first class mail, postage prepaid, or other standard means, including electronic or facsimile communication, to the owner of such Bond at such owner's address as it appears on the registration books maintained by the Trustee as Registrar, or at such address as such owner may have filed with the Trustee for that purpose. The Series 2025 Bonds so called for redemption will cease to bear interest on the specified redemption date and shall no longer be secured by the Resolutions, provided that funds for such redemption are on deposit at the time with the Trustee.

On the date designated for redemption, notice having been given as provided herein, the Series 2025 Bonds or portions of such Bonds so called for redemption shall become and be due and payable at the redemption price provided for redemption of such Bonds or such portions thereof on such date and, if moneys for the payment of the redemption price and accrued interest are held by the Trustee as provided in the Resolutions, interest on such Bonds or such portions thereof so called for redemption shall cease to accrue, such Bonds or such portions thereof so called for redemption shall cease to be entitled to any benefit or security under the Resolutions, and the owners thereof shall have no rights in respect of such Bonds or such portions thereof so called for redemption except to receive payment of the redemption price thereof and the accrued interest thereon so held by the Trustee. If a portion of such Bond shall be called for redemption, a new Series 2025 Bond or Bonds in the aggregate principal amount equal to the unredeemed portion of such Bond, of the same maturity and bearing interest at the same rate, shall be issued to the owner upon the surrender of such Bond.

SECURITY AND SOURCE OF PAYMENT FOR BONDS

Special Obligations

The Bonds are special limited revenue obligations of the Authority, payable solely from, and secured by a pledge of the Pledged Receipts and other moneys and securities held in certain funds established by the General Resolution. The Bonds do not constitute an indebtedness of the State or an indebtedness for which the faith and credit of the State or any of its revenues are pledged or an indebtedness secured by a lien on or a security interest in any property of the State. The Authority has no taxing power.

Debt Service Coverage Test

The Authority will not take any action that would reduce the Coverage Ratio below the Coverage Requirement (defined as an amount equal to 110% of the Annual Debt Service Requirement for the Bonds) for any Fiscal Year. See "APPENDIX A, DOCUMENT SUMMARIES - A-II- Summary of Certain Provisions of the Resolutions."

Parity Bonds

The Bonds (the Series 2023 Bonds, the Series 2025 Bonds and any Additional Bonds) will all be secured on a parity by all of the Pledged Receipts. The Bonds will be secured equally and ratably by the payments of all present and future Borrowers under all Designated Borrower Obligations. See **"APPENDIX A, DOCUMENT SUMMARIES - A-II - Summary of Certain Provisions of the Resolutions."**

Subordinate Obligations

The Authority is authorized to issue, from time to time, Subordinate Obligations in connection with the Programs. See **"APPENDIX A, DOCUMENT SUMMARIES - A-II - Summary of Certain Provisions of the Resolutions."**

Pledge of Trust Estate

Pursuant to the General Resolution, the Authority has pledged to the Trustee for the benefit of the Bondholders (a) all Pledged Receipts as described in the General Resolution and (b) all funds and accounts established in connection with the issuance of the Bonds, except the Construction Assistance State Grants Account, the Construction Assistance Administrative Account, the Drinking Water State Grants Account, the Drinking Water State Administrative Account, the Drinking Water State Set Aside Account and the Rebate Fund. The pledge does not include (a) any Applicable EPA Agreements and the rights of the Authority and the Commission under such Applicable EPA Agreements and (b) certain administrative or servicing fees paid or payable to the Authority or the Commission. For a detailed description of the various funds, accounts and revenues securing the Bonds, see **"APPENDIX A, DOCUMENT SUMMARIES – A-II – Summary of Certain Provisions of the Resolutions."**

Loans

The outstanding principal balance of the Designated Borrower Obligations which are Clean Water Loans is approximately \$841 million as of September 30, 2024. The interest rates on such outstanding Clean Water Loans vary from 0% to 3%. Three (3) of such Clean Water Loans do not bear interest. For a description of the amounts of such Loans see **"APPENDIX B – B-I – The Clean Water Loans"** herein. The Authority may substitute or delete Designated Borrower Obligations which are Clean Water Loans so long as the Coverage Ratio will not be less than 115% of the Annual Debt Service Requirements for the Bonds in any Fiscal Year.

In addition to the interest that may be charged on the unpaid Clean Water Loan balances, the Borrowers pay a fee of up to 1% per annum of the outstanding principal balance of the Clean Water Loans that is remitted as a servicing fee.

The outstanding principal balance of the Designated Borrower Obligations which are Drinking Water Loans is approximately \$512 million as of September 30, 2024. The interest rates on such outstanding Drinking Water Loans vary from 0% to 2.5%. Twenty (20) of such Drinking Water Loans do not bear interest. For a description of the amounts of such Loans see **"APPENDIX B – B-II – The Drinking Water Loans"** herein. The Authority may substitute or delete Designated Borrower obligations which are Drinking Water Loans so long as the Coverage Ratio will not be less than 115% of the Annual Debt Service Requirements for the Bonds in any Fiscal Year.

In addition to the interest that may be charged on the unpaid Drinking Water Loan balances, the Borrowers pay a fee of up to 1% per annum of the outstanding principal balance of the Drinking Water Loans that is remitted as a servicing fee.

An amortization is specified in each Purchase Agreement, which is based upon repayment commencing the first month following the estimated final completion date with monthly installments of

principal and interest. Investment earnings on monthly payments are credited to each Borrower semiannually.

A Borrower may issue additional bonds with a priority or parity lien on the revenues and receipts securing its Loans if an independent certified public accountant has filed with the Authority an opinion that the available revenues for the fiscal year preceding the year in which such prior or parity lien bonds are to be issued are projected to be sufficient in amount, taking into consideration any enacted increase in revenues, to be not less than 110% of the average annual debt service requirements on all outstanding bonds to which the revenues are pledged, including its Loans, and the bonds then proposed to be issued. The debt service coverage ratio may be increased for certain Borrowers at the discretion of the Commission.

The restriction on additional debt may be waived by holders of 75% of principal amount of any Loan at any time outstanding. It is expected that 100% of the Loans will be held by the Authority. It is the intent of the Commission and the Authority to waive such requirement of revenues of not less than 110% of debt service with respect to future Loans, provided that revenues are projected to be not less than 100% of such average annual debt service requirements. The Commission and the Authority may require the Borrower to obtain an opinion of an independent certified public accountant to such effect.

The Borrowers may issue bonds the security and source of payment of which are subordinate and subject to the priority of the Loans without complying with the foregoing.

Upon an event of default under the Loan and the ordinance or resolution of the Borrower authorizing the Loan, including a failure to comply with any covenant, term or condition therein, the Authority may exercise any remedy available at law or in equity in order to cause the Borrower to comply with the provisions of the Loan and the ordinance or resolution.

The Borrower must identify the revenues pledged to repayment of the Loan. The Borrower must provide information concerning all other debt to which such revenues are pledged and evidence satisfactory to the Commission that revenues will equal not less than 100% of the maximum annual principal and interest payments coming due in any one year of the Loan; provided, however, with respect to other debt of Borrowers that are improvement districts, each such Borrower shall provide evidence satisfactory to the Commission that revenues will equal not less than 125%. Borrowers that are improvement districts and receive Loans must also fund a debt service reserve account in a sum equal to at least 10% of the amount of the Loan.

State law provides that general revenue turnback funds due from the State to a Borrower may be withheld by the State and transferred to the Authority in payment of past due principal and interest on a delinquent Loan. Specifically, if a Borrower fails, neglects or refuses to pay any installment of principal, interest or financing fee on a Loan for a period of ninety days past the due date thereof, the Commission, after notification to the Borrower, may certify to the State the name of the Borrower and the amount of deficiencies ninety days or more past due. Upon such certification, the State will withhold from the Borrower's share of general revenue turnback, the amount certified as past due and will transfer such amount to the RLF.

Release and Transfer of Excess Pledged Receipts

On or before the last Business Day of each month, after the Trustee has made (a) required payments into the Principal and Interest Accounts of the Debt Service Fund for the Bonds, (b) any required payments into the Rebate Fund, (c) any payments to the Debt Service Fund, in accordance with the provisions of Section 5.06 of the General Resolution relating to cross collateralization and (d) any required payments for Subordinate Obligations, then, provided no Event of Default shall have occurred and be continuing under the General Resolution, the Trustee shall transfer all remaining funds in the Revenue Fund to the Construction Assistance Revolving Loan Fund and the Drinking Water Revolving Loan Fund, as directed by the Commission, free and clear of any lien of the General Resolution, to be applied for any lawful purpose of the Commission in connection with the Programs.

Cross-Collateralization; Transfers

The General Resolution provides for separate Clean Water and Drinking Water accounts in the Revenue Fund and provides that the debt service on Bonds related to each Program be paid in the first instance from Pledged Receipts in the applicable account of the Revenue Fund, all in order to allow the Commission to comply with EPA requirements relating to separation of the two Programs.

(a) The General Resolution further provides that in the event on any Interest Payment Date amounts available in the funds and accounts established thereunder for the Clean Water Program are insufficient to pay the principal of or interest on any Clean Water Bonds then due and payable, the Authority, with the consent of the Commission, may either:

(i) direct the Trustee to utilize Drinking Water Pledged Receipts in the Drinking Water Account in the Revenue Fund for payment of such deficiency; *provided* that such utilization shall only be made from amounts constituting Drinking Water Pledged Receipts on deposit in the Revenue Fund that are not necessary (A) to pay principal of or interest on any Drinking Water Bonds then due and payable or (B) to make transfers to the Rebate Fund; or

(ii) transfer the amount necessary to cure such deficiency from the Drinking Water Revolving Loan Fund (excluding the State Grants Account therein) to the Debt Service Fund to the extent allowable under applicable law.

If any transfer is made pursuant to paragraph (a)(i), the Authority shall have an obligation, inferior to the payment of the principal of and interest on any Clean Water Bonds, to reimburse to the Revenue Fund, the amount so advanced, either without interest or at such rate of interest as the Authority may from time to time determine. If such reimbursement is made with funds on deposit in the Revenue Fund constituting Clean Water Pledged Receipts, the reimbursement shall only be made with such funds that are not required on the immediately succeeding Interest Payment Date for the payment of principal of or interest on Clean Water Bonds.

(b) The General Resolution further provides that in the event on any Interest Payment Date amounts available in the funds and accounts established thereunder for the Drinking Water Program are insufficient to pay the principal of or interest on any Drinking Water Bonds then due and payable, the Authority, with the consent of the Commission, may either:

(i) direct the Trustee to utilize Clean Water Pledged Receipts in the Clean Water Account in the Revenue Fund for payment of such deficiency; *provided* that such utilization shall only be made from amounts constituting Clean Water Pledged Receipts on deposit in the Revenue Fund that are not necessary (A) to pay principal of or interest on any Clean Water Bonds then due and payable or (B) to make transfers to the Rebate Fund; or

(ii) transfer the amount necessary to cure such deficiency from the Construction Assistance Revolving Loan Fund (excluding the State Grants Account therein) to the Debt Service Fund to the extent allowable under applicable law.

If any transfer is made pursuant to paragraph (b)(i), the Authority shall have an obligation, inferior to the payment of the principal of and interest on any Drinking Water Bonds, to reimburse to the Revenue Fund the amount so advanced either without interest or at such rate of interest as the Authority may from time to time determine. If such reimbursement is made with funds on deposit in the Revenue Fund constituting Drinking Water Pledged Receipts, the reimbursement shall only be made with such funds that are not required on the immediately succeeding Interest Payment Date for the payment of principal of or interest on Drinking Water Bonds.

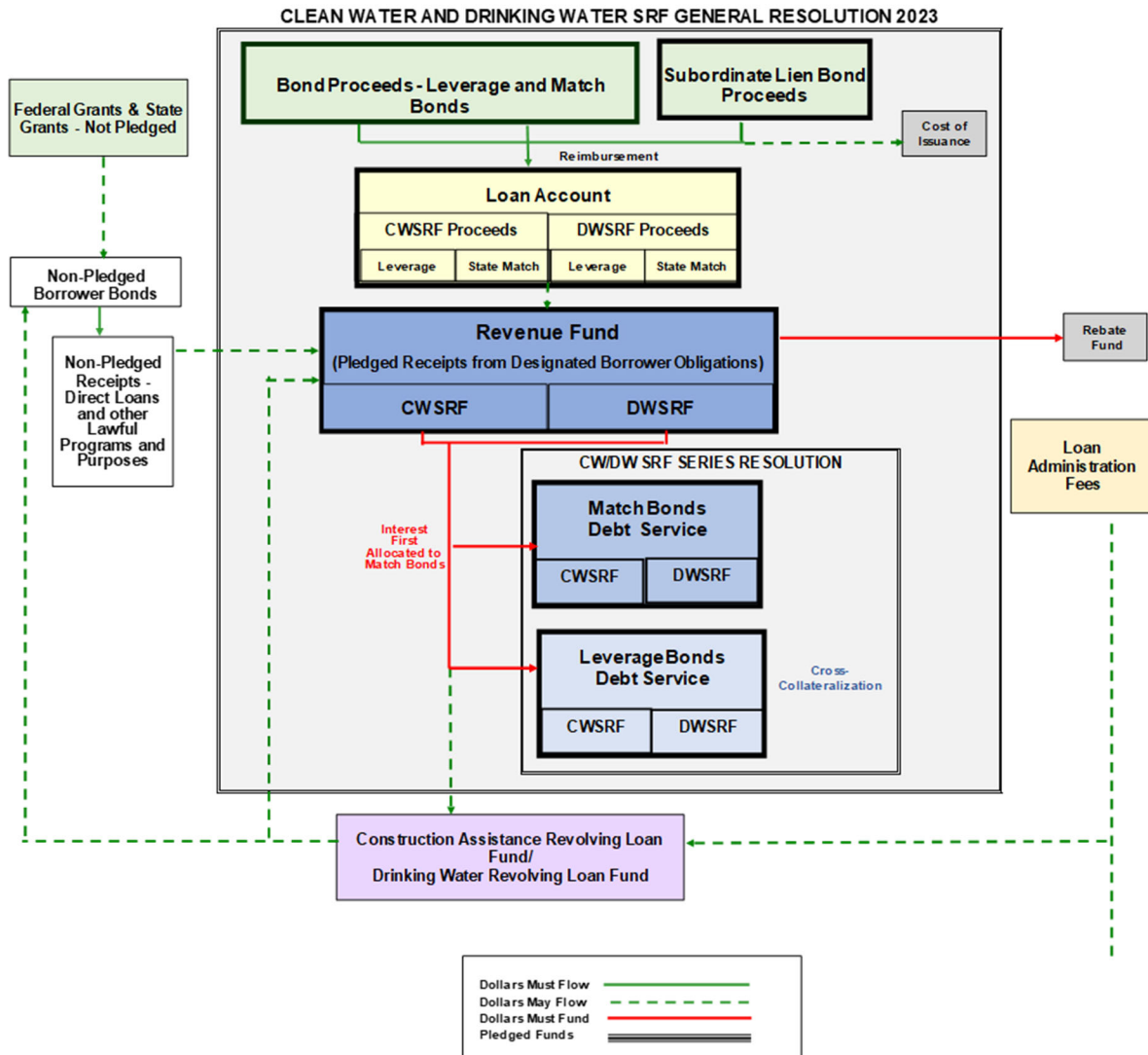
Substitution and Deletion of Designated Borrower Obligations

Designated Borrower Obligations are evidenced by Designated Purchase Agreements. The Authority shall maintain a list of Designated Purchase Agreements under the General Resolution and may amend such list from time to time, provided that there is delivered to the Trustee a Coverage Certificate demonstrating that, after any such amendment for the purpose of deleting Designated Purchase Agreements, the Coverage Ratio will not be less than 115% of the Annual Debt Service Requirements for the Bonds in any Fiscal Year. Delivery of a Coverage Certificate is not required for amendments to add Designated Purchase Agreements.

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FLOW OF FUNDS DIAGRAM

The following diagram provides a graphic depiction of the flow of funds framework created by the General Resolution. A complete summary of the flow of funds is included in **Appendix A** and the following diagram is qualified in its entirety by reference to **Appendix A**. See "APPENDIX A, DOCUMENT SUMMARIES - A-II-Summary of Certain Provisions of the Resolutions."



PROJECTED DEBT SERVICE COVERAGE

The table below sets out the projections of the Financial Advisor, Hilltop Securities Inc. ("Hilltop"), as of the date of this Official Statement, calculating the projected debt service coverage for the Series 2023 Bonds and the Series 2025 Bonds for fiscal years 2025-2050. This table is a projection only and no assurance can be given that the projected debt service coverage will be achieved or maintained.

Projected Cash Flow And Debt Service Coverage Schedule ⁽¹⁾⁽³⁾

Period Ending (June 30)	Estimated Aggregate Designated Borrower Obligations Payments ⁽¹⁾⁽²⁾	Existing Bonds Debt Service ⁽⁴⁾	Series 2025 Bonds Debt Service ⁽⁵⁾	Total Bonds Debt Service	Estimated Debt Service Coverage	Estimated Excess Revenue ⁽²⁾
2025	\$29,016,375	\$11,645,750	--	\$11,645,750	2.49	\$17,370,625
2026	52,046,834	12,625,000	\$4,276,954	16,901,954	3.08	35,144,880
2027	58,176,126	12,954,250	5,007,250	17,961,500	3.24	40,214,626
2028	65,208,001	12,782,750	5,004,500	17,787,250	3.67	47,420,751
2029	69,403,963	12,463,750	5,003,000	17,466,750	3.97	51,937,213
2030	69,767,996	12,469,000	5,002,500	17,471,500	3.99	52,296,496
2031	69,242,443	8,262,000	5,002,750	13,264,750	5.22	55,977,693
2032	68,224,192	8,052,250	5,003,500	13,055,750	5.23	55,168,442
2033	67,283,089	7,809,250	5,004,500	12,813,750	5.25	54,469,339
2034	67,387,055	7,774,500	5,005,500	12,780,000	5.27	54,607,055
2035	66,825,031	7,797,500	5,006,250	12,803,750	5.22	54,021,281
2036	65,132,724	7,269,750	5,001,500	12,271,250	5.31	52,861,474
2037	63,905,876	6,798,000	5,006,250	11,804,250	5.41	52,101,626
2038	60,637,491	3,235,000	4,999,750	8,234,750	7.36	52,402,741
2039	58,812,792	3,015,750	5,002,250	8,018,000	7.34	50,794,792
2040	59,226,028	3,031,250	5,003,000	8,034,250	7.37	51,191,778
2041	59,054,489	2,980,000	5,001,750	7,981,750	7.40	51,072,739
2042	58,920,618	2,910,000	5,003,250	7,913,250	7.45	51,007,368
2043	56,886,716	<u>2,457,000</u>	5,002,000	7,459,000	7.63	49,427,716
2044	55,440,823		5,002,750	5,002,750	11.08	50,438,073
2045	45,240,400		5,005,000	5,005,000	9.04	40,235,400
2046	41,800,202		5,003,250	5,003,250	8.35	36,796,952
2047	35,149,121		5,002,250	5,002,250	7.03	30,146,871
2048	24,471,845		5,006,500	5,006,500	4.89	19,465,345
2049	19,172,482		5,000,250	5,000,250	3.83	14,172,232
2050	<u>19,039,633</u>		<u>5,008,500</u>	<u>5,008,500</u>	3.80	<u>14,031,133</u>
	\$1,405,472,348	\$146,332,750	\$124,364,954	\$270,697,704		\$1,134,774,644

(1) Estimated: Subject to change both before and after the delivery of the Series 2025 Bonds. Various factors may change these projections.

(2) Composed of principal and interest payments on Loans net of any annual administrative fees retained by the Authority and the Commission as of September 30, 2024.

(3) Amounts and ratios may not add due to rounding.

(4) Existing Bonds are comprised of the Series 2023 Bonds.

(5) Assumes an average coupon rate of 5% for the Series 2025 Bonds.

INVESTMENT CONSIDERATIONS

The Authority expects to pay the principal of and interest on the Bonds from payments made by Borrowers under the Designated Borrower Obligations, together with amounts from time to time on deposit in certain funds and accounts created by the General Resolution. Such amounts will be pledged by the Authority to the Trustee pursuant to the General Resolution as security for the Bonds as described in "APPENDIX A, DOCUMENT SUMMARIES – A-II – Summary of Certain Provisions of the Resolutions."

The Authority's ability to pay debt service on the Bonds and the continued operation of the RLF will be dependent upon the receipt of revenues from payments under the Loans, and investment earnings on amounts from time to time on deposit in the funds and accounts created by the General Resolution in an amount sufficient to pay the principal of and interest on the Bonds. The ability of the Authority to generate such revenues will depend upon a number of factors, including the payment performance of the Borrowers participating in the RLF from time to time.

The Authority is permitted to issue Additional Bonds and make additional Loans from the proceeds thereof, and since any such Loans will be repaid and may be prepaid in certain circumstances, the composition of the pool of Loans may vary from time to time, both with respect to the identity of the Borrowers and with respect to amounts due from any particular Borrower in the aggregate and as a percentage of the total outstanding principal amount of Loans. The Borrowers have various credit characteristics. There are no specific creditworthiness criteria that potential Borrowers must meet to qualify for a Loan. Some Borrowers may not have or may not be able to obtain credit ratings on their outstanding debt obligations. Borrowers need not have ratings or obtain ratings on their Loans. Borrowers may not have current or audited financial data. The failure of any particular Borrower or group of Borrowers to pay debt service when due on Loans could adversely affect the Authority's ability to pay debt service when due on the Bonds. Pursuant to the General Resolution, the Authority may at any time adopt an amendment to the applicable Series Resolution for the purpose of substituting Borrowers whose Loans are funded thereunder.

Certain loans have been made to borrowers under the Clean Water Program from proceeds of bonds which are no longer outstanding, Clean Water Capitalization Grants and Clean Water State Match, and it is expected that further loans of this type will be made in the future.

Certain loans have been made to borrowers under the Drinking Water Program from proceeds of bonds which are no longer outstanding, Drinking Water Capitalization Grants and Drinking Water State Match, and it is expected that further loans of this type will be made in the future.

THE AUTHORITY

The Arkansas Development Finance Authority (the "Authority") is a body corporate and politic and an instrumentality of the State. The Authority was created pursuant to the Arkansas Development Finance Authority Act 1062 of 1985, as amended, codified at Arkansas Code Annotated §§ 15-5-101 *et seq.* (the "Act"). The Act authorizes the Authority to borrow money and issue from time to time its bonds, notes, and other obligations in such principal amounts as the Authority determines shall be necessary to provide sufficient funds to carry out its purposes and powers.

The primary function of the Authority is issuing revenue bonds for the purpose of financing decent, safe, sanitary and affordable housing for persons and families of low and moderate income, capital improvements for State agencies and local governments, educational facilities, health care facilities and industrial enterprises.

The powers of the Authority are vested in the Board of Directors, consisting of the State Treasurer, the Director of the Department of Finance and Administration, the Secretary of the Department of Commerce and eleven public members appointed by the Governor with the advice and consent of the State Senate for terms of four years. The Act provides that the Board shall employ a President who shall serve

at the pleasure of the Governor, shall be an *ex officio*, nonvoting member of the Board and may be elected Secretary to the Board.

Officers and Directors

The names, offices, principal occupations and residences of the directors of the Authority and the dates of expiration of their terms are set forth below. In accordance with the Act, Board members whose terms have expired serve until they are reappointed or their successors have been appointed.

<u>Name and Office</u>	<u>Term Expires (January 14)</u>	<u>Principal Occupation and Residence</u>
Carey Smith, Chair	2025	President, C. Smith Holdings, Inc., Little Rock
Rod Coleman, Vice Chair	2027	Chairman, ERC Holdings, LLC, Fort Smith
Mark Conine, Secretary	(Ex-officio, non-voting)	President, Arkansas Development Finance Authority, Little Rock
Katelyn Martin	2024	Financial Advisor, Edward Jones, Monticello
Jon Chadwell	2024	Executive Director, Newport Economic Development Commission, Newport
Stephanie Garner	2025	Chief Executive Officer, ARVAC, Inc., Dardanelle
Dr. Lillie "Lee" Lane	2026	Retired Engineering Executive, Paris
Seth N. Mims	2024	Partner and President, Specialized Real Estate Group, Fayetteville
George O'Connor	2025	Chairman, O'Connor Distributing, Little Rock
Harold Perrin*	2025	SVP, First Security Bank, Jonesboro
Denise Sweat	2026	Vice President, Farm Credit Services, Nashville
Kirkley Thomas	2027	Principal/Owner, Kirkley Thomas Consulting, LLC, Little Rock
Jim Hudson	(Ex-officio)	Secretary, Arkansas Department of Finance and Administration, Little Rock
John Thurston	(Ex-officio)	State Treasurer, Little Rock
Hugh McDonald	(Ex-officio, non-voting)	Secretary, Arkansas Department of Commerce

* Mr. Perrin is employed by First Security Bank. First Security Bank and Crews & Associates, Inc., one of the Underwriters, are wholly-owned subsidiaries of First Security Bancorp.

The staff of the Authority presently consists of approximately 45 full-time employees. Mark Conine is President of the Authority. Other senior officers include Kristy Cunningham, Chief Financial Officer, Robert Arrington, Director of Homeownership and Public Finance and Charles Cathey, Vice President of Development Finance.

The office of the Authority is located at 1 Commerce Way, Suite 602, Little Rock, Arkansas. Its telephone number is (501) 682-5910, its mailing address is P.O. Box 8023, Little Rock, Arkansas 72203-8023, and its web site address is "<https://adfa.arkansas.gov/>."

Other Indebtedness of the Authority

The Authority has outstanding various bond issues which have been issued for single family and multifamily housing, industrial development facilities, higher educational facilities, facilities to house other State agencies and other governmental purposes. Such bond issues are secured by other revenues and assets separate and apart from the General Resolution. No assets or funds of the Authority, other than those held under the General Resolution, are pledged to the payment of the Bonds.

S&P has established an investment grade rating for obligations secured by a pledge of the Authority's full faith and credit. However, the Series 2025 Bonds are not secured by a pledge of the Authority's full faith and credit.

Future Financings of the Authority

The Authority may issue other bonds to finance wastewater treatment facilities consistent with the Act and the Amended RLF Act. The Authority expects during 2025 and in future years to issue other bonds for purposes authorized in the Act to the extent permitted by law and to finance other activities as permitted by the Act.

THE COMMISSION

The Construction Assistance RLF, the Construction Assistance Division of the Arkansas Department of Environmental Quality and administration of the Construction Assistance RLF were transferred to the Commission effective July 1, 2001, pursuant to the provisions of Act 459 of the 2001 session of the Arkansas General Assembly. The Commission has been responsible for administration of the Drinking Water RLF since its inception in 1997.

The Commission is a statutory body consisting of nine members appointed by the Governor, with the advice and consent of the State Senate. Each of the State's four congressional districts is required to be represented by two members of the Commission, and a ninth member of the Commission holds an at-large position. Act 691 (as defined below) requires that two members of the Commission be water well contractors licensed in the State. Each member of the Commission is currently appointed for a term of seven years. Act 691 changed the term of future members of the Commission from seven years to five years. The expiration dates of the terms of members of the Commission are staggered so that one or more vacancies occur each year. Vacancies during a term are filled by appointment by the Governor for the remainder of the unexpired term, subject to confirmation by the State Senate. A member of the Commission serves until a successor is appointed. The names of the members of the Commission, the offices held, and the dates of expiration of their terms are as follows:

<u>Name</u>	<u>Position</u>	<u>Term Expires</u>
Jamie Burr	Chairman	2026
William Anderson	Vice Chairman	2027
William Brewer, III	Member	2025
James Anderson	Member	2025
Eddie Glover	Member	2026
JoAnne Bush	Member	2028
Mike McDermott	Member	2029
David Gilbert	Member	2029
Bruce Leggitt	Member	2030

The Transformation and Efficiencies Act of 2019 ("Transformation Act") was signed into law by former Governor Asa Hutchinson on April 11, 2019 and became effective on July 1, 2019. The Transformation Act was enacted to accomplish the reorganization of the government of the State by authorizing the reduction of the number of cabinet-level agencies from 42 to 15 with the objective of better managerial control and providing services to Arkansas taxpayers more efficiently. As part of the

Transformation Act the Commission, along with several other State agencies, became part of the Department of Agriculture, a cabinet-level department.

Act 691 of 2023 ("Act 691") was signed into law by Governor Sanders on April 21, 2023 and became effective on July 1, 2023. Act 691 consolidated certain agriculture boards and commissions, abolished certain boards within the Department of Agriculture, transferred the duties of certain boards within the Department of Agriculture, and amended the duties of certain boards within the Department of Agriculture.

Wes Ward, the Secretary of the Department of Agriculture (the "Agriculture Secretary"), is the executive head of the Department of Agriculture. Pursuant to Act 691, the Agriculture Secretary is appointed by the Governor of the State.

Chris Colclasure, the Director of the Arkansas Department of Agriculture's Natural Resources Division, is appointed by and serves at the pleasure of the Governor. The Director reports to the Agriculture Secretary.

The Transformation Act provides that the administrative functions of the Commission shall be administered under the direction and supervision of the Agriculture Secretary. The Commission continues to exercise the stated statutory authority, powers, duties and functions exercised before being placed under the Department of Agriculture.

The Transformation Act further provides that the Commission continues to be a public body politic and corporate after the transfer to the Department of Agriculture, and that all revenue, securities and investments held in accounts, all real property owned, and contracts, instruments and securities pertaining to or made in connection with the issuance of bonds or financing of programs by the Commission will remain the property of the Commission and shall not be transferred to the Department of Agriculture.

The Commission establishes policy and makes funding and regulatory decisions relative to soil conservation, water rights, dam safety, waste disposal and pollution abatement, water resource planning and development, and non-point source pollution within the State. Act 691 abolished the Commission on Water Well Construction and transferred its duties to the Commission. Since its creation, the Commission has assisted in the financing and development of numerous water resources development project facilities and waste disposal and pollution abatement facilities.

The Commission is charged with implementing and enforcing the provisions of the Clean Water Act and the Safe Drinking Water Act in the State. The Natural Resources Division of the Arkansas Department of Agriculture (the "Division") administers the RLF. The staff of the Division presently consists of 68 full-time employees.

The office of the Commission is located at 10421 W. Markham Street, Little Rock, Arkansas 72205. The telephone number for the Division is (501) 682-1611.

THE REVOLVING LOAN FUND PROGRAMS

The Clean Water Act and the Safe Drinking Water Act

Under the Clean Water Act, Clean Water Capitalization Grants are awarded to qualifying states to establish and capitalize Construction Assistance RLF for the purpose of providing loans and certain other forms of financial assistance for construction of publicly owned treatment works as defined under the Clean Water Act, for implementation of nonpoint source management programs, and for implementation of estuary conservation and management plans. Under the Safe Drinking Water Act, Drinking Water Capitalization Grants are awarded to qualifying states to establish and capitalize Drinking Water RLFs for the purpose of providing loans and certain other forms of financial assistance to eligible systems for drinking water system improvements. The Clean Water Act provides that Clean Water Capitalization Grants will be made pursuant to agreements between each state and the EPA ("Clean Water Capitalization

Grant Agreements"). See **"THE REVOLVING LOAN FUND PROGRAMS - Capitalization Grants, Obligated State Matches and Intended Use Plans."**

Appropriations under the Clean Water Act for Clean Water Capitalization Grant funding expired at the end of federal fiscal year 1994. Congress has continued to appropriate funds for Federal Capitalization Grants through federal fiscal year 2024 by means of budgetary appropriation. Congress authorized appropriations for the Drinking Water Program from federal fiscal years 2019 through 2023. The Infrastructure Act reauthorized appropriations for the Clean Water Program and the Drinking Water Program for federal fiscal years 2022 through 2026 and appropriated supplemental funding for the Clean Water Program and the Drinking Water Program for federal fiscal years 2022 through 2026. See **"THE REVOLVING LOAN FUND PROGRAMS - Infrastructure Investment and Jobs Act."** No assurances can be given that Congress will continue to appropriate funds for Federal Capitalization Grants after federal fiscal year 2024.

The Construction Assistance Revolving Loan Fund

As contemplated by the Clean Water Act, the Arkansas General Assembly at its 1987 and 1991 sessions enacted the Construction Assistance RLF Act and the Construction Assistance Amended RLF Act and the Construction Assistance RLF, which is maintained by the Authority and was administered by the Arkansas Department of Environmental Quality (the "Department"). The administration of the Construction Assistance RLF in the State was transferred, effective July 1, 2001, from the Department to the Commission. The Clean Water Act authorizes the Authority to make loans from the Construction Assistance RLF to Borrowers. The Clean Water Act also authorizes the Authority to issue its revenue bonds for the purpose of providing moneys for deposit to the Construction Assistance RLF to enable the Authority to, among other things, make loans to Borrowers.

The Commission receives applications for financial assistance from potential Borrowers. The applications are evaluated by the Commission on the basis of the expected benefits of the proposed projects on water quality. Such projects are rated using a system developed under the EPA's Construction Grants Program, and are placed on a statewide list (the "Clean Water Priority List") in the order of their rated benefits.

Borrowers that are eligible to receive Clean Water Loans are selected from the Clean Water Priority List and identified in the Intended Use Plan ("Intended Use Plan" or "IUP") that is submitted to the EPA each year in connection with the Commission's application for a federal Clean Water Capitalization Grant award. The Commission is not required to select Borrowers in the order that they appear on the Clean Water Priority List but may make its selection based on the readiness of the projects to begin construction, the overall needs of the financing program with respect to credit quality, and other factors. The IUP identifies the projects that will be funded by the Construction Assistance RLF through federal Clean Water Capitalization Grants, Clean Water State Matches, bond proceeds, loan repayments and investment earnings.

The Drinking Water Revolving Loan Fund

As contemplated by the Safe Drinking Water Act, the Arkansas General Assembly at its 1997 session enacted the Safe Drinking Water Act to establish the Drinking Water RLF, which is maintained by the Authority and administered by the Commission. The Drinking Water RLF Act authorizes the Authority to make loans from the Drinking Water RLF to Borrowers. The Drinking Water RLF Act also authorizes the Authority to issue its revenue bonds for the purpose of providing moneys for deposit to the Drinking Water RLF to enable the Authority to, among other things, make loans to Borrowers.

The Commission receives applications for financial assistance from potential Borrowers. The applications are evaluated by the Commission on the basis of the expected benefits of the proposed projects on drinking water quality. Such projects are rated using a system developed by the Arkansas Department of Health in compliance with the Safe Drinking Water Act, and are placed on a statewide list (the "Drinking Water Priority List") in the order of their rated benefits.

Borrowers that are eligible to receive Drinking Water Loans are selected from the Drinking Water Priority List and identified in the Intended Use Plan ("Intended Use Plan" or "IUP") that is submitted to the EPA each year in connection with the Commission's application for a federal Drinking Water Capitalization Grant award. The Commission is not required to select Borrowers in the order that they appear on the Drinking Water Priority List but may make its selection based on the readiness of the projects to begin construction, the overall needs of the financing program with respect to credit quality, and other factors. The IUP identifies the projects that will be funded by the Drinking Water RLF through federal Drinking Water Capitalization Grants, Drinking Water State Matches, bond proceeds, loan repayments and investment earnings.

Capitalization Grants, Obligated State Matches and Intended Use Plans

Each Clean Water or Drinking Water Capitalization Grant Agreement includes a Capitalization Grant application and an IUP, both of which are prepared annually. The IUP identifies projects that will receive financial assistance from an RLF, the goals of the RLF, and the criteria and method established for the distribution of RLF funds. The Capitalization Grant Agreement is made subject to an RLF operating agreement that describes the fundamentals of the Programs, which are not expected to change from year to year.

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The Commission has submitted IUPs to the EPA for State Fiscal Years 1989 through 2024 for the Clean Water Program and for State Fiscal Years 1997 through 2024 for the Drinking Water Program. Based on these IUPs, the EPA has awarded (1) Clean Water Capitalization Grants totaling \$367,302,351, which have been matched with \$70,788,010 of State funds and (2) Drinking Water Capitalization Grants totaling \$343,307,940, which have been matched with \$77,380,488 of State funds, all as described in the following table:

<u>Federal Fiscal Year</u>	<u>Clean Water Program</u>		<u>Drinking Water Program</u>	
	<u>Capitalization Grant Appropriation</u>	<u>Obligated State Match</u>	<u>Capitalization Grant Appropriation</u>	<u>Obligated State Match</u>
1989	\$13,597,900	\$2,719,580	-	-
1990	12,965,522	2,593,104	-	-
1991	13,425,192	2,685,038	-	-
1992	14,624,039	2,924,808	-	-
1993	12,573,396	2,514,680	-	-
1994	8,421,755	1,684,351	-	-
1995	8,038,800	1,607,760	-	-
1996	13,998,185	2,799,637	-	-
1997	4,075,662	815,132	\$12,558,800	\$2,511,760
1998	8,797,700	1,759,540	10,132,200	2,026,440
1999	8,798,500	1,759,700	10,619,500	2,123,900
2000	8,798,500	1,759,700	11,036,800	2,207,360
2001	8,698,500	1,739,700	11,082,400	2,216,480
2002	8,709,000	1,741,800	8,717,800	1,743,560
2003	8,651,800	1,730,360	8,665,400	1,733,080
2004	8,657,100	1,731,420	8,989,100	1,797,820
2005	7,020,300	1,404,060	8,970,100	1,794,020
2006	5,686,300	1,137,260	10,333,200	2,066,640
2007	6,972,100	1,394,420	10,333,000	2,066,600
2008	4,396,400	879,280	10,229,000	2,045,800
2009	4,396,400	879,280	10,229,000	2,045,800
2010	13,328,000	2,665,600	20,539,000	4,107,800
2011	9,657,000	1,931,400	14,252,000	2,850,400
2012	9,239,000	1,847,800	13,582,000	2,716,400
2013	8,722,000	1,744,400	12,743,000	2,548,600
2014	9,165,000	1,833,000	13,534,000	2,706,800
2015	9,117,000	1,823,400	13,445,000	2,689,000
2016	8,729,000	1,745,800	12,719,000	2,543,800
2017	8,661,000	1,732,200	12,610,000	2,522,000
2018	10,500,000	2,100,000	16,711,000	3,342,200
2019	10,394,000	2,078,800	15,555,000	3,311,000
2020	10,395,000	2,079,000	16,566,000	3,313,200
2021	10,394,000	2,078,800	16,551,000	3,310,200
2022	19,212,000	2,678,200	37,613,000	4,815,600
2023	18,542,000	2,145,000	31,121,000	3,703,000
2024	<u>19,944,000</u>	<u>4,043,400</u>	<u>32,604,000</u>	<u>6,520,928</u>
Total	\$367,302,351	\$70,788,010	\$343,307,940	\$77,380,488

The above Federal Capitalization Grant appropriations include funding available for the RLFs operating expenses (up to 4% of the Federal Capitalization Grant) and funding for other Drinking Water Program set-asides (up to an additional 2% of each Clean Water Capitalization Grant and 27% of each Drinking Water Capitalization Grant).

Clean Water Capitalization Grants and State Matches may be used by the Authority for any purpose permitted by the Clean Water Act or Safe Drinking Water Act, including the making of Loans, and are not subject to the provisions of the General Resolution.

Infrastructure Investment and Jobs Act

The Infrastructure Investment and Jobs Act of 2021 (P.L. 117-58) (the "Infrastructure Act") includes \$50 billion for the EPA targeted for drinking water and wastewater systems across the nation. The Infrastructure Act capitalization is intended to supplement the existing base Federal Capitalization Grant funding.

The Infrastructure Act capitalization is expected to continue to occur in federal fiscal years 2025 and 2026. The capitalization is projected in the following amounts in these categories: (i) CWSRF General Supplemental - \$11.7 billion; (ii) CWSRF Emerging Contaminants - \$1 billion; (iii) DWSRF General Supplemental - \$11.7 billion; (iv) DWSRF Emerging Contaminants - \$4 billion; and (v) DWSRF Lead Service Line Replacement - \$15 billion. These funds are expected to be allocated to the EPA, states, tribes, territories, and local communities based on formulas determined by the EPA.

The Infrastructure Act mandates that 49% of the General Supplemental and DWSRF Lead Service Line Replacement appropriations must be in the form of grants or principal forgiveness to disadvantaged communities or communities meeting affordability criteria. 100% of the Emerging Contaminants appropriation used for projects is mandated to be in the form of grants or principal forgiveness, and for the DWSRF program at least 25% of that amount must be provided to disadvantaged communities or communities meeting certain availability criteria.

The Infrastructure Act appropriation requires Clean Water State Match and Drinking Water State Match funds of at least 20% of the appropriation in federal fiscal years 2025 and 2026. There is no state matching fund requirement for Emerging Contaminants and Lead Service Line Replacement.

THE BORROWERS

Each Borrower under the Designated Borrower Obligations is a governmental entity. The Commission did not base Borrower qualification on creditworthiness alone. Neither the Commission nor the Authority makes any representation concerning the creditworthiness of any particular Borrower or its ability to make payments upon its Borrower Obligation to the Authority. See "**INVESTMENT CONSIDERATIONS.**"

The Authority has made Clean Water Loans to finance projects (the "Clean Water Projects") for the Borrowers listed in **APPENDIX B-I - THE CLEAN WATER LOANS**. Pursuant to the General Resolution, the Authority may at any time deliver a notification to the Trustee for the purpose of substituting Borrowers whose Clean Water Loans are funded thereunder.

The Authority has made Drinking Water Loans to finance projects (the "Drinking Water Projects") for the Borrowers listed in **APPENDIX B-II - THE DRINKING WATER LOANS**. Pursuant to the General Resolution, the Authority may at any time deliver a notification to the Trustee for the purpose of substituting Borrowers whose Drinking Water Loans are funded thereunder.

Certain information with respect to the Material Borrower is contained in **APPENDIX B-III – MATERIAL BORROWER**. A "Material Borrower" is a Borrower that has a Designated Borrower Obligation or Obligations with an outstanding aggregate principal amount on the last day of the Authority's fiscal year equal to or greater than an amount that represents 20% of the total outstanding principal amount of all Designated Borrower Obligations under the General Resolution. Upon issuance of the Series 2025 Bonds, the City of Little Rock, Arkansas will constitute the only Material Borrower.

Certain loans have been made to borrowers under the Clean Water Program from proceeds of the Series 2023 Bonds, bonds which are no longer outstanding, recycled cash balances, Clean Water

Capitalization Grants and Clean Water State Match, and it is expected that further loans of this type will be made in the future.

Certain loans have been made to borrowers under the Drinking Water Program from proceeds of the Series 2023 Bonds, bonds which are no longer outstanding, recycled cash balances, Drinking Water Capitalization Grants and Drinking Water State Match, and it is expected that further loans of this type will be made in the future.

FINANCIAL STATEMENTS

Financial statements of the Programs are included in Appendix D to this Official Statement. The audited financial statements of the Clean Water Program for the fiscal years ended June 30, 2024 and 2023 are included at Appendix D-I to this Official Statement. The audited financial statements of the Drinking Water Program for the fiscal years ended June 30, 2024 and 2023 are included at Appendix D-II to this Official Statement.

TAX MATTERS

In the opinion of Friday, Eldredge & Clark, LLP, Little Rock, Arkansas, Bond Counsel, interest on the Series 2025 Bonds is excludable from gross income for federal income tax purposes under Section 103 of the Code and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals; provided, however, such interest on the Series 2025 Bonds may be taken into account for the purpose of computing the federal alternative minimum tax on certain corporations. The opinions set forth in the preceding sentence are subject to the condition that the Authority and the Commission comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Series 2025 Bonds in order that the interest thereon be, or continue to be, excludable from gross income for federal income tax purposes. The Authority and the Commission have covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause interest on the Series 2025 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2025 Bonds. Bond Counsel expresses no opinion regarding other federal tax consequences arising with respect to the Series 2025 Bonds.

Prospective purchasers of the Series 2025 Bonds should be aware that (i) with respect to insurance companies subject to the tax imposed by Section 831 of the Code, Section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15 percent of the sum of certain items, including interest on the Series 2025 Bonds, (ii) interest on the Series 2025 Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by Section 884 of the Code, (iii) passive investment income including interest on the Series 2025 Bonds, may be subject to federal income taxation under Section 1375 of the Code for Subchapter S corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such Subchapter S corporation is passive investment income and (iv) Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account in determining gross income, receipts or accruals of interest on the Series 2025 Bonds.

Prospective purchasers of the Series 2025 Bonds should be further aware that Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Series 2025 Bonds or, in the case of a financial institution, that portion of a holder's interest expense allocated to interest on the Series 2025 Bonds, except with respect to certain financial institutions (within the meaning of Section 265(b)(5) of the Code).

As shown on the inside cover of this Official Statement, certain of the Series 2025 Bonds are being sold at an original issue discount (collectively, the "Discount Bonds"). The difference between the initial public offering prices, as set forth on the cover page, of such Discount Bonds and their stated amounts to be paid at maturity constitutes original issue discount treated as interest which is excluded from gross income for federal income tax purposes, as described above.

The amount of original issue discount which is treated as having accrued with respect to such Discount Bond is added to the cost basis of the owner in determining, for federal income tax purposes, gain or loss upon disposition of such Discount Bond (including its sale, redemption, or payment at maturity). Amounts received upon disposition of such Discount Bond which are attributable to accrued original issue discount will be treated as tax-exempt interest, rather than as taxable gain, for federal income tax purposes.

Original issue discount is treated as compounding semiannually, at a rate determined by reference to the yield to maturity of each individual Discount Bond, on days which are determined by reference to the maturity date of such Discount Bond. The amount treated as original issue discount on such Discount Bond for a particular semiannual accrual period is equal to the product of (i) the yield of maturity for such Discount Bond (determined by compounding at the close of each accrual period) and (ii) the amount which would have been the tax basis of such Discount Bond at the beginning of the particular accrual period if held by the original purchaser, less the amount of any interest payable for such Discount Bond during the accrual period. The tax basis is determined by adding to the initial public offering price on such Discount Bond the sum of the amounts which have been treated as original issue discount for such purposes during all prior periods. If such Discount Bond is sold between semiannual compounding dates, original issue discount which would have been accrued for that semiannual compounding period for federal income tax purposes is to be apportioned in equal amounts among the days in such compounding period.

Owners of the Discount Bonds should consult their tax advisors with respect to the determination and treatment of original issue discount accrued as of any date and with respect to the state and local tax consequences of owning a Discount Bond.

As shown on the inside cover of this Official Statement, certain of the Series 2025 Bonds are being sold at an original issue premium (collectively, the "Premium Bonds"). An amount equal to the excess of the issue price of a Premium Bond over its stated redemption price at maturity constitutes premium on such Premium Bond. An initial purchaser of a Premium Bond must amortize any premium over such Premium Bond's term using constant yield principles, based on the purchaser's yield to maturity (or, in the case of Premium Bonds callable prior to their maturity, by amortizing the premium to the call date, based on the purchaser's yield to the call date and giving effect to the call premium). As premium is amortized, the amount of the amortization offsets a corresponding amount of interest for the period and the purchaser's basis in such Premium Bond is reduced by a corresponding amount resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Bond prior to its maturity. Even though the purchaser's basis may be reduced, no federal income tax deduction is allowed. Purchasers of the Premium Bonds should consult with their tax advisors with respect to the determination and treatment of amortizable premium for federal income tax purposes and with respect to the state and local tax consequences of owning a Premium Bond.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Series 2025 Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or otherwise prevent holders of the Series 2025 Bonds from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any legislative proposals or clarification of the Code or court decisions may affect, perhaps significantly, the market price for, or marketability of, the Series 2025 Bonds. Prospective purchasers of the Series 2025 Bonds should consult their own tax advisors regarding any proposed or enacted federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

It is not an event of default on the 2025 Bonds if legislation is enacted reducing or eliminating the exclusion of interest on state and local government bonds from gross income for federal or state income tax purposes.

Further, in the opinion of Bond Counsel, under existing laws, the Series 2025 Bonds and interest thereon are exempt from all taxes in the State, including income, inheritance and property taxes.

RATINGS

S&P Global Ratings ("S&P") has assigned the Series 2025 Bonds the rating of "AAA." Such rating reflects only the views of S&P, and an explanation of the significance of such rating may be obtained from S&P.

Fitch Ratings ("Fitch") has assigned the Series 2025 Bonds the rating of "AAA." Such rating reflects only the views of Fitch, and an explanation of the significance of such rating may be obtained from Fitch.

Generally, rating agencies base their ratings on materials and information furnished to the rating agencies and on investigations, studies and assumptions by the rating agencies. The debt ratings are not a recommendation to purchase, sell or hold a security, inasmuch as they do not comment as to market price or suitability for a particular investor. There can be no assurance that such ratings will continue for any given period of time or that they will not be lowered, suspended or withdrawn entirely by the rating agencies. Any such downward changes in or suspension or withdrawal of such ratings may have an adverse effect on the marketability of and secondary market price for the Series 2025 Bonds.

UNDERWRITING

The Series 2025 Bonds offered hereby are being purchased from the Authority by Stephens Inc., Crews & Associates, Inc. and Raymond James & Associates, Inc. (collectively, the "Underwriters") at a purchase price of \$ _____ (equal to the par amount of the Series 2025 Bonds less underwriters' discount of \$ _____ [plus/minus] [net] original issue _____ of \$ _____). The Bond Purchase Agreement provides that the Underwriters shall purchase all of the Series 2025 Bonds offered hereby if any are purchased, and that the obligation to make such purchase is subject to the approval of certain legal matters by Bond Counsel and certain other conditions.

LITIGATION

At the time of delivery of and payment for the Series 2025 Bonds, the Authority will certify that no litigation or other proceedings are pending or, to the knowledge of the Authority, threatened in any agency, court or tribunal restraining or enjoining or seeking to restrain or enjoin the issuance, sale, execution or delivery of any of the Series 2025 Bonds, in any way questioning or affecting the validity of any provision of the Series 2025 Bonds, the Resolutions and certain related documents, in any way questioning or affecting the validity of any of the proceedings or authority for the authorization, sale, execution or delivery of the Series 2025 Bonds, or of any provision, program or transactions made or authorized for their payment, or questioning or affecting the organization or existence of the Authority or the title of any of its officers to their respective offices.

LEGAL MATTERS

The approving opinion of Friday, Eldredge & Clark, LLP, Little Rock, Arkansas, Bond Counsel, in substantially the form attached to this Official Statement as Appendix C, will be delivered upon the issuance of the Series 2025 Bonds.

CONTINUING DISCLOSURE

The Authority and the Commission have entered into an undertaking (the "Undertaking") for the benefit of the holders of the Series 2025 Bonds to file certain financial information and operating data with the Municipal Securities Rulemaking Board (the "MSRB") through its continuing disclosure portal, the Electronic Municipal Market Access system ("EMMA"), and to provide notice of certain listed events, pursuant to the requirements of paragraph (b)(5)(i) of Securities and Exchange Commission Rule 15c2-12 of the Securities Exchange Act of 1934, as amended (17 C.F.R. Part 240 § 240.15c2-12) (the "Rule"). See "**APPENDIX E – CONTINUING DISCLOSURE AGREEMENT.**" The notice of certain listed events will be filed by the Trustee on behalf of the Authority and the Commission with the MSRB on EMMA. A

failure by the Authority or the Commission to comply with the Undertaking will not constitute an event of default under the Resolutions (although Bondholders will have any available remedy at law or in equity). Nevertheless, such a failure must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Series 2025 Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Series 2025 Bonds and their market price.

While the Authority and the Commission have not made any determinations as to materiality, the following paragraphs summarize compliance over the past five years of the Authority, the Commission and the Material Borrower with prior continuing disclosure obligations. The Commission has provided the information below under "*The Commission.*" The Finance Department of the City of Little Rock, Arkansas has authorized the use of the information below under "*City of Little Rock, Arkansas.*" The Little Rock Finance Department has not made any determination as to materiality of such information.

The Authority

The Authority identified nine (9) categories of bonds or programs for which it acts as an issuer and/or has entered into continuing disclosure undertakings for the bonds issued by the Authority (the "Authority Undertakings"). The Authority (i) is the exclusive issuer of revenue bonds for public facilities acquired or constructed for the benefit of all state agencies which do not have bonding authority (the "State Facilities Program"); (ii) issues bonds to benefit for profit and not for profit businesses for a variety of purposes specifically authorized by State law (the "Conduit Issuer Program"); (iii) issues single family mortgage revenue bonds (the "Single Family Program"); (iv) issues multi-family mortgage revenue bonds (the "Multifamily Program"); (v) issues bonds to facilitate economic development which the Authority and/or the Arkansas Economic Development Commission ("AEDC") guarantee through their individual bond guaranty programs (the "State Bond Guaranty Program"); (vi) guarantees bonds issued by other governmental entities that facilitate economic development (the "Local Bond Guaranty Program"); (vii) issues bonds to support the Programs; (viii) issues bonds authorized by specific legislation to support other state programs (the "Miscellaneous State Bonds Program"); and (ix) issues the College Savings Bonds, the Higher Education Bonds and the Amendment 82 Bonds (the "GO Programs").

With respect to all Authority programs, the Authority is aware of a limited number of circumstances under which notices of certain events were not timely filed. The Authority has implemented additional policies and procedures to improve disclosure and compliance for events warranting disclosure.

With respect to the State Facilities Program and the Conduit Issuer Program, the Authority has had instances of late filings of certain financial information and operating data of the Authority and other obligated parties as required in the Authority Undertakings. The nature of these filings typically include (i) supplemental filings to provide information or data identified in the Authority Undertakings, but not included in the initial filing that was made timely and (ii) the filing of financial statements specific to the obligated person, if available, or alternatively, the State's ACFR and/or certain financial information and operating data. With respect to financial information, the delay in filing in most instances was minor. As noted below, the Authority has implemented a form of annual report to prevent omissions of portions of information in the future and to confirm the status of required financial statements.

With respect to the Multifamily Program, most of the bond issues are exempt from the Rule, and the Authority does not have any Authority Undertakings with respect to such program. With respect to the GO Programs and the Miscellaneous State Bonds Program, there were no instances of late filings. With respect to the Single Family Program, there were no instances of late filings for certain financial information and operating data; however, the Authority did not timely file its audited financial statements for the fiscal year ended June 30, 2023, and a notice concerning the failure to file was not filed. With respect to the RLF Program, for the fiscal year ended June 30, 2023, (i) certain annual financial information, including audited financial statements of the RLF Program, was not timely filed, (ii) certain operating data was not filed, though such information was contained in the Official Statement for the Authority's applicable bond issue, (iii) the latest audited financial statements of an obligated person were not timely filed, (iv) and a notice concerning the failure to file was not filed.

With respect to the State Bond Guaranty Program and the Local Bond Guaranty Program, most of the Authority Undertakings relating to bonds issued prior to 2010 included a requirement to provide specific information related to borrowers that were in default. The Authority Undertakings permit the Authority to waive requirements not specifically required by the Rule, and the Authority waived the requirement to provide this information, but did not take formal action to do so nor did it file a disclosure identifying the waiver. With respect to bonds guaranteed by AEDC, the Authority Undertakings relating to bonds issued prior to 2009 required the filing, when available, of AEDC's audited financial statements. AEDC does not receive separately audited financial statements, but rather is one of the component units of the State included in the State ACFR. Prior to 2013, no filings were made because AEDC does not have audited financial statements. In 2013, the Authority, in consultation with AEDC, began filing the State ACFR to satisfy this term of the Authority Undertakings and filed the applicable previous years ACFRs for all bonds guaranteed by AEDC for which the State ACFR had not been previously filed. With respect to some Authority Undertakings, there were no instances of late filings.

Procedural changes have been implemented to prevent these instances in the future and include, but are not limited to, (i) requiring any obligated party in the Authority Undertakings to specifically designate a representative with whom the Authority may communicate regarding information required by the Authority Undertakings; (ii) incorporating a form of annual report as an exhibit to all subsequent Authority Undertakings and amending in due course existing Authority Undertakings to ensure that both the Authority and other obligated parties provide all required information; and (iii) periodically checking EMMA to ensure such reports and notices have been properly filed and indexed.

The Commission

The Commission timely filed its annual disclosure statements in connection with ANRC Undertakings for the fiscal years ended June 30, 2019, 2020, 2021 and 2022. The annual disclosure statement for the fiscal year ended June 30, 2023 was filed three (3) days late for one bond issue, and a notice concerning the failure to timely file was filed late. One listed event notice relating to a financial obligation in 2022 was not timely filed (filed ten (10) days late). The annual disclosure statement for the fiscal year ended June 30, 2024 is not yet due.

City of Little Rock, Arkansas

During the past five (5) years, the City of Little Rock, Arkansas (the "City") has been obligated to comply with continuing disclosure agreements involving twenty-one (21) bond issues. Almost all such agreements require the City to file annual reports as the dissemination agent, which reports are required to be filed with the MSRB on EMMA within various time periods set by those agreements. While the City has not made any determination as to materiality, the following summarizes a non-exhaustive list of the City's compliance with its continuing disclosure agreements during the past five years.

As part of its annual report, the City was obligated to file annual audited financial statements. For ten (10) of the bond issues, the City was required to file the audit of the general purpose financial statements of the City as part of its annual report. The City was obligated to file audited financial statements of the City's water reclamation system for eight (8) bond issues. The City was obligated to file audited financial statements of the Little Rock Port Authority for one bond issue. The City was obligated to file the audited financial statements of its advertising and promotion commission for one bond issue. The City was obligated to file both the audit of the general purpose financial statements of the City and the audited financial statements of its advertising and promotion commission for one bond issue. For one bond issue, the City failed to timely file the audited financial statements of its advertising and promotion commission for the year ended December 31, 2021. Such filing was made approximately 42 days late. For the same issue, the audited financial statements of its advertising and promotion commission for the year ended December 31, 2020 was made approximately 21 days late. A notice of such failure was not filed on EMMA. Other than as set forth above, during the past five years, the City filed all audited financial statements on EMMA in a timely manner.

All of the continuing disclosure agreements require that certain supplemental financial and operating data be provided as part of the annual report. The supplemental data to be provided varies by the type of bond issue and how each is secured. In certain cases, however, the supplemental data was included in the audited financial statements that were filed as part of the annual report but was not presented in the manner prescribed by the continuing disclosure agreements. In other cases, the format of the information contained in the annual report was not presented in the format prescribed by the continuing disclosure agreements. The supplemental financial and operating data required to be provided in connection with the City's Capital Improvement Refunding Revenue Bonds, Series 2017 for the year ended December 31, 2023, was filed one day late. The City did not provide all of the information required to be provided in connection with the City's Library Construction and Refunding Bonds, Series 2022 for the years ended December 31, 2022 and 2023. Other than as set forth above, supplemental data for all bond issues that are outstanding has been filed on EMMA in a timely manner.

The continuing disclosure agreements also obligated the City to file a notice of the occurrence of any event listed in Securities and Exchange Commission, Rule 15c2-12(b)(5). Included in the list of events are notices of bond calls, notices of defeasance, notices of the substitution of liquidity providers and rating changes. The City failed to file a call notice with respect to one bond issue. The City failed to file a notice of defeasance with respect to two bond issues. Notices concerning such failures were not filed on EMMA. For three bond issues, the City failed to timely file notices that the issuer of a debt service reserve insurance policy merged into a related entity. For one bond issue, the City failed to timely file a notice of an upgrade to the ratings of an insurer of its bonds. Otherwise, the City has timely filed a notice of the occurrence of any listed event during the past five years.

FINANCIAL ADVISOR

Hilltop Securities Inc. is employed as Financial Advisor to the Commission in connection with the issuance of the Series 2025 Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Series 2025 Bonds is contingent upon the issuance and delivery of the Series 2025 Bonds. Hilltop Securities Inc., in its capacity as Financial Advisor, does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Series 2025 Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

The Financial Advisor to the Commission has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to the Commission and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

MISCELLANEOUS

All of the foregoing summaries of the Act, the Clean Water Act, the Safe Drinking Water Act, the Resolutions, the Purchase Agreements and the Interagency Agreement are made subject to all of the provisions of the Act, the Clean Water Act and the Safe Drinking Water Act, and such documents and these summaries do not purport to be complete statements of such provisions. Reference is hereby made to the Act, the Clean Water Act, the Safe Drinking Water Act and such documents for further information in connection therewith. A copy of the aforementioned documents may be examined at the office of the Authority and, after the issuance and delivery of the Series 2025 Bonds, at the corporate trust office of the Trustee in Little Rock, Arkansas.

The agreements of the Authority with the holders of the Series 2025 Bonds are fully set forth in the Resolutions. This Official Statement is not to be construed as a contract with the purchasers of the Series 2025 Bonds. Any statements herein involving matters of opinion or estimates, whether or not expressly so stated, are intended merely as such and not as representations of fact.

The information contained in this Official Statement has been taken from sources considered to be reliable, but is not guaranteed.

The distribution of this Official Statement and its execution have been duly authorized by the Authority.

ARKANSAS DEVELOPMENT FINANCE AUTHORITY

By: _____
President

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APPENDIX A

DOCUMENT SUMMARIES

A-I

DEFINITIONS OF CERTAIN TERMS

In addition to terms defined elsewhere in this Official Statement, the following are definitions of certain terms contained in this Official Statement.

"Act" shall mean the Arkansas Development Finance Authority Act, as amended from time to time, codified at Arkansas Code Annotated §§ 15-5-101 to -318, inclusive.

"Administrative Expenses" means the fees and expenses of the Authority and the Commission of carrying out and administering their powers, duties, and functions that are allocable to the Programs, as authorized by the Act, the Construction Assistance Revolving Loan Fund Act, and the Drinking Water Revolving Loan Fund Act, and shall include, without limiting the generality of the foregoing: administrative and operating expenses; fees, charges, and other amounts payable to the Authority and the Commission; the Servicing Fee; legal, accounting, and consultant's services and expenses; and any other expenses required or permitted to be paid by the Authority and the Commission under the Act, the Construction Assistance Revolving Loan Fund Act, the Drinking Water Revolving Loan Fund Act, or the General Resolution or otherwise that are allocable to the Programs.

"Administrative Fee" means all amounts, if any, charged by the Authority and the Commission to Borrowers for Administrative Expenses pursuant to Purchase Agreements, including the Servicing Fee.

"Annual Debt Service Requirements" means, for any Fiscal Year, when used with respect to any Long-Term Indebtedness for any Fiscal Year, as of any particular date of calculation, the amount required to pay the sum of (a) the interest on such Long-Term Indebtedness payable during the period from the second day of such Fiscal Year through the first day of the immediately succeeding Fiscal Year and (b) the principal of and any other amount required to effect any mandatory redemption of such Long-Term Indebtedness, if any, during the period from the second day of such Fiscal Year through the first day of the immediately succeeding Fiscal Year, less any amount of such interest or principal for the payment of which moneys or Permitted Investments, the principal of and interest on which when due will provide for such payment, are held in trust, including (without limitation) any accrued interest and capitalized interest on deposit in any fund or account maintained under the General Resolution. For the purpose of calculating the Annual Debt Service Requirements:

(i) with respect to any Variable Rate Indebtedness:

(A) for the purpose of calculating the principal amount of any such Indebtedness constituting Balloon Debt payable in any Fiscal Year described in clause (ii), such Indebtedness shall be deemed to bear interest at the fixed rate that, in the judgment of the Authority, it would have borne had it been issued at a fixed rate for the term thereof; and

(B) for all other purposes of the General Resolution, such Indebtedness shall be deemed to bear interest at an annual rate equal to (1) in the case of any period during which such Indebtedness shall have been outstanding, the weighted average interest rate per annum borne by such Indebtedness during such period and (2) in any other case, the higher of (a) the weighted average interest rate per annum borne by such Indebtedness during a 12-month period ending not more than 45 days prior to the date of calculation (or, in the case of any Indebtedness issued during the immediately preceding 12-month period, the weighted average interest rate per annum borne by other outstanding indebtedness having comparable terms and of comparable creditworthiness during a

12-month period ending not more than 45 days prior to the calculation date) and (b) the interest rate per annum borne by such Indebtedness on the date of calculation;

(ii) with respect to any Balloon Debt, the principal amount of such Indebtedness payable in each Fiscal Year may be deemed to be the amount that would payable during such Fiscal Year if such Indebtedness were required to be amortized in full from the date of its issuance in substantially equal annual installments of principal (such principal to be rounded to the nearest \$5,000) and interest over a term equal to the shorter of (A) 30 years and (B) 120% of the weighted average economic life of the facilities financed or refinanced thereby;

(iii) with respect to any Optional Tender Debt, the option of the holder thereof to tender such Indebtedness for purchase or redemption prior to maturity and any requirement that such Indebtedness be purchased or redeemed in connection with any termination of any Credit Facility securing such Indebtedness or any conversion of the interest rate thereon shall be disregarded; and

(iv) with respect to any Credit Facility Agreement, so long as no demand for payment under the Credit Facility issued under such Credit Facility Agreement shall have been made, the debt service requirements of such Credit Facility Agreement shall be excluded from such calculation.

"Applicable EPA Agreement" means any and all capitalization grant agreements, operating agreements, and other agreements between the Commission and the EPA relating to the Clean Water Program or Drinking Water Program (as applicable) and the use of moneys governed by such agreements.

"Authority" shall mean the Arkansas Development Finance Authority and its successors.

"Authorized Denomination" means \$5,000 or any integral multiple thereof, except as otherwise provided in any Series Resolution with respect to Bonds issued under such Series Resolution.

"Authorized Officer" with respect to the Authority means the President of the Authority, and with respect to the Commission means the Director of the Natural Resources Division of the Arkansas Department of Agriculture, and any other persons designated to the Trustee by such person as an Authorized Officer of the Authority or the Commission, as appropriate.

"Balloon Debt" means Indebtedness 25% or more of the principal amount of which matures in the same 12-month period, which portion of such principal amount is not required to be amortized by redemption prior to such period. Optional Tender Debt shall not be deemed to constitute Balloon Debt solely by reason of the option of the holder thereof to require the redemption or purchase thereof or any required purchase or redemption thereof in connection with any termination of any Credit Facility securing such Indebtedness or any conversion of the interest rate on such Indebtedness prior to the stated maturity thereof.

"Bond Counsel" means an attorney or firm of attorneys having a national reputation in the field of municipal finance whose legal opinions are generally accepted by purchasers of municipal bonds designated by the Authority as its bond counsel in connection with the Programs from time to time.

"Bond" or "Bonds" means all Bonds issued pursuant to the General Resolution.

"Bond Proceeds" means the proceeds of Tax-Exempt Bonds, or of any moneys, securities, or other obligations that may be deemed to be proceeds of such Tax-Exempt Bonds within the meaning of section 148 of the Code.

"Bondholders" or "Holder of Bonds" or "Holder" (when used with reference to Bonds) or any term of similar import, means the person or party in whose name the Bond is registered.

"Borrower" means (a) a local governmental entity or other owner or prospective owner of an environmental project from which bonds, notes, or other evidences of indebtedness may be purchased

pursuant to the Construction Assistance Revolving Loan Fund Act or (b) an owner or prospective owner of a Water System from which bonds, notes, or other evidences of indebtedness may be purchased pursuant to the Drinking Water Revolving Loan Fund Act that, in each case, has executed and delivered a Purchase Agreement, and its successors and assigns.

"Borrower Obligation" means a loan or a commitment to make a loan (as the context shall require) made by the Authority or the Commission to a Borrower pursuant to a Purchase Agreement.

"Business Day" means a day other than a Saturday, Sunday, or legal holiday in the State or a day on which banking institutions in the State or in the city in which the Designated Office of the Trustee is located are authorized or obligated to remain closed.

"Certificate" means a written certificate signed in the name of the Authority or the Commission, as the case may be, by an Authorized Officer.

"Clean Water Act" means the Federal Clean Water Act, 33 U.S.C. 1251, *et seq.*, as supplemented and amended.

"Clean Water Bonds" means Bonds so designated by the Authority pursuant to Section 5.07(d) of the General Resolution.

"Clean Water Loan" means any loan made by the Authority or the Commission to a Borrower as part of the Clean Water Program and evidenced by a Purchase Agreement.

"Clean Water Loan Account" means the account of that name identified in the General Resolution.

"Clean Water Pledged Receipts" means Pledged Receipts derived from Clean Water Projects.

"Clean Water Program" means the establishment and capitalization of state revolving funds from which a state can provide loans and certain other forms of financial assistance for, among other things, the construction of publicly-owned wastewater treatment facilities, estuary conservation management plans, and the implementation of nonpoint source management programs authorized under the Clean Water Act.

"Code" means the Internal Revenue Code of 1986, as amended from time to time, or any successor federal income tax statute or code, and the applicable regulations under the Code.

"Commission" shall mean the Arkansas Natural Resources Commission.

"Construction Assistance Administrative Account" means the Construction Assistance Administrative Account created by the Construction Assistance Revolving Loan Fund Act, codified at Arkansas Code Annotated § 15-5-901(e).

"Construction Assistance Revolving Loan Fund" means the Construction Assistance Revolving Loan Fund established pursuant to the Construction Assistance Revolving Loan Fund Act, codified at Arkansas Code Annotated § 15-5-901(a).

"Construction Assistance Revolving Loan Fund Act" means Act No. 718 of the General Assembly of the State for the year 1991, as amended from time to time, codified at Arkansas Code Annotated §§ 15-5-901 to -910, inclusive.

"Construction Assistance State Grants Account" means the State Grants Account created by the Construction Assistance Revolving Loan Fund Act, codified at Arkansas Code Annotated § 15-5-901(c).

"Counsel" means an attorney duly admitted to practice law before the highest court of any state or the District of Columbia reasonably acceptable to the Authority.

"Coverage Certificate" means a certificate of an Authorized Officer of the Authority setting forth the amount of the Coverage Ratio.

"Coverage Ratio" means the ratio of (a) the sum of (i) scheduled payments of principal and interest on the Designated Purchase Agreements, excepting any Designated Purchase Agreement under which an Event of Default (as defined therein) shall have occurred and be continuing, and (ii) estimated income to be received from the investment of amounts from time to time held in the funds and accounts maintained under the General Resolution, less the portion, if any, of such income that is (A) allocable to investment earnings on amounts held in the Loan Accounts that is to be credited against the Borrowers' payment obligations under the Designated Purchase Agreements and (B) expected to be transferred to the Rebate Fund for the current and each future Fiscal Year to (b) the Annual Debt Service Requirements of Outstanding Bonds and scheduled payments becoming due under any other Bonds in the current and each future Fiscal Year.

In projecting the foregoing, (i) invested funds shall be assumed to yield an investment return equal to no more than the actual return at the time of projection, and shall be assumed to be invested until such time as they are expected to be applied to the purpose for which they are accumulated, (ii) payments under the Designated Purchase Agreements shall be assumed to be received as of each June 1 and December 1, and (iii) all Designated Borrower Obligations shall be assumed to be in final amortization.

"Coverage Requirement" means an amount equal to 110% of the Annual Debt Service Requirements for the Bonds in any Fiscal Year.

"Credit Facility" means any letter of credit, bond insurance policy, bond purchase agreement, guaranty, line of credit, surety bond, or similar credit or liquidity facility securing any Bond or held to the credit of any fund or account created by the General Resolution. When used with reference to or in connection with any Bonds, "Credit Facility" means any Credit Facility securing such Bonds.

"Credit Facility Agreement" means the agreement, if any, pursuant to which any Credit Facility is issued. When used with reference to or in connection with any Bonds, "Credit Facility Agreement" means the Credit Facility Agreement under which any Credit Facility securing such Bonds shall have been issued.

"Credit Facility Provider" means the issuer of any Credit Facility then in effect. When used with reference to or in connection with any Bonds, "Credit Facility Provider" means the provider of any Credit Facility securing such Bonds.

"Debt Service Fund" means the Debt Service Fund identified in the General Resolution.

"Designated Borrower Obligation" means a Borrower Obligation made by the Authority or the Commission to a Borrower pursuant to a Designated Purchase Agreement.

"Designated Office" means, when used with respect to the Trustee or any Registrar or Paying Agent, the corporate trust office designated as such by the Trustee or such Registrar or Paying Agent, respectively.

"Designated Purchase Agreement" means any Purchase Agreement identified as such by the Authority pursuant to Section 4.04(f) of the General Resolution.

"Drinking Water Bonds" means Bonds so designated by the Authority pursuant to Section 5.07(d) of the General Resolution.

"Drinking Water Loan" means any loan made by the Authority or the Commission to a Borrower as part of the Drinking Water Program and evidenced by a Purchase Agreement.

"Drinking Water Loan Account" means the account of that name identified in the General Resolution.

"Drinking Water Pledged Receipts" means Pledged Receipts derived from Drinking Water Projects.

"Drinking Water Program" means the establishment and capitalization of state revolving funds from which a state can provide low cost loans and other types of assistance to eligible entities for drinking water system improvements authorized under the Safe Drinking Water Act.

"Drinking Water Revolving Loan Fund" means the Safe Drinking Water Fund established pursuant to the Drinking Water Revolving Loan Fund Act, codified at Arkansas Code Annotated § 15-22-1102(a).

"Drinking Water Revolving Loan Fund Act" means Act No. 772 of the General Assembly of the State for the year 1997, as amended from time to time, codified at Arkansas Code Annotated §§ 15-22-1101 to -1111, inclusive.

"Drinking Water State Administrative Account" means the Drinking Water State Administrative Account created by the Drinking Water Revolving Loan Fund Act, codified at Arkansas Code Annotated § 15-22-1101(c).

"Drinking Water State Grants Account" means the Drinking Water State Grants Account created by the Drinking Water Revolving Loan Fund Act, codified at Arkansas Code Annotated § 15-22-1102(e).

"Drinking Water State Set Aside Account" means the Drinking Water State Set Aside Account created by the Drinking Water Revolving Loan Fund Act, codified at Arkansas Code Annotated § 15-22-1102(d).

"EPA" means the United States Environmental Protection Agency or any successor entity which may succeed to the administration of the programs established pursuant to the Clean Water Act or the Drinking Water Act.

"Event of Default" means each of the following events:

- (a) Default in the payment of any interest on any Bond when and as the same shall have become due and payable;
- (b) Default in the payment of the principal of or any redemption premium on any Bond when and as the same shall become due, whether at the stated maturity date or the redemption thereof; or
- (c) Default in the observance or performance of any other of the covenants, agreements or conditions on the part of the Authority included in the General Resolution or in the Bonds and the continuance thereof for a period of thirty (30) days after written notice to the Authority given by the Trustee.

"Favorable Opinion of Bond Counsel" means, when used with respect to or in connection with any action, a written opinion of Bond Counsel to the effect that such action will not adversely affect the excludability from gross income of interest paid on any Tax-Exempt Bond for federal income tax purposes.

"Fiscal Year" means the period of 12 consecutive months beginning on July 1 in any calendar year and ending on June 30 of the succeeding calendar year, or such other period of 12 months as the Authority shall establish as its fiscal year.

"General Resolution" means the Revolving Loan Fund Revenue Bond Program General Bond Resolution as from time to time amended, modified, or supplemented in accordance with the terms and provisions of the General Resolution.

"Generally Accepted Accounting Principles" means accounting principles generally accepted in the United States of America applicable in the preparation of financial statements of governmental units, as promulgated by the Governmental Accounting Standards Board or such other body as shall be recognized as authoritative by the American Institute of Certified Public Accountants or any successor body (as such principles may change from time to time), applied on a consistent basis (except for changes in application in which the Independent Public Accountant concurs) applied both to classification of items and amounts.

"Hedging Transaction" means an agreement entered into in order to hedge the interest payable on or manage interest cost on all or a portion of any Indebtedness, any asset, or any other derivative arrangement then in effect, including, without limitation, an interest rate swap, a forward or futures contract, or an option (e.g., a call, put, cap, floor, or collar).

"Holder," "holder," "owner," or any similar term means the registered owner of any Bond.

"Indebtedness" means any indebtedness or liability for borrowed money or any installment sale obligation, to the extent that any of the foregoing is payable from the Pledged Receipts.

"Independent Public Accountant" means an individual, partnership, or corporation engaged in the accounting profession, either entitled to practice, or having members or officers entitled to practice, as a certified public accountant under the laws of the State and in fact independent, employed by the Authority from time to time to pass upon those matters required by the General Resolution to be passed upon by an Independent Public Accountant.

"Interagency Agreement" means the Interagency Agreement between the Authority and the Commission, dated as of October 1, 2009, as amended and supplemented from time to time.

"Interest Payment Date" means, June 1 and December 1.

"Leverage Funds" means Bond Proceeds deposited into the Revolving Loan Funds not constituting State Match.

"Loan Accounts" means the Clean Water Loan Account and the Drinking Water Loan Account.

"Long-Term Indebtedness" means all of the following Indebtedness incurred or assumed by the Authority and payable under any circumstances from the Pledged Receipts:

(a) any obligation for the payment of principal and interest with respect to money borrowed for an original term, or renewable at the option of the Authority for a period from the date originally incurred, longer than one year; and

(b) any obligation for the payment of money under installment purchase contracts having an original term in excess of one year.

"Optional Tender Debt" means any Indebtedness that is subject to optional or mandatory tender by the holder thereof (including, without limitation, any mandatory tender in connection with the expiration of any Credit Facility securing such Indebtedness or any conversion of the interest rate on such Indebtedness) for purchase or redemption prior to the stated maturity date thereof if the purchase or redemption price of such Indebtedness is under any circumstances payable from the Pledged Receipts.

"Outstanding" or "outstanding" means, when used with reference to Bonds as of any particular date, all Bonds authenticated and delivered under the General Resolution except (a) any Bond cancelled by the Registrar or the Trustee (or delivered to the Registrar or the Trustee for cancellation) at or before such date, (b) any Bond for the payment of which provision shall have been made as provided in Section 11.01 of the General Resolution, and (c) any Bond in lieu of or in substitution for which a new Bond shall have been authenticated and delivered pursuant to Article III, Article VII, or Section 10.03 of the General Resolution.

"Participant," when used with respect to any Securities Depository, means any participant of such Securities Depository.

"Paying Agent" means the Trustee, except as otherwise provided in any Series Resolution.

"Permitted Investment" means (a) each of the following investments to the extent that the amounts to be invested therein are then permitted to be invested in such investments under State law and (b) such other investments permitted by State law:

- (a) United States Government Obligations;
- (b) The following bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed full faith and credit of the United States of America (stripped securities being permitted only if they have been stripped by the agency itself): (i) direct obligations or fully guaranteed certificates of beneficial ownership of the United States Export-Import Bank; (ii) certificates of beneficial ownership of the Farmers Home Administration; (iii) obligations of the Federal Financing Bank; (iv) debentures of the Federal Housing Administration; (v) participation certificates of the General Services Administration; (vi) guaranteed mortgage-backed bonds and guaranteed pass-through obligations of the Government National Mortgage Association; (vii) guaranteed Title XI financing of the United States Maritime Administration; and (viii) project notes, local authority bonds, guaranteed debentures and guaranteed public housing notes and bonds of the United States Department of Housing and Urban Development;
- (c) The following bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit United States government agencies (stripped securities being permitted only if they have been stripped by the agency itself): (i) senior debt obligations of the Federal Home Loan Bank System; (ii) participation certificates and senior debt obligations of the Federal Home Loan Mortgage Corporation; and (iii) mortgage-backed securities and senior debt obligations of the Federal National Mortgage Association;
- (d) Money market funds registered under the Investment Company Act of 1940, the shares of which are registered under the Securities Act of 1933, and having a rating by S&P of AAA-G, AAAM, or AAm;
- (e) Certificates of deposit secured at all times by collateral described in (1) and/or (2) above and issued by commercial banks, savings and loan associations or mutual savings banks (the collateral must be held by a third party and the Bondholders must have a perfected first lien security interest in the collateral);
- (f) Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by the Federal Deposit Insurance Corporation;
- (g) Investment agreements with or guaranteed by banks or other financial institutions whose long-term unsecured debt or claims-paying ability is rated in one of the three highest generic rating categories by a Rating Agency at the time of investment;
- (h) Commercial paper, with a maturity not greater than 270 days, and rated, at the time of purchase, "Prime-1" by Moody's, "F1" or better by Fitch or "A-1" or better by S&P;
- (i) Notes or bonds issued by any state which are rated by Fitch, Moody's or S&P in one of the three highest generic rating categories assigned by such agencies at the time of the investment; and
- (j) Federal funds or bankers' acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of "A-1/Prime-1" or "Aa3" or better by Moody's and "F1" or "A" or better by Fitch and "A-1" or "A" or better by Standard & Poor's at the time of the investment.

"Pledged Receipts" means all payments to the Authority, the Commission, or the Trustee pursuant to Designated Borrower Obligations, Designated Purchase Agreements, and Security Instruments, including both timely and delinquent payments with late charges, if any, but excluding Administrative Fees, Servicing

Fees, fines and penalties collected by the Authority or the Commission under the Programs, and any amounts payable to the Authority or the Commission in respect of indemnification.

"Prepayments" means all amounts received by the Authority or the Commission from payment of principal of Designated Borrower Obligations more than 90 days prior to the stated maturity date or dates or any scheduled mandatory redemption dates of such Designated Borrower Obligations.

"Programs" means the Drinking Water Program together with the Clean Water Program.

"Project" means the design, acquisition, construction, improvement, rehabilitation, repair, reconstruction, renovation, or expansion of any wastewater system, Water System, solid and hazardous waste facility, recycling facility, nonpoint source management facility, wetlands conservation and management facilities, and other environmental project that is eligible for financing pursuant to the Construction Assistance Revolving Loan Fund Act or the Drinking Water Revolving Loan Fund Act and that is financed with the proceeds of Bonds or acquired in whole or in part with amounts on deposit in the Loan Accounts.

"Purchase Agreement" means any purchase agreement heretofore or hereafter entered into by and among the Authority, the Commission, and a Borrower, setting forth the terms and conditions of a loan made or to be made by the Authority to a Borrower pursuant to the Construction Assistance Revolving Loan Fund Act or the Drinking Water Revolving Loan Fund Act.

"Rating Agency" means any nationally recognized securities rating service that shall have assigned a rating that is then in effect with respect to the Bonds upon application of the Authority.

"Rating Category" means one of the general rating categories of a Rating Agency, without regard to any refinement or gradation of such rating category by a numerical modifier or otherwise.

"Rebate Fund" means the Rebate Fund identified in the General Resolution.

"Record Date" means, except as otherwise provided in any Series Resolution authorizing the issuance of any Bonds with respect to such Bonds, the fifteenth day of the calendar month preceding each Interest Payment Date and, if there is a default in the payment of the interest due on the Bonds on any Interest Payment Date, then any special record date established by the Trustee, which shall be at least 10 and not more than 15 days before the date set for payment of the defaulted interest, notice of which shall be mailed by the Trustee to the registered owners of such Bonds not fewer than 10 days before such special record date.

"Redemption Price" means, when used with respect to any Bond or portion thereof, the principal amount of such Bond or such portion thereof, plus the applicable premium, if any, payable upon redemption thereof.

"Registrar" means the Trustee, except as otherwise provided in any Series Resolution.

"Relevant Federal Act" means, as the context shall indicate, the Clean Water Act or the Safe Drinking Water Act.

"Responsible Officer" means, when used with respect to the Trustee, any officer within the corporate trust department of the Trustee who shall have primary responsibility for the administration of the General Resolution.

"Revenue Fund" means the Revenue Fund identified in the General Resolution.

"Revolving Loan Funds" means the Construction Assistance Revolving Loan Fund and the Drinking Water Revolving Loan Fund.

"Safe Drinking Water Act" means the Federal Safe Drinking Water Act, 42 U.S.C. § 300f, *et seq.*, as supplemented and amended.

"Securities Depository" means The Depository Trust Company, a corporation organized and existing under the laws of the State of New York, and any other securities depository for Bonds appointed pursuant to the General Resolution, and their successors.

"Security Instrument" means, when used with reference to any Designated Purchase Agreement, any collateral security delivered to the Authority, the Commission, or the Trustee in connection with such Designated Purchase Agreement including (without limitation) any mortgage, security agreement, deed of trust, letter of credit, or bond insurance policy.

"Semiannual Payment Period" means the 6-month period commencing on an Interest Payment Date and ending on the day preceding the subsequent Interest Payment Date.

"Series" means any series of Bonds authorized by the General Resolution pursuant to a Series Resolution.

"Series Resolution" means any resolution adopted by the Authority and approved by the Commission and the Trustee amending, modifying, or supplementing the General Resolution, any Series Resolution, or any Bond delivered and becoming effective in accordance with the terms of the General Resolution.

"Servicing Fee" means a fee designated by the Commission in its sole discretion for its technical and administrative services in connection with the Program, payment of which may be made in any one or more of the following methods: (a) from the proceeds of Borrower Obligations, (b) from Borrower Obligations payments, and (c) from proceeds of Bonds.

"State" means the State of Arkansas.

"State Grants Accounts" means the Construction Assistance State Grants Account and the Drinking Water State Grants Account.

"State Match" means moneys meeting the qualifications of state matching funds under the Clean Water Act or the Safe Drinking Water Act, as appropriate, and which may be supplied from (a) moneys appropriated by the State and deposited in the State Grants Accounts and (b) State Match Allocation deposited into the appropriate Revolving Loan Fund.

"State Match Allocation" means, at any date of determination, the portion of all outstanding Bonds the proceeds which have been applied to provide all or a portion of the State Match required under the Clean Water Act and Safe Drinking Water Act, as identified in one or more Series Resolutions, as amended from time to time. In calculating such portion, costs of issuance of Bonds and other applications of Bond Proceeds not directly attributable to providing Leverage Funds and State Match shall be allocated proportionately.

"Subordinate Obligations" means any bonds, notes, agreements, or other obligations or evidences of indebtedness issued or incurred by the Authority or the Commission from time to time pursuant to proceedings other than the General Resolution, which are secured by a pledge of and lien on Pledged Receipts that is junior and subordinate to the lien of the General Resolution securing payment of the Bonds.

"Tax-Exempt Bond" means any Bond with respect to which there shall have been delivered to the Authority an opinion of Bond Counsel to the effect that the interest on such Bond is excludable from gross income for federal income tax purposes.

"Trust Estate" means (a) all of the right, title, and interest of the Authority in and to the Pledged Receipts and (b) all of the right, title, and interest of the Authority in and to any moneys and securities from time to time on deposit in any fund or account established and maintained under the General Resolution (except

the Rebate Fund) and any and all other real or personal property of every name and nature from time to time hereafter by delivery or by writing of any kind conveyed, mortgaged, pledged, assigned, or transferred, as and for additional security under the General Resolution by the Authority or by anyone on its behalf, or with its written consent, to the Trustee; *provided* that the Trust Estate does not include (i) any Applicable EPA Agreement and the rights of the Authority or the Commission under such EPA Agreement including, without limitation, the prospective right of the Commission or the Authority to receive federal capitalization grant money under any Applicable EPA Agreement, (ii) amounts in the State Grants Accounts, the Construction Assistance Administrative Account, the Drinking Water State Administrative Account, and the Drinking Water State Set Aside Account, and (iii) amounts paid or payable to the Commission or the Authority as Administrative Fees or Servicing Fees.

"Trustee" means Regions Bank, Little Rock, and any other corporation that may at any time be substituted in its place pursuant to the General Resolution, and their successors.

"Variable Rate Indebtedness" means, as of any particular date, any Indebtedness the interest rate on which is not established at a fixed rate or rates for the remaining term thereof.

"United States Government Obligations" means direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America) or obligations of any agency or instrumentality of the United States of America the timely payment of the principal of and interest on which are fully guaranteed by the United States of America.

"Water System" has the meaning assigned in the Drinking Water Revolving Loan Fund Act.

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A-II

SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTIONS

The following is a summary of certain provisions of the Resolutions. This is not a complete recital of the terms of the Resolutions and reference should be made to the Resolutions for a complete statement of its terms. Words and terms used in this summary shall have the same meanings herein as set forth in "APPENDIX A, DOCUMENT SUMMARIES – A-I – Definition of Certain Terms."

Creation of Funds (Section 5.01)

(a)(i) The following funds are created for the benefit of the holders of the Outstanding Bonds, except as otherwise provided in any Series Resolution entered into in connection with the issuance of any Bonds in accordance with the General Resolution:

- Revenue Fund
 - Clean Water Account
 - Clean Water Interest Subaccount
 - Clean Water Principal Subaccount
 - Clean Water Prepayment Subaccount
 - Drinking Water Account
 - Drinking Water Interest Subaccount
 - Drinking Water Principal Subaccount
 - Drinking Water Prepayment Subaccount
- Clean Water Loan Account
- Drinking Water Loan Account (the Clean Water Loan Account and the Drinking Water Loan Account are referred to collectively as the "Loan Accounts")
- Debt Service Fund
 - Interest Account
 - Principal Account
- Rebate Fund

(ii) The Revenue Fund and Debt Service Fund and the accounts and subaccounts within such funds shall be held by the Trustee under the General Resolution. Amounts in the Loan Accounts (pending application of such amounts in accordance with the General Resolution), the Revenue Fund, and the Debt Service Fund and the accounts and subaccounts within such funds and accounts are pledged to the payment of all Outstanding Bonds, except as otherwise provided in any Series Resolution authorizing the issuance of any Bonds in accordance with the General Resolution. The Rebate Fund shall be held by the Trustee and is not pledged to the payment of any Bonds.

(iii) The Revolving Loan Funds, the State Grants Accounts, the Construction Assistance Administrative Account, the Drinking Water State Administrative Account and the Drinking Water State Set Aside Account are not pledged to the payment of any Bonds. The Authority shall initially deposit the Revolving Loan Funds, the State Grants Accounts, the Construction Assistance Administrative Account and the Drinking Water State Administrative Account moneys with the Trustee, which shall act as custodian of thereof until such time as the Authority shall determine that it no longer wishes for the Trustee to act as custodian of any such funds and accounts.

(iv) The Loan Accounts, into which proceeds of Bonds are deposited, shall be held by the Authority. The Authority shall initially deposit the Loan Accounts moneys with the Trustee, which shall act as custodian of the Loan Accounts until such time as the Authority shall determine that it no longer wishes for the Trustee to act as custodian of the Loan Accounts.

Application of Proceeds of Bonds (Section 5.02)

Proceeds of the Bonds shall be applied as provided in the Series Resolution authorizing such Bonds.

Pursuant to the Series Resolution for the Series 2025 Bonds, the Trustee shall deposit the proceeds of the Series 2025 Bonds in the Series 2025 Subaccounts of the Clean Water Loan Account and the Drinking Water Loan Account, as shall be specified by an Authorized Officer of the Authority.

Deposit and Application of Pledged Receipts (Section 5.03)

(a) The Authority will collect and deposit all Pledged Receipts into the Revenue Fund on the date of receipt or as soon as practicable thereafter.

(b) The Authority shall account for Pledged Receipts in a manner that allows the Authority to trace Pledged Receipts (i) to Clean Water Projects and Drinking Water Projects and (ii) to principal and interest. Pledged Receipts derived from Clean Water Projects are referred to as "Clean Water Pledged Receipts" and shall be deposited in the appropriate accounts and subaccounts within the Revenue Fund; and Pledged Receipts derived from Drinking Water Projects are referred to as "Drinking Water Pledged Receipts" and shall be deposited in the appropriate accounts and subaccounts within the Revenue Fund.

Revenue Fund; Flow of Funds (Section 5.04)

(a) On or before the last Business Day of each month, the Trustee shall transfer all funds in the Revenue Fund and deposit the same to the credit of the following funds and accounts in the amounts and in the order of priority as follows:

FIRST, to the Interest Account of the Debt Service Fund, the amount necessary to cause the balance on deposit therein to be equal to the interest on all Outstanding Bonds that will become due on the subsequent Interest Payment Date.

In addition, if the Authority has entered into a Credit Facility Agreement, there shall also be deposited into the Interest Account of the Debt Service Fund the amount that an Authorized Officer of the Authority estimates as being the total amount that will be payable by the Authority, or will otherwise accrue, during the then current Semiannual Payment Period under any Credit Facility Agreement for any Bonds to the extent such payments are payable from the Interest Account of the Debt Service Fund pursuant to Section 5.05 of the General Resolution, but only to the extent that such amounts are required to be paid by the Authority in addition to the amounts described in the preceding paragraph. Notwithstanding the foregoing, if the Authority has entered into a Credit Facility Agreement constituting an interest rate swap agreement or a currency swap agreement or other similar agreement with respect to any Bonds then, to the extent that payments due from the Authority under such Credit Facility Agreement are to be paid from the Interest Account of the Debt Service Fund, such payments shall be included in calculating the amounts described above and any amounts due from the Person who is the counterparty to such agreement shall be excluded from such calculation.

Accrued and unpaid interest on the portion of all Outstanding Bonds, the proceeds of which constituted State Match Allocation, shall only be made from (a) the interest component of all repayments received by the Authority or the Commission from loans made under the Programs, including without limitation Designated Borrower Obligations, during the then-current Fiscal Year and (b) all amounts received by the Authority as income, profits, or gain on investments of money held in the Construction Assistance Revolving Loan Fund and the Drinking Water Revolving Loan Fund, and in calculating the amount available for making such payments during any Fiscal Year, the principal component of all repayments received by the Authority or the Commission from loans made under the Programs, including without limitation Designated Borrower Obligations, during such Fiscal Year shall be deemed to be the first money transferred from the Revenue Fund pursuant to the transfer provisions FIRST and SECOND;

SECOND, to the Principal Account of the Debt Service Fund, the amount necessary to cause the balance on deposit therein to be equal to the amount of principal of and redemption premium, if any, payable at maturity or upon redemption of Outstanding Bonds on the subsequent Interest Payment Date, if any.

In addition, if the Authority has entered into a Credit Facility Agreement, there shall also be deposited into the Principal Account of the Debt Service Fund the amounts that an Authorized Officer of the Authority estimates will be payable by the Authority, or will otherwise accrue, during the then current Semiannual Payment Period under any Credit Facility Agreement for any Bonds to the extent such payments are payable from the Principal Account of the Debt Service Fund pursuant to Section 5.05 of the General Resolution, but only to the extent that such amounts are required to be paid by the Authority in addition to the amounts described in the preceding paragraph. Notwithstanding the foregoing, if the Authority has entered into a Credit Facility Agreement constituting an interest rate swap agreement or a currency swap agreement or other similar agreement with respect to any Bonds then, to the extent that payments due from the Authority under such Credit Facility Agreement are to be paid from the Principal Account of the Debt Service Fund, such payments shall be included in calculating the amounts described above and any amounts due from the Person who is the counterparty to such agreement shall be excluded from such calculation.

Principal of and redemption premium, if any, payable at maturity or upon redemption of the portion of all Outstanding Bonds, the proceeds of which constituted State Match Allocation, shall only be made from (a) the interest component of all repayments received by the Authority or the Commission from loans made under the Programs, including without limitation Designated Borrower Obligations, during the then-current Fiscal Year and (b) all amounts received by the Authority as income, profits, or gain on investments of money held in the Construction Assistance Revolving Loan Fund and the Drinking Water Revolving Loan Fund, and in calculating the amount available for making such payments during any Fiscal Year, the principal component of all repayments received by the Authority or the Commission from loans made under the Programs, including without limitation Designated Borrower Obligations, during such Fiscal Year shall be deemed to be the first money transferred from the Revenue Fund pursuant to the transfer provisions FIRST and SECOND;

THIRD, to the Rebate Fund, if and to the extent required pursuant to Section 5.11 of the General Resolution;

FOURTH, to the Debt Service Fund, in accordance with the provisions of Section 5.06 of the General Resolution relating to cross-collateralization;

FIFTH, to the extent required by any other resolution or other instrument adopted or approved by the Authority or the Commission pursuant to which Subordinate Obligations are issued, the amount necessary to provide for the payment of the principal of and redemption premium, if any, and interest on such Subordinate Obligations and to accumulate or restore any required reserves to ensure payment of such principal, premium, if any, and interest; and

SIXTH, provided no Event of Default shall have occurred and be continuing, to the Construction Assistance Revolving Loan Fund and the Drinking Water Revolving Loan Fund, as directed by the Commission, free and clear of any lien of the General Resolution, to be applied for any lawful purpose of the Commission in connection with the Programs.

(b) If on any occasion there shall not be sufficient Pledged Receipts to make the required deposits into the Interest Account and Principal Account of the Debt Service Fund, then such deficiency shall be made up as soon as possible from the next available Pledged Receipts or from any other source available for such purposes.

Debt Service Fund (Section 5.05)

(a) Amounts on deposit in the Debt Service Fund shall be applied as follows:

(i) On each Interest Payment Date for any Outstanding Bonds, the Trustee shall make available to the Paying Agent for such Bonds from the Interest Account of the Debt Service Fund (or any subaccount thereof created with respect to such Bonds) the amount required to pay the interest due on such Outstanding Bonds on such date, which amount shall be applied by the Paying Agent for such Bonds to the payment of the interest due on such Bonds.

(ii) On each date on which the principal of any Outstanding Bonds becomes due, the Trustee shall make available to the Paying Agent from the Principal Account of the Debt Service Fund (or subaccount thereof created with respect to such Bonds) the amount required to pay the principal of and redemption premium, if any, due on such date, which amount shall be applied by the Paying Agent for such Bonds to the payment of such principal and redemption premium, if any, due on such Bonds.

(b) Not later than 20 days prior to each Interest Payment Date, the Trustee shall determine whether the aggregate amount in the Revenue Fund and Debt Service Fund, when added to the amount expected to be received in or credited to such applicable account or subaccount, if any, of the Debt Service Fund prior to such Interest Payment Date, will be sufficient to pay the interest and principal and premium, if any, then due and payable, and shall determine the amount of any deficiency. If such a deficiency exists, the Trustee may, with the prior written consent of the Authority and the Commission, transfer from the Loan Accounts such moneys as are necessary to cure such deficiency. The Authority and the Commission may withhold its consent to such a transfer if and to the extent that, in the judgment of the Authority and the Commission, the transfer of money from the Loan Accounts to the Debt Service Fund would adversely affect the ability of the Authority and the Commission to honor a requisition submitted or expected to be submitted by any Borrower not then in default under the terms of its loan agreement with the Authority and the Commission.

Cross-Collateralization; Transfers (Section 5.06)

(a) **Transfers to Pay Debt Service on Clean Water Bonds.** In the event on any Interest Payment Date amounts available in the funds and accounts established under the General Resolution are insufficient to pay the principal of or interest on any Clean Water Bonds then due and payable, the Authority, with the consent of the Commission, may either:

(i) direct the Trustee to utilize Drinking Water Pledged Receipts in the Drinking Water Account in the Revenue Fund for payment of such deficiency; *provided* that such utilization shall only be made from amounts constituting Drinking Water Pledged Receipts on deposit in the Revenue Fund that are not necessary (A) to pay principal of or interest on any Drinking Water Bonds then due and payable or (B) to make transfers to the Rebate Fund; or

(ii) transfer the amount necessary to cure such deficiency from the Drinking Water Revolving Loan Fund (excluding the State Grants Account therein) to the Debt Service Fund to the extent allowable under applicable law.

If any transfer is made pursuant to paragraph (a)(i), the Authority shall have an obligation, inferior to the payment of the principal of and interest on any Clean Water Bonds, to reimburse to the Revenue Fund, the amount so advanced either without interest or at such rate of interest as the Authority may from time to time determine. If such reimbursement is made with funds on deposit in the Revenue Fund constituting Clean Water Pledged Receipts, the reimbursement shall only be made with such funds that are not required on the immediately succeeding Interest Payment Date for the payment of principal of or interest on Clean Water Bonds.

(b) **Transfers to Pay Debt Service on Drinking Water Bonds.** In the event on any Interest Payment Date amounts available in the funds and accounts established under the General Resolution are insufficient to pay the principal of or interest on any Drinking Water Bonds then due and payable, the Authority, with the consent of the Commission, may either:

(i) direct the Trustee to utilize Clean Water Pledged Receipts in the Clean Water Account in the Revenue Fund for payment of such deficiency; *provided* that such utilization shall only be made from

amounts constituting Clean Water Pledged Receipts on deposit in the Revenue Fund that are not necessary (A) to pay principal of or interest on any Clean Water Bonds then due and payable or (B) to make transfers to the Rebate Fund; or

(ii) transfer the amount necessary to cure such deficiency from the Construction Assistance Revolving Loan Fund (excluding the State Grants Account therein) to the Debt Service Fund to the extent allowable under applicable law.

If any transfer is made pursuant to paragraph (b)(i), the Authority shall have an obligation, inferior to the payment of the principal of and interest on any Drinking Water Bonds, to reimburse to the Revenue Fund the amount so advanced either without interest or at such rate of interest as the Authority may from time to time determine. If such reimbursement is made with funds on deposit in the Revenue Fund constituting Drinking Water Pledged Receipts, the reimbursement shall only be made with such funds that are not required on the immediately succeeding Interest Payment Date for the payment of principal of or interest on Drinking Water Bonds.

Loan Account (Section 5.07)

(a) Proceeds of Bonds designated for deposit in the Loan Accounts shall be deposited in the Clean Water Loan Account and the Drinking Water Loan Account in such amounts as directed by the Commission.

(b) Moneys may be transferred to and from the Clean Water Loan Account and the Drinking Water Loan Account at such times and in such amounts as directed by the Commission.

(c) Moneys in the Clean Water Loan Account and the Drinking Water Loan Account shall be applied to fund Clean Water Projects and Drinking Water Projects, respectively, financed by Designated Borrower Obligations under the Clean Water Program and Drinking Water Program, respectively, upon the submission to the Authority by the Borrowers of requisitions in accordance with the Designated Borrower Obligations.

(d) The Authority shall account for application of moneys in the Loan Accounts in a manner that allows the Authority to trace application to Clean Water Projects and Drinking Water Projects. All of the Bonds of a Series shall be designated on the records of the Authority as "Clean Water Bonds" or "Drinking Water Bonds" based on the percentage of use of proceeds of such Series of Bonds for Clean Water Projects and Drinking Water Projects.

Rebate Fund (Section 5.11)

Upon the direction of the Authority, the Trustee shall transfer amounts on deposit in any fund or account created by the General Resolution to the Rebate Fund. Amounts on deposit in the Rebate Fund from time to time required to be paid to the United States of America pursuant to section 148 of the Code as a rebate or payment in lieu thereof shall be made available by the Trustee to the Authority for such payments upon the direction of the Authority and shall not be pledged to the payment of the principal or Redemption Price of or interest on any Bonds.

Upon the direction of the Authority, the Trustee shall transfer amounts on deposit in the Rebate Fund to any other fund or account created by the General Resolution.

With the prior consent of the Commission, the Authority may transfer funds to the Rebate Fund from Revolving Loan Funds (excluding the State Grants Accounts therein) that are not part of the Trust Estate to the extent allowable under applicable law.

Pledge of Trust Estate (Section 3.03)

(a) The Authority hereby assigns and grants to the Trustee a security interest in (a) all of the right, title, and interest of the Authority in and to the Pledged Receipts and (b) all of the right, title, and interest of the Authority in and to any moneys and securities from time to time on deposit in any fund or account established and maintained under the General Resolution (except the Rebate Fund) and any and all other real or personal property of every name and nature from time to time hereafter by delivery or by writing of any kind conveyed, mortgaged, pledged, assigned, or transferred, as and for additional security under the General Resolution by the Authority or by anyone on its behalf, or with its written consent, to the Trustee (the "Trust Estate"); *provided* that the Trust Estate does not include (i) any Applicable EPA Agreement and the rights of the Authority or the Commission under such Applicable EPA Agreement including, without limitation, the prospective right of the Commission or the Authority to receive federal capitalization grant money under any Applicable EPA Agreement, (ii) amounts in the State Grants Accounts, the Construction Assistance Administrative Account, the Drinking Water State Administrative Account, and the Drinking Water State Set Aside Account, and (iii) amounts paid or payable to the Commission or the Authority as Administrative Fees or Servicing Fees, subject to the provisions of the General Resolution permitting the application thereof on the terms and conditions set forth in the General Resolution, in order to secure the payment of the principal or Redemption Price of and interest on, and the purchase price of, the Bonds according to their tenor and effect and the performance and observance by the Authority of all the covenants expressed or implied in the General Resolution and the Bonds, for the benefit of the holders thereof and their respective successors and assigns, forever.

(b) To the extent permitted by law, the foregoing pledge shall be valid and binding from the time of the delivery by the Authority of the Bonds, shall be effective as to all such rights and other pledged property whether now existing or hereafter coming into existence, whether now held or hereafter acquired by the Authority, and whether or not segregated or held in trust by the Authority. The Trust Estate so pledged shall immediately be subject to the lien of such pledge without any physical delivery or segregation thereof or further act and the lien of such pledge shall be valid and binding against any and all parties having a claim of any kind, in tort, contract, or otherwise, against the Authority or the Commission, irrespective of whether such parties have notice thereof.

Accounts and Audits (Section 4.03)

The Authority shall keep or cause to be kept proper books of records and accounts (separate from all other records and accounts) in which complete and correct entries shall be made of its transactions with respect to the Bonds and the accounts created by the General Resolution. Such books and accounts shall be subject to the inspection of the Trustee and the Commission (at reasonable hours and subject to the reasonable rules and regulations of the Authority). The Authority shall cause such books and accounts to be audited annually within 180 days after the end of its Fiscal Year by an Independent Public Accountant selected by the Authority and a copy of such audit shall be provided to the Trustee and the Commission.

Designated Borrower Obligations (Section 4.04)

(a) Each Designated Borrower Obligation shall conform to the terms, conditions, provisions, and limitations stated in the General Resolution, except to the extent, if any, that a variance is required by EPA.

(b) Each Borrower shall, at the time the Authority purchases all or a portion of a Designated Borrower Obligation, be a permitted borrower as provided in the Construction Assistance Revolving Loan Fund Act or the Drinking Water Revolving Loan Fund Act, as applicable.

(c) The proceeds of each Designated Borrower Obligation must be expended solely for payment of eligible costs in accordance with Title VI of the Clean Water Act or the Safe Drinking Water Act, as applicable.

(d) Each Designated Borrower Obligation shall (i) be evidenced by a bond, note, or other written obligation of the Borrower, (ii) be disbursed in payment of eligible costs in accordance with the Designated

Purchase Agreement evidencing such Designated Borrower Obligation, (iii) be accompanied by an opinion of Counsel with respect to the validity and enforceability of the Designated Purchase Agreement, the Designated Borrower Obligation, and any Security Instrument securing such Designated Borrower Obligation, and (iv) be accompanied by an opinion of bond counsel to the Borrower, which may be given in reliance upon the opinion of Counsel referred to in clause (iii) as to the validity of the Designated Borrower Obligation, that, if the Designated Borrower Obligation were being issued on a tax-exempt basis, the Designated Borrower Obligation would not constitute a "private activity bond" within the meaning of section 141 of the Code.

(e) The interest rate, repayment terms, and redemption provisions for each Designated Borrower Obligation shall be determined in accordance with the rules of the Commission.

(f) The Authority shall maintain a list of Designated Purchase Agreements under the General Resolution and may amend such list from time to time, provided that there is delivered to the Trustee a Coverage Certificate demonstrating that, after any such amendment for the purpose of deleting Designated Purchase Agreements, the Coverage Ratio will not be less than 115% of the Annual Debt Service Requirements for the Bonds in any Fiscal Year. Delivery of a Coverage Certificate is not required for amendments to add Designated Purchase Agreements. The list of bond purchase agreements constituting Designated Bond Purchase Agreements under the General Resolution shall be filed with the Trustee.

Coverage (Section 4.05)

The Authority and the Commission will not take any action that would reduce the Coverage Ratio below the Coverage Requirement for any Fiscal Year.

Investments (Section 5.09)

(a) Moneys in any of the funds and accounts established by the General Resolution may be invested in Permitted Investments. Such Permitted Investments shall mature or shall be redeemable at the option of the holder in such amounts and on such dates as may be necessary to provide moneys to meet the payments from such funds and accounts. The Trustee shall invest only as directed in writing by an Authorized Officer.

(b) Unless otherwise provided by the General Resolution or any Series Resolution, interest earned, profits realized, and losses suffered by reason of any investment of any amounts held by the Trustee under the General Resolution shall be credited or charged, as the case may be, to the fund or account for which such investment shall have been made.

(c) The Trustee may sell or redeem any obligations in which moneys shall have been invested to the extent necessary to provide cash in the respective funds or accounts to make any payments required to be made from such funds or accounts or to facilitate the transfers of moneys between various funds and accounts as may be required or permitted from time to time pursuant to the General Resolution. The proceeds from the sale of any investment shall be paid into the fund or account for which the sale thereof was made.

(d) In determining the value of the assets of the funds and accounts created by the General Resolution, (i) investments and accrued interest thereon shall be deemed a part thereof and (ii) investments shall be valued at the current market value thereof.

(e) Neither the Authority, the Commission, nor the Trustee shall be liable for any depreciation in the value of any obligations in which moneys of the funds or accounts created by the General Resolution shall be invested in accordance with the General Resolution, or for any loss arising from any investment permitted in the General Resolution. The investments authorized by the General Resolution shall at all times be subject to applicable law.

(f) This Section of the General Resolution shall be subject in all respects to Section 5.11 of the General Resolution pertaining to arbitrage rebate and the Rebate Fund.

Authorization of Bonds; Conditions Precedent to Delivery of Bonds (Section 3.06)

(a) The Authority is hereby authorized to issue, from time to time, Bonds under and secured by the General Resolution and any Series Resolution, subject to the conditions provided in the General Resolution, for any purpose in connection with the Programs for which obligations may be incurred by the Authority under the Act.

(b) Each Bond shall be on parity with and shall be entitled to the same benefit and security of the General Resolution as any other Bonds that may be issued from time to time, to the extent provided in the General Resolution.

(c) The Series Resolution authorizing the issuance of any Series of Bonds shall specify the principal amount, maturities, and redemption provisions, if any, of such Bonds, the form and denominations thereof, and other details of such Bonds. Without limiting the generality of the foregoing, Bonds may constitute Variable Rate Indebtedness, Optional Tender Debt, or Balloon Debt as shall be determined by the Authority in its discretion.

(d) The Authority may provide for the creation of separate funds and accounts for any Series of Bonds, as shall be deemed advisable by the Authority. Amounts on deposit in the funds and accounts created for particular Series of Bonds shall be applied solely to the payment of the principal or Redemption Price of and interest on, or the purchase price of, such Series of Bonds or to the reimbursement of the issuer of any Credit Facility securing such Series of Bonds and shall not be available to satisfy the claims of Holders of Bonds of any other Series or the issuer of any Credit Facility securing Bonds of any other Series.

(e) The Series Resolution authorizing the issuance of any Series of Bonds may provide that (i) proceeds realized under any Credit Facility securing the payment of such Bonds shall not be available to pay the principal or Redemption Price of or interest on, or the purchase price of, Bonds of any other Series, and (ii) any proceeds of such Bonds and investment earnings thereon remaining after the funding of all Designated Borrower Obligations to be financed or refinanced with the proceeds of such Bonds shall be applied to the payment or redemption of such Bonds.

(f) Bonds of a Series shall be executed by the Authority and delivered to the Trustee, whereupon the Trustee shall authenticate and deliver such Bonds upon the order of the Authority, but only upon receipt by the Trustee of the purchase price of such Bonds and each of the following:

(i) a certified copy of the applicable Series Resolution authorizing such Bonds, duly adopted by the Authority and approved by the Commission and accepted by the Trustee;

(ii) a written order of the Authority directing the authentication and delivery of such Bonds, stating the purchase price of such Bonds, and stating that all items required by the General Resolution are therewith delivered to the Trustee in form and substance satisfactory to the Authority;

(iii) an opinion of Bond Counsel to the effect that (A) the Series Resolution authorizing such Bonds has been duly adopted by the Authority and approved by the Commission and accepted by the Trustee and constitutes the valid and binding obligation of the Authority; (B) the Authority is duly authorized and entitled to execute and deliver such Bonds, and Bonds executed, authenticated, and delivered as provided in the General Resolution and such Series Resolution have been duly and validly issued and constitute valid and binding limited obligations of the Authority; and (C) the execution and delivery of such Bonds will not adversely affect the excludability from gross income, for federal income tax purposes, of interest paid on any Outstanding Tax-Exempt Bond;

(iv) a Certificate of the Authority to the effect that, upon the authentication and delivery of such Bonds, no Event of Default shall exist under the General Resolution; and

(v) a Coverage Certificate demonstrating that, after giving effect to the issuance of such Bonds, the Coverage Ratio on the Outstanding Bonds for each Fiscal Year in which any Bonds theretofore issued

shall remain Outstanding will be equal to at least the Coverage Requirement for each Fiscal Year thereafter.

(g) Bonds may be authenticated, delivered, and paid for in installments of less than the total authorized principal amount of a Series of Bonds from time to time as the Authority may direct in its written requests.

Limitations on Indebtedness; Subordinate Obligations (Section 3.07)

(a) The Authority shall not create or incur any Indebtedness payable in whole or in part from any portion of the Trust Estate except Bonds issued in accordance with Section 3.06 of the General Resolution and Subordinate Obligations.

(b) The Authority is hereby authorized to issue, from time to time, Subordinate Obligations subject to the conditions provided in the General Resolution for any purpose in connection with the Programs for which obligations may be incurred by the Authority under the Act.

(c) No payments shall be made from the Trust Estate with respect to the principal of or premium, if any, or interest on any Subordinate Obligations during any period in which any Event of Default shall have occurred and be continuing. During any other period, the Authority may pay or prepay the principal of and premium, if any, and interest on any Subordinate Obligations and no recourse shall be had by the Trustee or any Holder against the person to whom any such payment shall have been made unless such person shall have had, at the time of receipt of such payment, actual knowledge of the occurrence of an Event of Default.

Concerning the Trustee (Sections 8.01, 8.06, 8.07, 8.08 and 8.10)

(a) Regions Bank, Little Rock, Arkansas, is hereby appointed Trustee for the Bonds. Except as otherwise provided in any Series Resolution, the Trustee shall also be the Registrar and the Paying Agent for each Series of Bonds.

(b) Any corporation into which the Trustee may be merged or with which it may be consolidated or to which it may sell or transfer its trust business and assets as a whole or substantially as a whole, or any corporation resulting from any such merger, consolidation or transfer to which it is a party, *ipso facto*, shall be and become successor Trustee under the General Resolution and be vested with all of the title to the Trust Estate and all the trusts, powers, discretions, immunities, privileges and all other matters as was its predecessor, without the execution or filing of any instrument or any further act, deed or conveyance on the part of any of the parties hereto, anything herein to the contrary notwithstanding.

(c) The Trustee may at any time and for any reason resign and be discharged of the trusts created by the General Resolution by executing an instrument in writing resigning such trusts and specifying the date when such resignation shall take effect, and mailing the same to the Authority and the Commission not less than thirty (30) days before the date specified in such instrument when such resignation shall take effect. Subject to Section 8.09 of the General Resolution, such resignation shall take effect on the day specified in such instrument and notice, unless a successor Trustee shall be previously appointed by the Authority, in which event such resignation shall take effect immediately on the appointment of such successor Trustee.

(d) The Trustee may be removed at any time by the Authority, by an instrument or concurrent instruments in writing delivered to the Trustee.

(e) In case the Trustee under the General Resolution shall resign or be removed, or be dissolved, or shall be in course of dissolution or liquidation, or otherwise become incapable of acting under the General Resolution, or in case it shall be taken under the control of any public officer or officers, or of a receiver appointed by a court, a successor Trustee may be appointed by the Authority. Every such Trustee appointed pursuant to the provisions of this Section shall be a trust company or bank organized and doing business under the laws of the United States of America or any state thereof, subject to supervision or examination by federal or state regulatory authority, having, or being wholly owned by an entity having a reported capital and surplus and undivided profits of not less than \$50,000,000 if there be such an institution willing,

qualified and able to accept the trusts under the General Resolution upon reasonable and customary terms. In the event that a successor Trustee has not been appointed within sixty (60) days, the resigning Trustee may petition a court of competent jurisdiction for the appointment of a successor Trustee.

Amendments Without Consent (Section 10.01)

The General Resolution or any Series Resolution may be amended without the consent of the Holders by a written instrument executed by the Authority and the Trustee, if: (i)(a) in the sole judgment of the Trustee, the amendment does not materially adversely affect the interests of the owners of any Bonds or (b) such amendment is necessary in the judgment of the Authority to enable the efficient administration of the General Resolution or to comply with applicable Clean Water Program or Drinking Water Program requirements, and (ii) the Authority and the Trustee receive written confirmation from each of the Rating Agencies that the amendment will not result in the downgrade, qualification or withdrawal of its credit rating on any Series of Bonds. In exercising its judgment, the Trustee may rely on the opinion of such counsel as it may select.

Amendments Requiring Consent of Holders (Section 10.02)

If the requirements of Section 10.01 of the General Resolution are not met, the Authority and the Trustee, with the prior written consent of the Holders of at least 51% in aggregate principal amount of the Bonds affected thereby, may enter into at any time and from time to time resolutions amending or supplementing the General Resolution, any Series Resolution, or any Bond to modify any of the provisions thereof or to release the Authority from any of the obligations, covenants, agreements, limitations, conditions, or restrictions therein contained, *provided* that nothing contained in the General Resolution shall permit (a) except as otherwise provided in any Series Resolution authorizing any Bonds with respect to such Bonds, a change in any terms of redemption or purchase of any Bond, the due date for the payment of the principal of or interest on any Bond, or any reduction in the principal, Redemption Price, or purchase price of or interest rate on any Bond without the consent of the Holder of such Bond or (b) the creation of a claim or lien upon, or a pledge of, the Trust Estate ranking prior to or on parity with the claim, lien, and pledge created by the General Resolution as security for any Bonds issued within the limitations of the General Resolution, a preference or priority of any Bond over any other Bond, or a reduction in the percentage of Bonds the consent of the Holders of which is required for any modification of the General Resolution without the unanimous consent of the Holders.

Events of Default and Remedies (Sections 9.01, 9.02 and 9.03)

(a) (i) Each of the following events is hereby declared to constitute an Event of Default under the General Resolution:

(A) Default in the payment of any interest on any Bond when and as the same shall have become due and payable;

(B) Default in the payment of the principal of or any redemption premium on any Bond when and as the same shall become due, whether at the stated maturity date or the redemption thereof; or

(C) Default in the observance or performance of any other of the covenants, agreements or conditions on the part of the Authority included in the General Resolution or in the Bonds and the continuance thereof for a period of thirty (30) days after written notice to the Authority given by the Trustee.

(ii) A default under the General Resolution with respect to the Bonds shall not be or constitute a default under any other resolution entered into by the Authority or with respect to any other indebtedness of the Authority, and no default under any other resolution entered into by the Authority or with respect to any other indebtedness of the Authority shall be or constitute a default under the General Resolution.

(b) The obligations of the Authority for payment of principal of and interest on the Bonds are not subject to acceleration prior to maturity.

(c) Upon the happening and continuance of any Event of Default, then and in every such case the Trustee may proceed, and upon the written request of not less than 25% of the Holders shall proceed, to protect and enforce its rights and the rights of the Holders under the laws of the State and under the General Resolution and any Credit Facility by such suits, actions, or special proceedings in equity or at law, either for the specific performance of any covenant contained in the General Resolution and any Credit Facility, or in aid or execution of any power granted in the General Resolution and any Credit Facility, or for an accounting against the Authority as if the Authority were the trustee of an express trust or for the enforcement of any proper legal or equitable remedy as the Trustee shall deem most effectual to protect and enforce such rights.

(d) In the enforcement of any remedy upon the occurrence of an Event of Default under the General Resolution, the Trustee shall be entitled to sue for, enforce payment of, and receive any and all amounts then or during any default becoming, and at any time remaining, due from the Authority, for principal of or interest on the Bonds, or otherwise under the General Resolution or of any Bonds, with interest on overdue payments of principal at the rate or rates of interest specified in the Bonds, together with any and all costs and expenses of collection and of all proceedings under the General Resolution and under the Bonds, without prejudice to any other right or remedy of the Trustee or of the Holders, and to recover and enforce judgment or decree against the Authority, but solely as provided in the General Resolution and the Bonds and from the sources and moneys provided in the General Resolution and the Bonds, for any portion of such amounts remaining unpaid and to collect in any manner provided by law the moneys adjudged or decreed to be payable.

Priority of Payments Following Default (Section 9.04)

If at any time there shall have occurred and be continuing an Event of Default, after payment of all amounts owing to the Trustee under the General Resolution, amounts held by the Trustee under the General Resolution, together with any moneys thereafter becoming available for such purpose, whether through exercise of the remedies provided in the General Resolution or otherwise, shall be applied as follows:

(i) unless the principal of all Outstanding Bonds shall have become due and payable, all such moneys shall be applied:

FIRST: to the payment to the persons entitled thereto of all installments of interest then due on the Bonds Outstanding, in the order in which such installments became due and payable and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment of such installment, ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference, except as to any difference in the respective rates of interest specified in such Bonds;

SECOND: to the payment to the persons entitled thereto of the unpaid principal of any Outstanding Bonds that shall have become due and payable, in the order of their due dates, with interest upon the principal amount of such Bonds from the respective dates upon which they shall have become due and payable and, if the amount available shall not be sufficient to pay in full the principal of such Bonds due and payable on any particular date, together with such interest, then first to the payment of such interest, ratably, according to the amount of interest due on such date, and then to the payment of such principal, ratably, according to the amount of principal due on such date, to the persons entitled thereto, without any discrimination or preference, except as to any difference in the respective rates of interest specified in such Bonds;

THIRD: to the payment of the interest on and the principal of the Bonds Outstanding as the same become due and payable;

(ii) any balance remaining after the foregoing payments shall be paid to the Authority.

Restrictions Upon Action by Individual Holders (Section 9.07)

(a) No Holder of any Bond shall have any right to institute any suit, action, or proceeding in equity or at law on any Bond for the execution of any trust under the General Resolution or for any other remedy under the General Resolution unless (i) such Holder previously shall have given to the Trustee written notice of the Event of Default on account of which such suit, action, or proceeding is to be instituted, (ii) not less than 25% of Holders shall have made written request to the Trustee after the right to exercise such powers or right of action, as the case may be, shall have accrued, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers granted by the General Resolution or to institute such action, suit, or proceeding in its or their name, and (iii) there shall have been offered to the Trustee security and indemnity reasonably satisfactory to it against the costs, expenses, and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time. Such notification, request, and offer of indemnity are hereby declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the powers and trusts of the General Resolution or to any other remedy under the General Resolution. Notwithstanding the foregoing provisions of the General Resolution and without complying therewith, 25% or more of the Holders may institute any such suit, action, or proceeding in their own names for the benefit of all Holders.

(b) It is understood and intended that, except as otherwise provided in (a), no one or more Holders shall have any right in any manner whatever to affect, disturb, or prejudice the security of the General Resolution or to enforce any right under the General Resolution except in the manner provided in the General Resolution, and that all proceedings at law or in equity shall be instituted and maintained in the manner provided in the General Resolution and for the benefit of all Holders and that any individual right of action or other right given by law to one or more of such Holders is restricted by the General Resolution to the rights and remedies provided in the General Resolution.

Defeasance (Section 11.01)

(a) If the Authority shall pay or cause to be paid the principal or Redemption Price of and interest on all Bonds at the times and in the manner stipulated in the Bonds, the General Resolution, and any Series Resolution authorizing the issuance of any Bonds, then the pledge of the Trust Estate to the Trustee for the benefit of the Holders and all other rights granted hereby to the Trustee or the Holders, other than rights which by their terms survive the termination of the General Resolution, shall be discharged and satisfied. In such event, upon the written request of the Authority, the Trustee shall execute and deliver to the Authority all such instruments as may be desirable to evidence such discharge and satisfaction, and the Trustee shall pay or deliver to the Authority, or to such officer, board, or body as may then be entitled by law to receive the same, all property held by it pursuant to the General Resolution (other than any moneys and securities required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption).

(b) A Bond, except as otherwise provided in any Series Resolution authorizing the issuance thereof, shall be deemed to have been paid within the meaning of, and with the effect expressed in, the General Resolution if (i) money for the payment or redemption of such Bond shall be held by the Trustee (through deposit by the Authority of moneys for such payment or redemption or otherwise, regardless of the source of such moneys), whether at or prior to the maturity or the redemption date of such Bond or (ii) if the maturity or redemption date of such Bond shall not have arrived, provision shall have been made by the Authority for the payment of the principal or Redemption Price of and interest on such Bond on the due dates for such payments by deposit with the Trustee (or other method satisfactory to the Trustee) of United States Government Obligations, the principal of and the interest on which when due will provide for such payment, *provided* that, if such Bond is to be redeemed prior to the maturity thereof, the Authority shall have taken all action necessary to redeem such Bond and notice of such redemption shall have been duly and irrevocably given or provisions satisfactory to the Trustee shall have been made for the giving of such notice.

(c) If the Authority shall determine to provide for the payment of Bonds in accordance with the General Resolution, upon the written direction of the Authority, the Trustee shall set aside any amounts on deposit

in any funds and accounts maintained for such Bonds (other than amounts theretofore set aside for the payment of particular Bonds in accordance with Section 12.04 of the General Resolution) for the payment of the principal or Redemption Price of and interest on, and the purchase price of, such Bonds on the due dates for such payments in accordance with the General Resolution. If all of the Bonds for which any fund or account shall be maintained shall have been paid in accordance with the General Resolution, amounts on deposit in any funds and accounts maintained for such Bonds (other than amounts set aside for the payment of such Bonds in accordance with Section 12.04 of the General Resolution) shall be paid to the Authority. This paragraph shall be subject in all respects to any Series Resolution authorizing any Bonds.

(d) Anything in the General Resolution to the contrary notwithstanding, at the written request of the Authority, any moneys held by the Trustee in trust for the payment of any of the Bonds that remain unclaimed for two years after the later of the date on which such Bonds became due and payable and the date of deposit of such moneys shall be repaid by the Trustee to the Authority, or to such officer, board, or body as may then be entitled by law to receive such moneys, as its absolute property and free from trust, and the Trustee shall thereupon be released and discharged with respect thereto.

A-III

SUMMARY OF CERTAIN PROVISIONS OF THE TERM SHEET AND THE PURCHASE AGREEMENTS FOR THE CLEAN WATER PROGRAM

The Commission and the Authority have entered or will enter into Purchase Agreements with each Borrower for the Clean Water Program. The Purchase Agreements have been or will be executed after their authorization by ordinances or resolutions ("Authorizing Actions") of the Borrowers, and prior to the delivery of the Borrower Obligations. The Purchase Agreements are or will be based upon the provisions of a Term Sheet for Loans from the Clean Water Program developed by the Authority and the Commission (the "Term Sheet") which have been or are expected to be delivered to each Borrower upon the approval of its Clean Water Loan.

The following is a summary of certain provisions of the Term Sheet and the Purchase Agreements for the Clean Water Program. This is not a complete recital of the terms of the Term Sheet or any Purchase Agreement.

The Term Sheet includes substantially the following provisions to be specified for each Clean Water Loan.

Principal Amount

The amount of the Clean Water Loan will be specified and include a breakdown of amounts which may include funds for planning and design, for construction, for local loan expense (an amount requested by the Borrower for its expenses in connection with the Clean Water Loan plus, in certain cases, an administrative fee of up to three percent of the Clean Water Loan amount), for capitalized interest (during the estimated construction period) and, if the Borrower is an improvement district, for a debt service reserve.

If, for any reason, the Borrower does not utilize the entire Clean Water Loan amount, then in such event the Clean Water Loan will be reduced by the sum of (a) the portion of the Clean Water Loan amount not withdrawn from the Loan Account Fund, plus (b) any capitalized interest from the date of the Clean Water Loan until the date on which such funds were projected to be withdrawn on the amount not withdrawn. Any reduction of the Clean Water Loan pursuant to this provision will be pro rata with respect to the remaining installments of principal so that the weighted average life of the Clean Water Loan immediately following any such reduction shall be substantially equal to the weighted average life of the Clean Water Loan immediately prior to such reduction.

Purpose

The Borrower agrees to use the proceeds of the Clean Water Loan specified to be used for construction solely for the purpose of constructing the Project described in the plans and specifications furnished to and concurred with by the Commission.

Interest Rate

Clean Water Loans may be interest bearing or noninterest bearing. Borrowers also pay a fee of up to 1% per annum of the unpaid principal balance of the Clean Water Loan. The interest rates are computed on the basis of a 360-day year of 12 consecutive 30-day months.

Estimated Final Completion Date

The Borrower will estimate a completion date for its Project.

Repayment Schedule

The Term Sheet will specify an amortization schedule. In most cases, payments of principal and interest commence the first month following the estimated final completion date and have a 20-year amortization.

Borrowers make monthly payments into a sinking fund and investment earnings on monthly payments are to be credited semiannually against the next six monthly principal and interest payments due from the Borrower.

Security and Source of Repayment

The Borrower will identify the revenues pledged to repayment of the Clean Water Loan (water and sewer revenues, sewer revenues, sales and use taxes or special assessments), will provide information regarding all other debt to which such revenues are pledged, and will provide evidence satisfactory to the Commission that the revenues will equal not less than 100% of the maximum annual principal and interest payments coming due in any one year on the Clean Water Loan. Provided however, with respect to other debt of Borrowers that are improvement districts, each such Borrower shall provide evidence satisfactory to the Commission that revenues will equal in most cases 125% of the maximum annual principal and interest payments coming due in any one year of the Clean Water Loan.

Prepayment

The Borrower may prepay the Clean Water Loan in whole but not in part at, on and after a date certain, as provided in the Borrower Obligation, at par together with accrued interest by giving the Authority not less than 90 days' prior written notice of such prepayment.

If the revenues consist of (a) sales and use taxes which cannot legally be used for any purpose other than payment of debt service or (b) special assessments, the Clean Water Loan shall be subject to extraordinary mandatory prepayment in whole or in part at any time from such taxes or assessments collected in excess of annual principal and interest payments. In such event the Borrower is to give the Authority not less than 90 days' prior written notice of such prepayment.

Additional Debt

The Borrower may not issue bonds which are entitled to a parity of lien on the revenues with the lien securing the Clean Water Loan unless and until there shall have been procured and filed with the Authority a statement by a certified public accountant not in the regular employ of the Borrower reciting that (a) the available revenues ((i) with respect to water and sewer revenues or sewer revenues, gross revenues of the water and sewer system or the sewer system, as the case may be, less operation and maintenance expenses, and (ii) with respect to sales and use taxes or special assessments, the gross amount of such taxes or assessments received by the Borrower) for the fiscal year preceding the year in which such parity lien bonds are to be issued were not less than 110% of the average annual debt service requirements (principal, interest and financing fees) on all outstanding bonds to which the revenues are pledged, including the Clean Water Loan, and the bonds then proposed to be issued, or (b) available revenues for the fiscal year succeeding the year in which such parity lien bonds are to be issued are projected to be sufficient in amount, taking into consideration any enacted increase in revenues, to be not less than 110% of the average annual debt service requirements (principal, interest and financing fees) on all outstanding bonds to which the revenues are pledged, including the Clean Water Loan, and the bonds then proposed to be issued. These requirements may be made more restrictive at the option of the Commission. In addition, the Commission may consent to additional debt having a prior lien over the lien securing the Clean Water Loan if a 120% debt service coverage is met.

The Borrower may issue bonds the security and source of payment of which are subordinate and subject to the priority of the Clean Water Loan without complying with the foregoing.

This restriction on additional debt may be waived by the holders of 75% in principal amount of the Clean Water Loan at any time outstanding. (It is expected that 100% of the Clean Water Loan will be held by the Authority.)

Legal Opinions

The Borrower will deliver an unqualified approving opinion of nationally recognized bond counsel to the effect (a) that, if the Clean Water Loan were being made on a tax-exempt basis, the Clean Water Loan would not constitute a "private activity bond" within the meaning of Section 141 of the Internal Revenue Code of 1986, as amended, and (b) that the interest on the Clean Water Loan is exempt from all Arkansas state, county, and municipal taxes; and a supplemental opinion of bond counsel to the effect that the Borrower Obligation evidencing the Clean Water Loan conforms as to form and tenor with the terms and provisions summarized in the Term Sheet.

Evidence of Clean Water Loan

The Clean Water Loan shall be evidenced by a single typewritten bond, fully registered as to payment of principal and interest to the order of the Authority. The bond shall be purchased by the Authority in installments, and shall be dated the date of its delivery and payment of the first installment.

Defaults

Upon an event of default under the Clean Water Loan and the Authorizing Action of the Borrower authorizing the Clean Water Loan, including a failure to comply with any covenant, term, or condition therein, the Authority, the Trustee on behalf of the Authority, or the bond insurer (if any) may exercise any remedy available at law or in equity in order to cause the Borrower to comply with the provisions of the Clean Water Loan and the Authorizing Action.

Loan Advances

Pursuant to Purchase Agreements, the Commission and the Authority will agree with each Borrower that the Authority will purchase and the Borrower will sell the Borrower Obligation to be issued and secured under the Authorizing Action of such Borrower. Each Purchase Agreement will specify a closing date for delivery of the Borrower Obligation.

The Borrower Obligation will be purchased in installments from time to time, in an aggregate amount up to the full amount of the Clean Water Loan, at a price of 100% of the amount of the Borrower Obligation purchased from time to time.

The Purchase Agreements will include provisions to implement the requirements set forth in the Term Sheet. The Borrowers will make various representations and warranties to the Authority and the Commission and will enter into various covenants and agreements required under the Clean Water Program.

Disbursements will be made as installment payments for the purchase of the Borrower Obligation so long as the Borrower is in compliance with the terms and provisions of the Purchase Agreement and the Authorizing Action of the Borrower and the representations and warranties of the Borrower remain true and correct. Disbursements will be made only based upon actual work completed, as requested by the Borrower for reimbursement not more often than monthly (quarterly during the Project performance period), for costs incurred prior to the estimated final completion date, in accordance with certain Clean Water Program requirements.

Continuing Disclosure

In addition to Borrower's responsibility to provide certain financial information and operating data to the Commission, if the Authority notifies the Borrower that it is deemed to be an "obligated person" with respect to the Bonds, as defined in the Rule, it will (a) provide audited financial statements within 120 days

of the close of the Authority's fiscal year for each year during which the Borrower is deemed an "obligated person," and (b) provide certain additional financial and operating data as requested by the Authority pursuant to the Rule.

A-IV

SUMMARY OF CERTAIN PROVISIONS OF THE TERM SHEET AND THE PURCHASE AGREEMENTS FOR THE DRINKING WATER PROGRAM

The Commission and the Authority have entered or will enter into Purchase Agreements with each Borrower for the Drinking Water Program. The Purchase Agreements have been or will be executed after their authorization by ordinances or resolutions ("Authorizing Actions") of the Borrowers, and prior to the delivery of the Borrower Obligations. The Purchase Agreements are or will be based upon the provisions of a Term Sheet for Loans from the Drinking Water Program developed by the Authority and the Commission (the "Term Sheet") which have been or are expected to be delivered to each Borrower upon the approval of its Drinking Water Loan.

The following is a summary of certain provisions of the Term Sheet and the Purchase Agreements for the Drinking Water Program. This is not a complete recital of the terms of the Term Sheet or any Purchase Agreement.

The Term Sheet includes substantially the following provisions to be specified for each Drinking Water Loan.

Principal Amount

The amount of the Drinking Water Loan will be specified and include a breakdown of amounts which may include funds for planning and design, for construction, for local loan expense (an amount requested by the Borrower for its expenses in connection with the Drinking Water Loan plus, in certain cases, an administrative fee of up to three percent of the Drinking Water Loan amount), for capitalized interest (during the estimated construction period) and, if the Borrower is an improvement district, for a debt service reserve.

If, for any reason, the Borrower does not utilize the entire Drinking Water Loan amount, then in such event the Drinking Water Loan will be reduced by the sum of (a) the portion of the Drinking Water Loan amount not withdrawn from the Loan Account Fund, plus (b) any capitalized interest from the date of the Drinking Water Loan until the date on which such funds were projected to be withdrawn on the amount not withdrawn. Any reduction of the Drinking Water Loan pursuant to this provision will be pro rata with respect to the remaining installments of principal so that the weighted average life of the Drinking Water Loan immediately following any such reduction shall be substantially equal to the weighted average life of the Drinking Water Loan immediately prior to such reduction.

Purpose

The Borrower agrees to use the proceeds of the Drinking Water Loan specified to be used for construction solely for the purpose of constructing the Project described in the plans and specifications furnished to and concurred with by the Commission.

Interest Rate

The Drinking Water Loans may be interest bearing or noninterest bearing. Borrowers also pay a fee of up to 1% per annum of the unpaid principal balance of the Drinking Water Loan. The interest rates are computed on the basis of a 360-day year of 12 consecutive 30-day months.

Estimated Final Completion Date

The Borrower will estimate a completion date for its Project.

Repayment Schedule

The Term Sheet will specify an amortization schedule. In most cases, payments of principal and interest commence the first month following the estimated final completion date and have a 20-year amortization.

Borrowers make monthly payments into a sinking fund and investment earnings on monthly payments are to be credited semiannually against the next six monthly principal and interest payments due from the Borrower.

Security and Source of Repayment

The Borrower will identify the revenues pledged to repayment of the Drinking Water Loan (water and sewer revenues, water revenues, sales and use taxes or special assessments), will provide information regarding all other debt to which such revenues are pledged, and will provide evidence satisfactory to the Commission that the revenues will equal not less than 100% of the maximum annual principal and interest payments coming due in any one year on the Drinking Water Loan. Provided however, with respect to other debt of Borrowers that are improvement districts, each such Borrower shall provide evidence satisfactory to the Commission that revenues will equal in most cases 125% of the maximum annual principal and interest payments coming due in any one year of the Drinking Water Loan.

Prepayment

The Borrower may prepay the Drinking Water Loan in whole but not in part at, on and after a date certain, as provided in the Borrower Obligation, at par together with accrued interest by giving the Authority not less than 90 days' prior written notice of such prepayment.

If the revenues consist of (a) sales and use taxes which cannot legally be used for any purpose other than payment of debt service or (b) special assessments, the Drinking Water Loan shall be subject to extraordinary mandatory prepayment in whole or in part at any time from such taxes or assessments collected in excess of annual principal and interest payments. In such event the Borrower is to give the Authority not less than 90 days' prior written notice of such prepayment.

Additional Debt

The Borrower may not issue bonds which are entitled to a parity of lien on the revenues with the lien securing the Drinking Water Loan unless and until there shall have been procured and filed with the Authority a statement by a certified public accountant not in the regular employ of the Borrower reciting that (a) the available revenues ((i) with respect to water and sewer revenues or sewer revenues, gross revenues of the water and sewer system or the sewer system, as the case may be, less operation and maintenance expenses, and (ii) with respect to sales and use taxes or special assessments, the gross amount of such taxes or assessments received by the Borrower) for the fiscal year preceding the year in which such parity lien bonds are to be issued were not less than 110% of the average annual debt service requirements (principal, interest and financing fees) on all outstanding bonds to which the revenues are pledged, including the Drinking Water Loan, and the bonds then proposed to be issued, or (b) available revenues for the fiscal year succeeding the year in which such parity lien bonds are to be issued are projected to be sufficient in amount, taking into consideration any enacted increase in revenues, to be not less than 110% of the average annual debt service requirements (principal, interest and financing fees) on all outstanding bonds to which the revenues are pledged, including the Drinking Water Loan, and the bonds then proposed to be issued.

These requirements may be made more restrictive at the option of the Commission. In addition, the Commission may consent to additional debt having a prior lien over the lien securing the Drinking Water Loan if a 120% debt service coverage is met.

The Borrower may issue bonds the security and source of payment of which are subordinate and subject to the priority of the Drinking Water Loan without complying with the foregoing.

This restriction on additional debt may be waived by the holders of 75% in principal amount of the Drinking Water Loan at any time outstanding. (It is expected that 100% of the Drinking Water Loan will be held by the Authority.)

Legal Opinions

The Borrower will deliver an unqualified approving opinion of nationally recognized bond counsel to the effect (a) that, if the Drinking Water Loan were being made on a tax-exempt basis, the Drinking Water Loan would not constitute a "private activity bond" within the meaning of Section 141 of the Internal Revenue Code of 1986, as amended, and (b) that the interest on the Drinking Water Loan is exempt from all Arkansas state, county, and municipal taxes; and a supplemental opinion of bond counsel to the effect that the Borrower Obligation evidencing the Drinking Water Loan conforms as to form and tenor with the terms and provisions summarized in the Term Sheet.

Evidence of Drinking Water Loan

The Drinking Water Loan shall be evidenced by a single typewritten bond, fully registered as to payment of principal and interest to the order of the Authority. The bond shall be purchased by the Authority in installments, and shall be dated the date of its delivery and payment of the first installment.

Defaults

Upon an event of default under the Drinking Water Loan and the Authorizing Action of the Borrower authorizing the Drinking Water Loan, including a failure to comply with any covenant, term, or condition therein, the Authority, the Trustee on behalf of the Authority, or the bond insurer (if any) may exercise any remedy available at law or in equity in order to cause the Borrower to comply with the provisions of the Drinking Water Loan and the Authorizing Action.

Loan Advances

Pursuant to Purchase Agreements, the Commission and the Authority will agree with each Borrower that the Authority will purchase and the Borrower will sell the Borrower Obligation to be issued and secured under the Authorizing Action of such Borrower. Each Purchase Agreement will specify a closing date for delivery of the Borrower Obligation.

The Borrower Obligation will be purchased in installments from time to time, in an aggregate amount up to the full amount of the Drinking Water Loan, at a price of 100% of the amount of the Borrower Obligation purchased from time to time.

The Purchase Agreements will include provisions to implement the requirements set forth in the Term Sheet. The Borrowers will make various representations and warranties to the Authority and the Commission and will enter into various covenants and agreements required under the Drinking Water Program.

Disbursements will be made as installment payments for the purchase of the Borrower Obligation so long as the Borrower is in compliance with the terms and provisions of the Purchase Agreement and the Authorizing Action of the Borrower and the representations and warranties of the Borrower remain true and correct. Disbursements will be made only based upon actual work completed, as requested by the Borrower for reimbursement not more often than monthly (quarterly during the Project performance period), for costs incurred prior to the estimated final completion date, in accordance with certain Drinking Water Program requirements.

Continuing Disclosure

In addition to Borrower's responsibility to provide certain financial information and operating data to the Commission, if the Authority notifies the Borrower that it is deemed to be an "obligated person" with

respect to the Bonds, as defined in the Rule, it will (a) provide audited financial statements within 120 days of the close of the Authority's fiscal year for each year during which the Borrower is deemed an "obligated person," and (b) provide certain additional financial and operating data as requested by the Authority pursuant to the Rule.

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APPENDIX B

INFORMATION CONCERNING THE CLEAN WATER LOANS, THE DRINKING WATER LOANS AND CERTAIN BORROWERS

The following sections of this Appendix set forth certain information concerning the Clean Water Loans and the Drinking Water Loans and certain Borrowers which have a Designated Borrower Obligation or Obligations with an outstanding aggregate principal amount on the last day of the Authority's fiscal year equal to or greater than an amount which represents 20% of the total outstanding principal amount of all Designated Borrower Obligations under the General Resolution.

Additional Bonds, secured on a parity with the Series 2023 Bonds and the Series 2025 Bonds under the General Resolution, may be issued from time to time in the future. In that event, additional Clean Water Loans, Drinking Water Loans or both would be added as Designated Borrower Obligations. The identity of the future Borrowers and the amounts of such future Loans are not presently known. For a description of the requirements applicable to such Loans and Borrowers under the General Resolution, see "**APPENDIX A, DOCUMENT SUMMARIES – A-II – Summary of Certain Provisions of the Resolutions.**"

The information contained in this Appendix B has been obtained from the Borrowers, the Commission and other sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness by, and it is not to be construed as a representation by, the Authority or the Underwriters.

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**APPENDIX B-I
THE CLEAN WATER LOANS**

Below is a description of the status of the Designated Borrower Obligations which are Clean Water Loans.

<u>Borrower</u>	<u>Security for Loan</u>	<u>Principal Amount</u>	<u>Outstanding Balance¹</u>
Arkansas City	System Revenues	\$ 94,000.00	\$ 94,000.00
Ashdown	System Revenues	1,500,000.00	381,889.18
Austin	System Revenues	3,078,031.00	2,882,526.02
Bearden	System Revenues	1,675,000.00	1,070,753.98
Bentonville	System Revenues	97,759,381.00	97,759,381.00
Bryant I	System Revenues	8,500,000.00	5,007,932.30
Bryant II	System Revenues	1,500,000.00	1,500,000.00
Central Arkansas Water	System Revenues	10,893,000.00	10,893,000.00
Conway Corporation I	System Revenues	60,004,558.00	44,613,734.41
Conway Corporation II	System Revenues	9,905,791.00	6,954,433.70
Crossett	System Revenues	3,000,000.00	3,000,000.00
Dumas	System Revenues	975,000.00	975,000.00
El Dorado	System Revenues	33,000,000.00	33,000,000.00
Farmington	System Revenues	4,500,000.00	1,359,166.74
Flippin I	System Revenues	815,000.00	815,000.00
Flippin II	System Revenues	1,780,000.00	1,666,943.04
Glenwood	System Revenues	1,500,000.00	426,276.92
Gravel Ridge Sewer Improvement District #213 I	System Revenues	4,822,900.00	4,575,474.12
Gravel Ridge Sewer Improvement District #213 II	System Revenues	1,043,260.00	1,003,345.06
Highfill	System Revenues	2,721,750.00	2,721,750.00
Holiday Island SID #1	Special Assessment	5,600,000.00	2,459,805.91
Hope	System Revenues	714,000.00	714,000.00
Jacksonville	System Revenues	5,966,832.00	5,966,832.00
Jasper	System Revenues	440,000.00	440,000.00
Judsonia	System Revenues	2,728,210.00	2,728,210.00
Keiser	System Revenues	550,000.00	550,000.00
Lake City	System Revenues	1,373,910.00	1,373,910.00
Lake Village	System Revenues	3,828,996.00	3,828,996.00
Little Rock Water Reclamation Authority I	System Revenues	8,000,000.00	4,778,220.72
Little Rock Water Reclamation Authority II	System Revenues	51,400,000.00	50,795,544.00
Little Rock Water Reclamation Authority III	System Revenues	7,500,000.00	7,500,000.00
Little Rock Water Reclamation Authority IV	System Revenues	18,000,000.00	8,821,152.01
Little Rock Water Reclamation Authority V	System Revenues	59,600,000.00	59,600,000.00
Little Rock Water Reclamation Authority VI	System Revenues	5,400,000.00	5,400,000.00
Little Rock Water Reclamation Authority VII	System Revenues	169,993,949.00	167,994,846.34
Lockesburg	System Revenues	300,000.00	244,767.71
McGehee	System Revenues	617,558.00	617,558.00
McNeil	System Revenues	250,000.00	203,428.11
Mineral Springs	System Revenues	1,286,295.00	1,286,295.00
Newport	System Revenues	2,115,000.00	788,696.29
North Little Rock I	System Revenues	14,000,000.00	6,104,443.80

¹ As of September 30, 2024; loans not yet in full repayment reflect the entire authorized principal amount of the loan.

North Little Rock II	System Revenues	21,000,000.00	13,237,993.72
North Little Rock III	System Revenues	30,000,000.00	15,753,793.78
North Little Rock IV	System Revenues	45,000,000.00	45,000,000.00
Northwest Arkansas Conservation Authority I	System Revenues	61,069,999.00	61,069,999.00
Northwest Arkansas Conservation Authority II	System Revenues	85,000,000.00	85,000,000.00
Paris	System Revenues	690,000.00	690,000.00
Rogers	System Revenues	31,246,250.00	31,246,250.00
Runyan SID #211 I	System Revenues	2,500,000.00	2,269,432.47
Runyan SID #211 II	System Revenues	1,000,000.00	733,786.04
Runyan SID #211 III	System Revenues	12,232,960.00	12,232,960.00
Searcy I	System Revenues	950,000.00	930,062.00
Searcy II	System Revenues	4,000,000.00	3,659,762.86
Siloam Springs	System Revenues	5,500,000.00	367,166.63
Smackover	System Revenues	694,800.00	620,602.88
Springdale	System Revenues	2,054,083.00	2,054,083.00
Strong	System Revenues	146,327.00	140,159.00
Stuttgart	System Revenues	7,911,332.00	7,911,332.00
Waldo	System Revenues	700,000.00	428,315.97
West Fork I	System Revenues	800,000.00	561,709.75
West Fork II	System Revenues	3,500,000.00	3,300,009.23
West Fork III	System Revenues	<u>1,130,000.00</u>	<u>1,130,000.00</u>
		<u>\$925,858,172.00</u>	<u>\$841,234,730.69</u>

**APPENDIX B-II
THE DRINKING WATER LOANS**

Below is a description of the status of the Designated Borrower Obligations which are Drinking Water Loans.

<u>Borrower</u>	<u>Security for Loan</u>	<u>Principal Amount</u>	<u>Outstanding Balance¹</u>
Amity	System Revenues	\$ 156,451.25	\$ 156,451.25
Arkadelphia I	System Revenues	2,778,027.00	623,753.31
Arkadelphia II	System Revenues	4,700,000.00	4,177,182.78
Arkadelphia III	System Revenues	2,000,000.00	1,916,032.47
Bald Knob	System Revenues	50,733.25	50,733.25
Bald Knob North PFB	System Revenues	299,925.25	299,925.25
Batesville	Sales and Use Tax	110,000,000.00	110,000,000.00
Bauxite	System Revenues	120,000.00	91,112.53
Bearden	System Revenues	1,100,000.00	894,140.41
Beaver Water District	System Revenues	80,000,000.00	80,000,000.00 ²
Beebe	System Revenues	3,000,000.00	1,814,224.54
Big Flat	System Revenues	964,735.00	964,735.00
Brinkley	System Revenues	306,153.25	306,153.25
Bryant I	System Revenues	6,500,000.00	3,672,476.01
Bryant II	System Revenues	3,548,810.00	3,548,810.00
Buffalo Island RWD	System Revenues	3,966,784.00	2,839,078.58
Cabot I	System Revenues	8,000,000.00	1,255,210.61
Cabot II	System Revenues	8,355,978.00	2,673,739.04
Caraway	System Revenues	327,000.00	294,429.47
Carlisle	System Revenues	393,000.00	238,165.06
Carthage	System Revenues	314,924.50	314,924.50
Central Arkansas Water I	System Revenues	13,400,000.00	8,348,114.67
Central Arkansas Water II	System Revenues	4,491,472.83	4,491,472.83
Central Arkansas Water III	System Revenues	37,000,000.00	36,468,279.92
Central Arkansas Water IV	System Revenues	6,050,000.00	6,050,000.00
Central Arkansas Water V	System Revenues	1,757,000.00	1,715,444.00
Central Arkansas Water VI	System Revenues	1,383,953.00	726,903.15
Central Arkansas Water VII	System Revenues	4,000,000.00	4,000,000.00
Charleston	System Revenues	475,000.00	177,788.13
Clinton I	System Revenues	3,000,000.00	2,139,679.01
Clinton II	System Revenues	1,500,000.00	1,057,364.13
Community Water System	System Revenues	5,450,000.00	2,869,290.12
Conway Corporation	System Revenues	31,713,371.00	31,713,371.00
Cross County RWS PFB	System Revenues	876,950.00	876,950.00
Crossett I	System Revenues	5,000,000.00	2,200,424.83
Crossett II	System Revenues	1,422,995.00	951,353.84
Danville	System Revenues	500,000.00	291,984.37
Des Arc	System Revenues	391,900.00	391,900.00
East End Water Improvement District #1	System Revenues	2,650,000.00	2,538,278.86

¹ As of September 30, 2024; loans not yet in full repayment reflect the entire authorized principal amount of the loan.

² The entire authorized principal amount of the loan is \$125,686,157; however, the Commission only expects the borrower to request advances in the total principal amount of \$80,000,000.

Fayetteville	System Revenues	85,000,000.00	85,000,000.00
Fifty-Six	System Revenues	396,552.00	396,552.00
Fulton County Water Authority	System Revenues	641,479.50	641,479.50
Gillham Lake Regional Water Association I	System Revenues	2,400,000.00	2,247,560.91
Gillham Lake Regional Water Association II	System Revenues	1,513,346.00	1,513,346.00
Glenwood I	System Revenues	2,500,000.00	828,509.25
Glenwood II	System Revenues	900,000.00	347,850.06
Glenwood III	System Revenues	450,000.00	179,362.71
Gould	System Revenues	112,500.00	112,500.00
Grand Prairie Regional WDD	System Revenues	1,025,000.00	1,025,000.00
Gravette	System Revenues	2,420,000.00	938,034.55
Greenbrier	System Revenues	1,377,000.00	902,779.13
Green Forest	System Revenues	2,521,688.92	2,521,688.92
Guy	System Revenues	579,570.00	579,570.00
Hickory Ridge	System Revenues	603,706.00	525,997.15
Huttig	System Revenues	525,000.00	373,465.17
Judsonia	System Revenues	1,007,224.50	1,007,224.50
Junction City	System Revenues	887,944.25	887,944.25
Keo I	System Revenues	395,055.75	395,055.75
Keo II	System Revenues	125,924.00	125,924.00
Lake View	System Revenues	110,512.00	110,512.00
Leachville	System Revenues	850,000.00	491,466.26
Lockesburg	System Revenues	1,091,800.00	786,570.27
Malvern I	System Revenues	3,187,664.00	1,141,591.70
Malvern II	System Revenues	10,812,336.00	5,652,967.65
Malvern III	System Revenues	500,000.00	220,034.07
Manila	System Revenues	958,200.00	958,200.00
McGehee	System Revenues	802,012.00	802,012.00
Melbourne	System Revenues	700,000.00	493,658.95
Mena	System Revenues	7,000,000.00	7,000,000.00
Midway PWA	System Revenues	432,390.49	288,227.34
Mitchellville	System Revenues	97,830.00	97,830.00
Mountainburg	System Revenues	250,000.00	250,000.00
Mount Ida	System Revenues	2,400,000.00	352,615.71
Mulberry	System Revenues	2,500,000.00	885,543.95
Nashville I	System Revenues	411,000.00	261,853.31
Nashville II	System Revenues	5,000,000.00	2,452,402.85
Nashville III	System Revenues	1,100,000.00	859,900.00
North White County Public Water Authority	System Revenues	600,000.00	451,668.85
Palestine	System Revenues	351,333.00	237,085.48
Parkers Chapel Public Water Authority I	System Revenues	750,000.00	420,930.45
Parkers Chapel Public Water Authority II	System Revenues	1,498,736.00	214,629.64
Pocahontas I	System Revenues	1,046,546.00	722,295.39
Pocahontas II	System Revenues	12,891,313.00	12,891,313.00
RDA of Washington County	System Revenues	1,500,000.00	908,975.94
Rison I	System Revenues	350,000.00	163,720.79
Rison II	System Revenues	450,595.50	450,595.50
Riversouth RWD I	System Revenues	128,500.00	49,744.59
Riversouth RWD II	System Revenues	1,705,000.00	824,926.00
Salem Public Water Authority	System Revenues	9,000,000.00	9,000,000.00

Sardis Water Association PWA I	System Revenues	3,200,000.00	1,553,551.40
Sardis Water Association PWA II	System Revenues	350,000.00	169,125.26
Sardis Water Association PWA III	System Revenues	450,000.00	110,644.83
Sardis Water Association PWA IV	System Revenues	1,500,000.00	1,022,635.61
Searcy	System Revenues	13,543,709.00	4,254,495.64
Sevier County PWA	System Revenues	434,153.00	434,153.00
Siloam Springs	Sales and Use Tax	31,000,000.00	11,576,084.94
Smackover	System Revenues	450,000.00	323,138.62
Southwest Arkansas WFB	System Revenues	561,127.25	561,127.25
Southwest White County PWA	System Revenues	14,441,906.00	14,441,906.00
Tri-County RWDD	System Revenues	800,000.00	651,200.58
Tumbling Shoals PWA	System Revenues	212,500.00	212,500.00
Tyronza	System Revenues	193,000.00	158,324.32
Waldo	System Revenues	600,000.00	436,611.84
Wilton I	System Revenues	200,000.00	126,468.49
Wilton II	System Revenues	45,000.00	20,209.24
Winthrop	System Revenues	280,000.00	176,084.32
Wooster I	System Revenues	2,453,121.64	1,999,705.31
Wooster II	System Revenues	499,805.09	302,799.86
Wynne	System Revenues	<u>5,700,000.00</u>	<u>380,528.74</u>
		<u>\$608,717,244.22</u>	<u>\$512,042,286.96</u>

APPENDIX B-III

MATERIAL BORROWER

City of Little Rock, Arkansas

The City of Little Rock, Arkansas (the "City") is a city of the first class organized and existing under the laws of the State of Arkansas (the "State"). The City is the capital of the State and is the State's most populous city, with 202,591 residents as of the 2020 Census.

The City owns its sewer system, which is now identified as a water reclamation system (the "System"). The System, also known as Little Rock Water Reclamation Authority (formerly Little Rock Wastewater) (the "Utility"), is a component unit of the City and is managed and operated through the Little Rock Water Reclamation Commission, whose members are appointed by the governing body of the City.

Since its creation, the System has been operated and improved exclusively from the collection of user charges and fees, supplemented by federal grants for some capital improvements. During these years, the service area has been greatly expanded such that at present it includes over 124 square miles containing approximately 1,416 miles of public sewers serving approximately 70,181 homes and businesses.

As of the date hereof, the outstanding aggregate principal amount of the City's Water Reclamation System Revenue Bonds purchased by the Authority under the Clean Water Program (the "LR Clean Water Loans") and included as Designated Borrower Obligations equals \$304,889,763.07, which constitutes 22.53% of the outstanding aggregate principal amount of all Designated Borrower Obligations; thus, the City is a Material Borrower.

The LR Clean Water Loans are not general obligations of the City, but are special obligations, secured by a pledge of net revenues derived from the operation of the System. Such pledge is subordinate to the pledge in favor of the City's Sewer Revenue Bonds, Series 2007B and 2009A, Sewer Refunding Revenue Bonds, Series 2014, 2015 and 2016B, Water Reclamation System Revenue Bonds, Series 2017, 2020 and 2020C and Water Reclamation System Refunding Revenue Bonds, Series 2020B and Taxable Series 2021 (collectively, the "Senior Bonds").

The Utility has agreed to file with the Municipal Securities Rulemaking Board through its continuing disclosure portal, the Electronic Municipal Market Access system ("EMMA"), its Annual Comprehensive Financial Report ("ACFR"). The Utility's ACFR includes financial statements and operating data of the general type included in the official statements prepared in connection with the issuance and public offering by the City of the Senior Bonds. A copy of its most recent ACFR may be found on EMMA at <https://emma.msrb.org/P21696691-P21305474-P21736811.pdf>.

Future filings of the City with respect to its publicly issued Water Reclamation System Revenue Bonds may be found on the City's customized EMMA page at the following website address:

<https://emma.msrb.org/IssuerHomePage/Issuer?id=57E64BB9841A7A14E053151ED20A642B>

APPENDIX C

PROPOSED FORM OF OPINION OF BOND COUNSEL

Upon delivery of the Series 2025 Bonds in definitive form, Friday, Eldredge & Clark, LLP, Little Rock, Arkansas, proposes to deliver its approving opinion, dated the date of closing, in substantially the following form:

Arkansas Development Finance Authority
Little Rock, Arkansas

Arkansas Natural Resources Commission
Little Rock, Arkansas

Regions Bank
Little Rock, Arkansas

Re: \$69,045,000* Arkansas Development Finance Authority Revolving Loan Fund Revenue Bonds, Series 2025

Ladies and Gentlemen:

We have acted as bond counsel to Arkansas Development Finance Authority (the "Issuer") and as special counsel to Arkansas Natural Resources Commission (the "Commission") in connection with the issuance by the Issuer of \$69,045,000* Revolving Loan Fund Revenue Bonds, Series 2025 (the "Series 2025 Bonds"). In such capacity, we have examined such law and such certified proceedings and other documents as we have deemed necessary to render this opinion.

The Series 2025 Bonds are issued pursuant to the Constitution and laws of the State of Arkansas (the "State"), including the Arkansas Development Finance Authority Act, as amended from time to time, codified at Arkansas Code Annotated §§ 15-5-101 to -318, inclusive, Act No. 718 of the General Assembly of the State for the year 1991, as amended from time to time, codified at Arkansas Code Annotated §§ 15-5-901 to -910, inclusive, and Act No. 772 of the General Assembly of the State for the year 1997, as amended from time to time, codified at Arkansas Code Annotated §§ 15-22-1101 to -1112, inclusive (collectively, the "Acts"), and a resolution adopted by the Issuer on July 20, 2023, titled "Revolving Loan Fund Revenue Bond Program General Bond Resolution" (the "General Resolution"), a resolution adopted by the Issuer on January 16, 2025, titled "Series Resolution Authorizing the Issuance of Revolving Loan Fund Revenue Bonds, Series 2025 in a Principal Amount Not to Exceed \$75,000,000" (the "Series Resolution") and a resolution adopted by the Issuer on February 20, 2025, titled "Resolution Confirming the Aggregate Principal Amount, Maturity and Interest Rate Schedules, and Redemption Features of the Revolving Loan Fund Revenue Bonds, Series 2025" (the "Confirming Resolution" and together with the General Resolution and the Series Resolution, the "Resolutions"). Regions Bank (the "Trustee") serves as Trustee under the Resolutions.

The Series 2025 Bonds, the Issuer's Revolving Loan Fund Revenue Bonds, Series 2023 (the "Series 2023 Bonds") and all additional bonds issued and outstanding under the General Resolution are entitled to the equal benefit, protection, and security of the provisions, covenants, and agreements thereof, and are herein referred to collectively as the "Bonds."

The Bonds are issued for the purpose of implementing the Issuer's Clean Water Program and Drinking Water Program, as described in the General Resolution (the "Programs"). The Clean Water Program includes providing loans and certain other forms of financial assistance for the construction of publicly-owned

* Preliminary; subject to change.

wastewater treatment facilities, estuary conservation management plans, and the implementation of nonpoint source management programs. The Drinking Water Program includes providing low cost loans and other types of assistance to eligible entities for drinking water system improvements. Loans made under the Programs will be made to Borrowers (as defined in the General Resolution) and will be evidenced by delivery of obligations (each, a "Borrower Obligation") to the Issuer pursuant to separate Purchase Agreements (each, a "Purchase Agreement") by and among the Issuer, the Commission, and each of the several Borrowers.

The Bonds are limited revenue obligations of the Issuer payable solely from the payments to the Issuer, the Commission, or the Trustee pursuant to certain Borrower Obligations made pursuant to Purchase Agreements designated by the Issuer ("Designated Borrower Obligations"), including payments made under the Series Resolution (except certain payments representing administrative fees, servicing fees, fines and penalties, and any amounts payable in respect of indemnification) (the "Pledged Receipts") and the funds and accounts established under the General Resolution and available for such payment (except the Rebate Fund), and are secured by a pledge of the proceeds of the Bonds and Pledged Receipts, and funds and accounts as provided in the Resolutions.

As to questions of fact material to our opinion, we have relied upon the representations of the Issuer contained in the Resolutions and in the certified proceedings and other certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion that, under existing law:

1. The Issuer is validly existing as a body corporate and politic and public instrumentality of the State with the power to adopt the Resolutions, perform the agreements on its part contained therein, and issue the Series 2025 Bonds.

2. The Resolutions have been duly adopted by the Issuer and constitute a valid and binding obligation of the Issuer enforceable upon the Issuer.

3. The Resolutions create a valid lien on the Pledged Receipts and other funds pledged by the Resolutions for the security of the Series 2025 Bonds, which lien and pledge is on a parity with the Series 2023 Bonds. The Issuer has reserved the right to issue additional bonds on a parity of security with the Series 2023 Bonds and the Series 2025 Bonds upon compliance with certain provisions set forth in the Resolutions.

4. The Series 2025 Bonds have been duly authorized, executed, and delivered by the Issuer and are binding limited revenue obligations of the Issuer, payable solely from the Pledged Receipts and other funds provided therefor in the Resolutions.

5. Neither the general credit nor the taxing power of the State or any other political subdivision of the State (including the Borrowers under Designated Borrower Obligations which are political subdivisions and the Commission) is pledged to the payment of the Bonds. The Issuer has no taxing power.

6. Interest on the Series 2025 Bonds is excludable from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code") and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals; provided, however, such interest on the Series 2025 Bonds may be taken into account for the purpose of computing the federal alternative minimum tax on certain corporations. The opinion set forth in the preceding sentence is subject to the condition that the Issuer and the Commission comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Series 2025 Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Issuer and the

Commission have covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause interest on the Series 2025 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2025 Bonds.

We express no opinion regarding other federal tax consequences arising with respect to the Series 2025 Bonds.

7. The Series 2025 Bonds and the interest thereon are exempt from all taxes in the State, including income, inheritance and property taxes.

It is to be understood that the rights of the owners of the Series 2025 Bonds and the enforceability of the Series 2025 Bonds and the Resolutions may be limited by bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors' rights generally and by equitable principles, whether considered at law or in equity.

Sincerely,

FRIDAY, ELDREDGE & CLARK, LLP

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APPENDIX D
FINANCIAL STATEMENTS OF THE PROGRAMS

APPENDIX D-I

**AUDITED FINANCIAL STATEMENTS OF THE STATE OF ARKANSAS
CONSTRUCTION ASSISTANCE REVOLVING LOAN FUND PROGRAM
FOR THE FISCAL YEARS ENDED JUNE 30, 2024 AND 2023**

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

June 30, 2024 and 2023

**Combined Financial Statements
And
Supplementary Information**

With

Independent Auditor's Report



FROST, PLLC
Certified Public Accountants

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Independent Auditor's Report

Commissioners of the Arkansas Natural
Resources Commission

Board of Directors
Arkansas Development Finance Authority
Little Rock, Arkansas

Report on the Audited Combined Financial Statements

Opinions

We have audited the combined financial statements of the State of Arkansas Construction Assistance Revolving Loan Fund Program, which comprise the combined statements of net position as of June 30, 2024 and 2023, and the related combined statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the combined financial statements.

In our opinion, the accompanying combined financial statements present fairly, in all material respects, the financial position of the State of Arkansas Construction Assistance Revolving Loan Fund Program as of June 30, 2024 and 2023, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards* ("GAS"), issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audits of the Combined Financial Statements section of our report. We are required to be independent of the State of Arkansas 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, 2024 and 2023, and the changes in its financial position and its cash flows for the years then ended in accordance with GAAP. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Combined Financial Statements

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

In preparing the combined financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the State of Arkansas 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 8 be presented to supplement the basic combined financial statements. Such information is the responsibility of management and, although not a part of the basic combined financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic combined financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic combined financial statements, and other knowledge we obtained during our audits of the basic combined financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming opinions on the combined financial statements that collectively comprise the State of Arkansas 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 23 through 25 and the schedule of expenditures of federal awards on page 32 are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic combined financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic combined financial statements or to the basic combined financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the supplementary information and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic combined financial statements as a whole.

Other Reporting Required by GAS

In accordance with *GAS*, we have also issued our report dated November 14, 2024, on our consideration of the State of Arkansas 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.

Frost, PLLC

Certified Public Accountants

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

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Management’s Discussion and Analysis

For the Years Ended June 30, 2024 and 2023

This discussion and analysis is designed to assist the reader in focusing on significant issues and activities and to identify any significant changes in the financial position of the 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, 2024 basic combined financial statements include three required statements: the combined statement of net position; the combined statement of revenues, expenses, and changes in net position; and the combined statement of cash flows. Comparative totals as of and for the years ended June 30, 2023 and 2022 are also presented. Although not required, these comparative totals are intended to facilitate an enhanced understanding of the Program’s financial position and results of operations for the current fiscal year in comparison to the prior fiscal years. Additional information, following the *Notes to Combined Financial Statements*, includes the combining statement of net position; the combining statement of revenues, expenses, and changes in net position; as well as the combining statement of cash flows. These combining statements detail the Revolving Loan Fund and the Fees and Expense Fund, which comprise the Program.

Condensed Financial Information – Combined Statements of Net Position

	<u>2024</u>	<u>2023</u>	<u>2022</u>
<i>(In thousands)</i>			
Total assets	\$ 566,821	\$ 475,794	\$ 450,429
Liabilities			
Current liabilities	4,082	324	269
Noncurrent liabilities	<u>73,973</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>78,055</u>	<u>324</u>	<u>269</u>
Net position			
Restricted by bond resolution, enabling legislation, and Program requirements	<u>\$ 488,766</u>	<u>\$ 475,470</u>	<u>\$ 450,160</u>

The Program’s total assets have increased over the past three years. At June 30, 2024, total assets increased to \$91.0 million, which is primarily attributable to the increase of \$46.0 million in cash and cash equivalents and \$44.2 million in loans receivable - restricted. At June 30, 2023, total assets increased \$25.4 million, which is primarily attributable to the increase of \$45.6 million in loans receivable - restricted, which is offset by a decrease of \$20.2 million in cash and cash equivalents. The Program issued bonds of \$72.6 million with a premium of \$8.1 million on August 30, 2023 for an additional funding source to fund new loans. The Program has approved several commitments over the last couple of 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, 2024 and 2023

The following table reports loan activity for each year:

	<u>2024</u>	<u>2023</u>	<u>2022</u>
<i>(In thousands)</i>			
Loan disbursements	\$ 66,413	\$ 70,774	\$ 57,796
Loan repayments	<u>22,190</u>	<u>25,135</u>	<u>12,220</u>
Net increase in loans receivable	<u>\$ 44,223</u>	<u>\$ 45,639</u>	<u>\$ 45,576</u>

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

	<u>2024</u>	<u>2023</u>	<u>2022</u>
<i>(In thousands)</i>			
New loans	\$ 124,756	\$ 101,750	\$ 58,791
Loan disbursements - new loans	8,503	22,572	4,640
Existing loans	\$ 274,404	\$ 204,084	\$ 255,919
Loan disbursements - existing loans	57,910	48,202	53,156

The Program continuously funds loans from Environmental Protection Agency (“EPA”) federal 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 Arkansas Natural Resources Commission (“ANRC”) policy, all state match funds must be matched with federal dollars on or prior to the receipt of the federal funds and ANRC has chosen to fund loans with state match funds prior to utilizing the federal capitalization grant. The Program has available \$5.8 million and \$6.0 million of the federal fiscal years 2023 and 2022 Base grants, respectively, to utilize for additional subsidy and repayable loans. The Program also has received federal subsidy in the form of general capitalization grants from the Bipartisan Infrastructure Law/Infrastructure Investment Jobs Act (“BIL/IIJA”); however, no funds have been disbursed for loans yet. The Program has available \$12.9 million and \$10.9 million of the federal fiscal years 2023 and 2022 BIL/IIJA grants, respectively. In fiscal year 2024, bond proceeds were an additional funding source.

The table below reflects the amounts used from each funding source for fiscal years 2024, 2023, and 2022:

	<u>2024</u>	<u>2023</u>	<u>2022</u>
<i>(In thousands)</i>			
EPA federal base	\$ 51	\$ 12,481	\$ 7,924
State matching funds	1,578	3,243	2,079
Bond funds	51,820	-	-
Revolving Program funds	<u>12,964</u>	<u>55,050</u>	<u>47,793</u>
	<u>\$ 66,413</u>	<u>\$ 70,774</u>	<u>\$ 57,796</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, 2024 and 2023

The Program's total liabilities increased to \$78.1 million at June 30, 2024 from \$324,000 at June 30, 2023. The increase is primarily due to the issuance of bonds as an additional funding source for the loan volume.

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

	<u>2024</u>	<u>2023</u>	<u>2022</u>
<i>(In thousands)</i>			
Operating revenues			
Total interest income	\$ 10,531	\$ 7,203	\$ 6,123
Other	4,358	3,757	3,566
Total operating revenues	<u>14,889</u>	<u>10,960</u>	<u>9,689</u>
Operating expenses			
Program administration	1,203	684	418
Federal financial assistance - base federal grants	1,954	4,090	4,095
Bond interest	3,024	-	-
Amortization of bond premiums	(771)	-	-
Total operating expenses	<u>5,410</u>	<u>4,774</u>	<u>4,513</u>
Operating income	9,479	6,186	5,176
Base federal grants	2,145	16,888	12,437
BIL/IIJA federal grants	412	-	-
Transfers in (out), net	<u>1,260</u>	<u>2,236</u>	<u>(425)</u>
Changes in net position	13,296	25,310	17,188
Net position - beginning of year	<u>475,470</u>	<u>450,160</u>	<u>432,972</u>
Net position - end of year	<u>\$ 488,766</u>	<u>\$ 475,470</u>	<u>\$ 450,160</u>

Total operating revenues have increased over the past three years. In the current fiscal year, the operating revenues increased \$3.9 million, which is primarily attributable due to the increase of \$3.4 million in interest on cash and investments. In the prior year, the operating revenues increased \$1.4 million, which is primarily attributable due to the increase of \$1.7 million in interest on cash and investments net of decrease of \$584,000 in interest on loans. Interest on cash and investments has increased over the last two years due to rising interest rates in the market. The Program monitors cash and investment yields and the cash needs of the Program to ensure liquidity and to maximize investment options.

**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, 2024 and 2023

Interest on investments was \$3.4 million, \$1.9 million, and \$197,000 for fiscal years ended June 30, 2024, 2023, and 2022, respectively. In fiscal year 2024, the increase is due to interest rates being on the average of 4.51%. In fiscal year 2023, the increase mainly is due to interest rates increasing significantly during the year from 1.13% to 4.78% by June 30, 2023. The Program maintains liquidity to fund projects as needed. An investment option the Program utilizes is the State Treasury Money Management Trust Fund ("MMTF"). The Program has \$22.1 million invested in the State Treasury MMTF at fiscal year-end 2024, which is reported as a part of cash and cash equivalents. The State Treasury MMTF yield as of June 30, 2024 and 2023 was 5.37% and 5.08%, respectively, with an average of 5.3% for fiscal year 2024. The average return on cash, cash equivalents and investments was 4.51%, 3.24%, and 0.21% for the fiscal years ended June 30, 2024, 2023, and 2022, respectively.

Interest on loans has fluctuated over the past three years. The Program is continuously making loans with interest rates between 0.00% and 2.25%. The average return on loans was 1.20%, 1.33%, and 1.69% for the fiscal years ended June 30, 2024, 2023, and 2022, respectively.

Total operating expenses increased \$636,000 and \$261,000 in fiscal years 2024 and 2023, respectively, which is primarily attributable to an increase bond interest expense of \$3.0 million net of decrease of \$2.1 million in federal financial assistance - base federal grants. Bond interest expense increased during the fiscal year due to issuing bonds on August 20, 2023. Federal financial assistance - base federal grants fluctuates with the volume of principal forgiveness loans available for funding and the rate at which the borrowers request reimbursement. During fiscal years 2024 and 2023, the Program forgave principal of \$2.0 million and \$4.1 million, respectively. Program administration expenses totaled \$1.2 million, \$684,000, and \$419,000 for the fiscal years ended June 30, 2024, 2023, and 2022, respectively. These expenses included amounts paid for audit expense, trustee fees, legal fees, membership fees to national water related authorities, loan reporting software costs and the administrative fee paid to ADFFA.

In fiscal year 2024, base federal grants decreased \$14.3 million, which is primarily due to funding less principal forgiveness loans from the prior year and utilizing other funding sources for the repayable loans. The Program has approximately \$11.8 million in 2023 and 2022 base grant awards and \$23.8 million in 2023 and 2022 BIL/IIJA grant awards available for funding. In fiscal year 2023, base federal grants revenue increased \$4.5 million, which was primarily due to an increase in disbursements for 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 BIL/IIJA grants which this year was the first time utilizing the BIL/IIJA grants.

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

Management’s Discussion and Analysis (cont.)

For the Years Ended June 30, 2024 and 2023

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

Federal Award Year	Beginning Balance	Amount Expended In		
		<u>2024</u>	<u>2023</u>	<u>2022</u>
		<i>(In thousands)</i>		
2019	\$ 9,978	\$ -	\$ -	\$ 9,412
2020	9,980	-	7,388	2,592
2021	9,978	780	9,183	15
2022	18,211	1,225	-	-
2023	18,647	-	-	-
	\$ 66,794	\$ 2,005	\$ 16,571	\$ 12,019

Transfers in and out are comprised of transfers to or from other state programs or agencies. The current fiscal year transfers in (out), net of \$1.3 million which comprised of \$2.2 million from the ANRC 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 \$0.9 million to ANRC for administrative expenses. In the prior fiscal year, the Program had transfers in (out), net of \$2.2 million which comprised of \$3.2 million from the GO Program which was offset by transfer out of \$1.0 million to ANRC for administrative expenses. The funding source for the administrative expenses is the 4% set aside of the EPA base capitalization grant along with other funds deposited into the Fees and Expense Fund.

The net position of the Program increased \$38.6 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’s Chief Financial Officer by telephoning 501.682.5900 or by contacting the ANRC Water Development Section Manager at 501.682.1611.

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

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Combined Statements of Net Position

June 30, 2024 and 2023

(In Thousands)

<u>Assets</u>	<u>2024</u>	<u>2023</u>
Current assets		
Cash and cash equivalents	\$ 101,619	\$ 55,606
Accrued interest receivable		
Cash	430	231
Loans	139	181
Accounts receivable - borrowers	176	177
Investments	2,931	2,296
Total current assets	<u>105,295</u>	<u>58,491</u>
Noncurrent assets		
Loans receivable - restricted		
Construction loans	461,192	416,969
Wetlands mitigation	334	334
Total noncurrent assets	<u>461,526</u>	<u>417,303</u>
Total assets	<u>\$ 566,821</u>	<u>\$ 475,794</u>
<u>Liabilities and Net Position</u>		
Current liabilities		
Accounts payable	\$ 380	\$ 324
Accrued interest payable	292	-
Current portion of bonds payable	3,410	-
Total current liabilities	<u>4,082</u>	<u>324</u>
Noncurrent liabilities		
Bonds payable including unamortized premiums of \$7,348 and \$0 in fiscal 2024 and 2023, respectively, net of current portion	<u>73,973</u>	<u>-</u>
Total liabilities	<u>78,055</u>	<u>324</u>
Net position		
Restricted by bond resolution, enabling legislation, and Program requirements	<u>\$ 488,766</u>	<u>\$ 475,470</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, 2024 and 2023

(In Thousands)

	<u>2024</u>	<u>2023</u>
Operating revenues		
Interest on cash and investments	\$ 5,262	\$ 1,861
Interest on loans	5,269	5,342
Financing fee income	4,316	3,716
Net appreciation of investments	<u>42</u>	<u>41</u>
Total operating revenues	<u>14,889</u>	<u>10,960</u>
Operating expenses		
Program administration	1,203	684
Federal financial assistance - base federal grants	1,954	4,090
Bond interest	3,024	-
Amortization of bond premiums	<u>(771)</u>	<u>-</u>
Total operating expenses	<u>5,410</u>	<u>4,774</u>
Operating income	<u>9,479</u>	<u>6,186</u>
Nonoperating revenue		
Base federal grants	2,145	16,888
BIL/IIJA federal grants	<u>412</u>	<u>-</u>
Total nonoperating revenue	<u>2,557</u>	<u>16,888</u>
Income before transfers in, net	12,036	23,074
Transfers in, net	<u>1,260</u>	<u>2,236</u>
Changes in net position	13,296	25,310
Net position - beginning of year	<u>475,470</u>	<u>450,160</u>
Net position - end of year	<u>\$ 488,766</u>	<u>\$ 475,470</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, 2024 and 2023

(In Thousands)

	<u>2024</u>	<u>2023</u>
Cash flows from operating activities		
Financing fee income received	\$ 4,317	\$ 3,829
Cash paid for program administration	<u>(451)</u>	<u>(628)</u>
Net cash provided by operating activities	<u>3,866</u>	<u>3,201</u>
Cash flows from noncapital financing activities		
Proceeds from issuance of bonds payable	80,709	-
Repayments of bonds payable	(2,555)	-
Cash paid for interest	(2,732)	-
Cash paid for bond issuance costs	(696)	-
Transfers in, net	1,260	2,236
Nonoperating grants received	<u>2,557</u>	<u>16,937</u>
Net cash provided by noncapital financing activities	<u>78,543</u>	<u>19,173</u>
Cash flows from investing activities		
Interest received on cash and investments	5,063	1,686
Interest received on loans	5,311	5,662
Purchase of investments	(3,666)	(2,881)
Proceeds from maturities of investments	3,073	2,683
Loan disbursements	(66,413)	(70,774)
Principal repayments on loans	22,190	25,135
Federal grant funds expended	<u>(1,954)</u>	<u>(4,090)</u>
Net cash used by investing activities	<u>(36,396)</u>	<u>(42,579)</u>
Net increase (decrease) in cash and cash equivalents	46,013	(20,205)
Cash and cash equivalents - beginning of year	<u>55,606</u>	<u>75,811</u>
Cash and cash equivalents - end of year	<u>\$ 101,619</u>	<u>\$ 55,606</u>
Reconciliation of changes in net position to net cash provided by operating activities		
Operating income	\$ 9,479	\$ 6,186
Adjustments to reconcile operating income of changes in net position to net cash provided by operating activities		
Interest on cash and investments	(5,262)	(1,861)
Interest on loans	(5,269)	(5,342)
Bond interest	3,024	-
Amortization of bond premiums	(771)	-
Bond issuance costs	696	-
Net appreciation of investments	(42)	(41)
Federal grants expended	1,954	4,090
Changes in operating assets and liabilities		
Accounts receivable - borrowers	1	114
Accounts payable	<u>56</u>	<u>55</u>
Net cash provided by operating activities	<u>\$ 3,866</u>	<u>\$ 3,201</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, 2024 and 2023

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 \$317,000 and \$292,000 for the years ended June 30, 2024 and 2023, 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, 2024 and 2023, the AAWQLP had \$5.7 million and \$4.3 million, respectively, in deposits and investments with various financial institutions.

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

Notes to Combined Financial Statements

June 30, 2024 and 2023

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

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

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

- d. **Recently issued accounting pronouncements** – Governmental Accounting Standards Board (“GASB”) Statement No. 102, “Certain Risk Disclosures.” The objective of this statement is to provide users of government financial statements with essential information about risks related to a government’s vulnerabilities due to certain concentrations or constraints. The requirements of this statement will improve financial reporting by providing users of the combined financial statements with essential information that currently is not often provided. The disclosures will provide users with timely information regarding certain concentrations or constraints and related events that have occurred or have begun to occur that make a government vulnerable to a substantial impact. As a result, users will have better information with which to understand and anticipate certain risks to a government’s financial condition. The requirements of this statement are effective for fiscal years beginning after June 15, 2024 with earlier adoption encouraged. The Program has not determined the impact, if any, that this statement could have on its combined financial statements.

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

- e. **Cash and cash equivalents** – The Program considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2024 and 2023, cash equivalents of approximately \$101.6 million and \$55.6 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**

Notes to Combined Financial Statements

June 30, 2024 and 2023

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 \$25.4 million and \$20.6 million at June 30, 2024 and 2023, 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. There were no bonds payable outstanding during the year ended June 30, 2023. See Note 4 for further information.
- 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, 2024 and 2023, \$1.8 million and \$0.9 million, respectively, of the Program’s deposits (and carrying value) of \$2.8 million and \$2.0 million, respectively, were exposed to custodial credit risk as follows:

<i>(In thousands)</i>	<u>2024</u>	<u>2023</u>
Uninsured and collateral held by Pledging		
Financial Institution agent in the Program's name	\$ <u>1,754</u>	\$ <u>934</u>

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

Notes to Combined Financial Statements

June 30, 2024 and 2023

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, 2024 and 2023, the Program 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>June 30, 2024</u>					
U.S. agencies obligations	\$ 2,931	\$ -	\$ -	\$ -	\$ 2,931
<u>June 30, 2023</u>					
U.S. agencies obligations	\$ 2,296	\$ -	\$ -	\$ -	\$ 2,296

- a. **Interest rate risk** – As a means of limiting its exposure to fair value losses due to rising interest rates, the Program limits the maturity of investments to expected cash flow needs of the Program. The Program has also begun investing in an internal governmental investment pool administrated by the State of Arkansas. The Program may request withdrawal of its funds with one business days’ notice.
- b. **Credit risk** – Credit risk is the risk the issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2024 and 2023, 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**

Notes to Combined Financial Statements

June 30, 2024 and 2023

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>	2024		2023	
	<u>Fair Value</u>	<u>Percentage</u>	<u>Fair Value</u>	<u>Percentage</u>
<i>(In thousands)</i>				
Federal Farm Credit Bank bond	\$ 2,931	100%	\$ 2,296	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>2024</u>	<u>2023</u>
<i>(In thousands)</i>		
Carrying values		
Deposits	\$ 2,777	\$ 1,973
Money market mutual funds	76,782	39,424
State Treasury MMTF	22,060	14,209
Investments	2,931	2,296
	\$ 104,550	\$ 57,902

Included in the following combined statements of net position captions:

	<u>2024</u>	<u>2023</u>
<i>(In thousands)</i>		
Cash and cash equivalents	\$ 101,619	\$ 55,606
Investments	2,931	2,296
	\$ 104,550	\$ 57,902

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

Notes to Combined Financial Statements

June 30, 2024 and 2023

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, 2024 and 2023, such loans had a carrying value of approximately \$461.5 million and \$417.3 million, respectively, of which approximately \$158.2 million and \$105.2 million, respectively, are for projects still under construction. The loans bear interest ranging from 0.00% to 2.25% and are collateralized by special assessments, user charges or sales and use tax bonds issued by the municipalities, sewer improvement districts, and water facilities board.

In fiscal year 2010, the Program funded loans with American Recovery and Reinvestment Act (“ARRA”) federal funds. At June 30, 2024, the Program’s current loan balance of ARRA loans was \$0.8 million, which was funded with ARRA and other program funds. This balance is included in loans receivable - restricted on the accompanying combined statements of net position.

During the years ended June 30, 2024 and 2023, \$1.41 billion and \$1.11 billion, respectively, in cumulative loans had been approved for funding. At June 30, 2024 and 2023, \$235.2 million and \$177.4 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>2024</u>	<u>2023</u>
			<u>(In thousands)</u>	
2023 Serial	5.0%	June 1, 2043	\$ 70,035	\$ -
	Unamortized premiums		<u>7,348</u>	<u>-</u>
	Net bonds payable		<u>\$ 77,383</u>	<u>\$ -</u>

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

<u>(In thousands)</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amount Due within One Year</u>
2023 Serial	<u>\$ -</u>	<u>\$ 72,590</u>	<u>\$ (2,555)</u>	<u>\$ 70,035</u>	<u>\$ 3,410</u>

The principal amount shown above differs from the amount on the combined statements of net position due to unamortized premiums of approximately \$7.3 million at June 30, 2024. The Program had no unamortized premiums at June 30, 2023.

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

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Notes to Combined Financial Statements

June 30, 2024 and 2023

4. Bonds Payable (cont.)

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

Fiscal Year Ending June 30,	<u>Principal</u>	<u>Interest</u>
	<i>(In thousands)</i>	
2025	\$ 3,410	\$ 3,502
2026	4,580	3,331
2027	5,190	3,102
2028	5,455	2,843
2029	5,770	2,570
2030 - 2034	21,995	9,024
2035 - 2039	16,500	3,850
2040 - 2043	7,135	898
	70,035	29,120
Unamortized premiums	7,348	-
	<u>\$ 77,383</u>	<u>\$ 29,120</u>

During fiscal 2024, ADFA issued approximately \$72.6 million in Revolving Loan Fund Revenue Bond, Series 2023 for the benefit of the Program. The proceeds from the issuance of the bonds, along with other funds, will be used to fund, in whole or in part, Clean Water State Revolving Fund (“CWSRF”) loans and to pay underwriters compensation and other costs of issuance.

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
REVOLVING LOAN FUND PROGRAM**

Notes to Combined Financial Statements

June 30, 2024 and 2023

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 <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, 2024</u>				
U.S. agencies obligations	\$ 2,931	\$ -	\$ -	\$ 2,931
<u>June 30, 2023</u>				
U.S. agencies obligations	\$ 2,296	\$ -	\$ -	\$ 2,296

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, 2024 or 2023.

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, 2024 or 2023. 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.

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, 2024 and 2023, the Program received 15% and 61%, respectively, of total revenue in the form of federal grants. As of June 30, 2024 and 2023, the Program has \$36.7 million and \$19.8 million, respectively, of the federal fiscal years grants remaining to disburse.

Notes to Combined Financial Statements

June 30, 2024 and 2023

6. Concentrations (cont.)

Principal Forgiveness Loans

In fiscal year 2013, the Program began funding principal forgiveness (“PF”) loans with base federal capitalization grant funds. The EPA requires, as part of the base capitalization grant requirements, that a percentage of the grant be available as subsidy to eligible borrowers. States are required to provide a minimum amount of 10% additional subsidization for fiscal years 2020 - 2023 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 fiscal years beginning after September 30, 2014. Going forward, there is no minimum additional subsidy requirement that CWSRFs must comply with per the amendments.

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

In fiscal year 2024, the EPA approved accessing the authority 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.

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 \$182 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, 2024 and 2023

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>	AD Sub PF Maximum <u>Amount</u>	Total Allowed Maximum <u>Amount</u> <i>(In thousands)</i>	Program Allocation <u>Amount</u>	Cumulative Disbursements	PF Amount Remaining to Fund
2010-Reopened	\$ 4,633	\$ 4,639	\$ -	\$ -	\$ 4,639	\$ 6	\$ 4,633
2016-Reopened	2,619	-	2,619	2,619	2,619	-	2,619
2017-Reopened	2,598	2,598	-	-	2,598	-	2,598
2018-Reopened	3,150	-	3,150	3,150	3,150	-	3,150
2020-Base-Closed	10,394	1,039	3,119	4,158	4,158	4,125	33
2021-Base	10,394	1,039	3,118	4,157	4,157	1,307	2,850
2022-Base	7,570	757	2,271	3,028	757	-	757
2022-BIL Gen	11,642	-	5,705	5,705	5,705	-	5,705
2023-Base	4,907	491	1,472	1,963	368	-	368
2023-BIL Gen	13,635	-	6,681	6,681	3,313	-	<u>3,313</u>
						<u>\$ 5,438</u>	<u>\$ 26,026</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.

The Program forgives the loans as the construction draws are disbursed. In fiscal years 2024 and 2023, the Program expensed \$2.0 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.

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

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Notes to Combined Financial Statements

June 30, 2024 and 2023

7. **Subsequent Events Evaluation Date**

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

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

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Combining Statement of Net Position

June 30, 2024

(In Thousands)

<u>Assets</u>	<u>Revolving Loan Fund</u>	<u>Fees and Expense</u>	<u>Total</u>
Current assets			
Cash and cash equivalents	\$ 76,263	\$ 25,356	\$ 101,619
Accrued interest receivable			
Cash	322	108	430
Loans	139	-	139
Accounts receivable			
Borrowers	-	176	176
Investments	2,931	-	2,931
Total current assets	<u>79,655</u>	<u>25,640</u>	<u>105,295</u>
Noncurrent assets			
Loans receivable - restricted			
Construction loans	461,192	-	461,192
Wetlands mitigation	-	334	334
Total noncurrent assets	<u>461,192</u>	<u>334</u>	<u>461,526</u>
Total assets	<u>\$ 540,847</u>	<u>\$ 25,974</u>	<u>\$ 566,821</u>

Liabilities and Net Position

Current liabilities			
Accounts payable	\$ 49	\$ 331	\$ 380
Accrued interest payable	292	-	292
Current portion of bonds payable	3,410	-	3,410
Total current liabilities	<u>3,751</u>	<u>331</u>	<u>4,082</u>
Noncurrent liabilities			
Bonds payable including unamortized premiums of \$7,348, net of current portion	<u>73,973</u>	<u>-</u>	<u>73,973</u>
Total liabilities	<u>77,724</u>	<u>331</u>	<u>78,055</u>
Net position			
Restricted by bond resolution, enabling legislation, and Program requirements	<u>\$ 463,123</u>	<u>\$ 25,643</u>	<u>\$ 488,766</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, 2024

(In Thousands)

	<u>Revolving Loan Fund</u>	<u>Fees and Expense</u>	<u>Total</u>
Operating revenues			
Interest on cash and investments	\$ 4,072	\$ 1,190	\$ 5,262
Interest on loans	5,269	-	5,269
Financing fee income	-	4,316	4,316
Net appreciation of investments	<u>17</u>	<u>25</u>	<u>42</u>
Total operating revenues	<u>9,358</u>	<u>5,531</u>	<u>14,889</u>
Operating expenses			
Program administration	696	507	1,203
Federal financial assistance - base federal grants	1,954	-	1,954
Bond interest	3,024	-	3,024
Amortization of bond premiums	<u>(771)</u>	<u>-</u>	<u>(771)</u>
Total operating expenses	<u>4,903</u>	<u>507</u>	<u>5,410</u>
Operating income	<u>4,455</u>	<u>5,024</u>	<u>9,479</u>
Nonoperating revenue			
Base federal grants	2,005	140	2,145
BIL/IIJA federal grants	<u>-</u>	<u>412</u>	<u>412</u>
Total nonoperating revenue	<u>2,005</u>	<u>552</u>	<u>2,557</u>
Income before transfers in, net	6,460	5,576	12,036
Transfers in (out), net	<u>2,141</u>	<u>(881)</u>	<u>1,260</u>
Changes in net position	8,601	4,695	13,296
Net position - beginning of year	<u>454,521</u>	<u>20,949</u>	<u>475,470</u>
Net position - end of year	<u>\$ 463,122</u>	<u>\$ 25,644</u>	<u>\$ 488,766</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, 2024

(In Thousands)

	<u>Revolving Loan Fund</u>	<u>Fees and Expense</u>	<u>Total</u>
Cash flows from operating activities			
Financing fee income received	\$ -	\$ 4,317	\$ 4,317
Cash received (paid) for program administration	<u>17</u>	<u>(468)</u>	<u>(451)</u>
Net cash provided by operating activities	<u>17</u>	<u>3,849</u>	<u>3,866</u>
Cash flows from noncapital financing activities			
Proceeds from issuance of bonds payable	80,709	-	80,709
Repayments of bonds payable	(2,555)	-	(2,555)
Cash paid for interest	(2,732)	-	(2,732)
Cash paid for bond issuance costs	(696)	-	(696)
Transfers in (out), net	2,141	(881)	1,260
Nonoperating grants received	<u>2,005</u>	<u>552</u>	<u>2,557</u>
Net cash provided (used) by noncapital financing activities	<u>78,872</u>	<u>(329)</u>	<u>78,543</u>
Cash flows from investing activities			
Interest received on cash and investments	3,896	1,167	5,063
Interest received on loans	5,311	-	5,311
Purchase of investments	(3,666)	-	(3,666)
Proceeds from maturities of investments	3,048	25	3,073
Loan disbursements	(66,413)	-	(66,413)
Principal repayments on loans	22,190	-	22,190
Federal grant funds expended	<u>(1,954)</u>	<u>-</u>	<u>(1,954)</u>
Net cash (used) provided by investing activities	<u>(37,588)</u>	<u>1,192</u>	<u>(36,396)</u>
Net increase in cash and cash equivalents	41,301	4,712	46,013
Cash and cash equivalents - beginning of year	<u>34,961</u>	<u>20,645</u>	<u>55,606</u>
Cash and cash equivalents - end of year	<u>\$ 76,262</u>	<u>\$ 25,357</u>	<u>\$ 101,619</u>
Reconciliation of changes in net position to net cash provided by operating activities			
Operating income	\$ 4,455	\$ 5,024	\$ 9,479
Adjustments to reconcile operating income of changes in net position to net cash provided by operating activities			
Interest on cash and investments	(4,072)	(1,190)	(5,262)
Interest on loans	(5,269)	-	(5,269)
Bond interest	3,024	-	3,024
Amortization of bond premiums	(771)	-	(771)
Bond issuance costs	696	-	696
Net appreciation of investments	(17)	(25)	(42)
Federal grants expended	1,954	-	1,954
Changes in operating assets and liabilities			
Accounts receivable - borrowers	-	1	1
Accounts payable	<u>17</u>	<u>39</u>	<u>56</u>
Net cash provided by operating activities	<u>\$ 17</u>	<u>\$ 3,849</u>	<u>\$ 3,866</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 Construction Assistance Revolving Loan Fund Program, which comprise the combined statement of net position as of June 30, 2024, and the related combined statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the combined financial statements, and have issued our report thereon dated November 14, 2024, which contained an “emphasis of matter” paragraph regarding a definition of the reporting entity.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the combined financial statements, we considered the State of Arkansas 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.

Frost, PLLC

Certified Public Accountants

Little Rock, Arkansas
November 14, 2024

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

Commissioners of the Arkansas Natural
Resources Commission

Board of Directors
Arkansas Development Finance Authority
Little Rock, Arkansas

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the State of Arkansas 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, 2024. 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, 2024.

Basis for Opinion on Each Major Federal Program

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

We are required to be independent of the State of Arkansas 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.

Frost, PLLC

Certified Public Accountants

STATE OF ARKANSAS CONSTRUCTION ASSISTANCE
REVOLVING LOAN FUND PROGRAM

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2024

Section I – Summary of Auditor’s Results

Combined Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to combined financial statements noted? _____ Yes No

Federal Awards

Internal control over major programs:

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

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

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

Identification of major federal programs:

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

Capitalization Grants for Clean Water State Revolving Funds 66.458

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

Auditee qualified as a low-risk auditee? Yes _____ No

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

Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2024

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

No matters were reported in the June 30, 2023 Schedule of Findings and Questioned Costs.

STATE OF ARKANSAS CONSTRUCTION ASSISTANCE
REVOLVING LOAN FUND PROGRAM

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2024

(In Thousands)

<u>Federal Grantor/Pass-Through Grantor Program or Cluster Title</u>	<u>FAL Number</u>	<u>Provided to Subrecipients</u>	<u>Total Federal Expenditures</u>
U.S. Environmental Protection Agency/Capitalization Grants for Clean Water State Revolving Funds (Clean Water State Revolving Fund Cluster)	66.458	\$ <u>2,005</u>	\$ <u>2,557</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, 2024

1. The accompanying schedule of expenditures of federal awards (“SEFA”) includes the federal award activity of the State of Arkansas Construction Assistance Revolving Loan Fund Program under programs of the federal government for the year ended June 30, 2024. The information in the SEFA is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (“Uniform Guidance”). Because the SEFA presents only a selected portion of the operations of the State of Arkansas Construction Assistance Revolving Loan Fund Program, it is not intended to and does not present the net position, changes in net position or cash flows of the State of Arkansas Construction Assistance Revolving Loan Fund Program.
2. Expenditures reported on the SEFA are reported on the accrual basis of accounting. Disbursements are recognized following, as applicable, the cost principles in the U.S. Office of Management and Budget’s Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The State of Arkansas Construction Assistance Revolving Loan Fund Program has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.
3. Expenditures reflected in FAL 66.458, Capitalization Grants for the Clean Water State Revolving Funds, include loans to municipalities and other public entities for construction of water treatment facilities. The funding source for these loans includes federal grant funds, state match funds, bond funds, and revolving program funds. The funds are disbursed to the subrecipients after expenses have been incurred as forgiveness of principal and repayable loans. The State of Arkansas Construction Assistance Revolving Loan Fund Program’s outstanding loan receivable balance from subrecipients from all funding sources was \$461.5 million for the year ended June 30, 2024. During fiscal year 2024, approximately \$2.0 million of loans were forgiven. Total federal disbursements totaled approximately \$2.0 million during fiscal year 2024, which represented funding for principal forgiveness and repayable loans.

APPENDIX D-II

**AUDITED FINANCIAL STATEMENTS OF THE STATE OF ARKANSAS
DRINKING WATER REVOLVING LOAN FUND PROGRAM
FOR THE FISCAL YEARS ENDED JUNE 30, 2024 AND 2023**

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

June 30, 2024 and 2023

**Combined Financial Statements
And
Supplementary Information**

With

Independent Auditor's Report



FROST, PLLC
Certified Public Accountants

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Independent Auditor's Report

Commissioners of the Arkansas Natural
Resources Commission

Board of Directors
Arkansas Development Finance Authority
Little Rock, Arkansas

Report on the Audited Combined Financial Statements

Opinions

We have audited the combined financial statements of the State of Arkansas Safe Drinking Water Revolving Loan Fund Program, which comprise the combined statements of net position as of June 30, 2024 and 2023, and the related combined statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the combined financial statements.

In our opinion, the accompanying combined financial statements present fairly, in all material respects, the financial position of the State of Arkansas Safe Drinking Water Revolving Loan Fund Program as of June 30, 2024 and 2023, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Basis for Opinions

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

Emphasis of Matter

As discussed in Note 1.a., the accompanying combined financial statements present only the State of Arkansas Safe Drinking Water Revolving Loan Fund Program and do not purport to, and do not, present fairly the financial position of the State of Arkansas as of June 30, 2024 and 2023, and the changes in its financial position and its cash flows for the years then ended in accordance with GAAP. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Combined Financial Statements

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

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

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

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

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

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

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

Required Supplementary Information

GAAP requires that the management's discussion and analysis on pages 4 through 8 be presented to supplement the basic combined financial statements. Such information is the responsibility of management and, although not a part of the basic combined financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic combined financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic combined financial statements, and other knowledge we obtained during our audits of the basic combined financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming opinions on the combined financial statements that collectively comprise the State of Arkansas Safe Drinking Water Revolving Loan Fund Program's basic combined financial statements. The schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic combined financial statements. The supplementary information on pages 21 through 24 and the schedule of expenditures of federal awards on page 32 are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic combined financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic combined financial statements or to the basic combined financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the supplementary information, and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic combined financial statements as a whole.

Other Reporting Required by GAS

In accordance with *GAS*, we have also issued our report dated November 14, 2024, on our consideration of the State of Arkansas Safe Drinking Water Revolving Loan Fund Program's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State of Arkansas Safe Drinking Water Revolving Loan Fund Program's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *GAS* in considering the State of Arkansas Safe Drinking Water Revolving Loan Fund Program's internal control over financial reporting and compliance.

Frost, PLLC

Certified Public Accountants

**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, 2024 and 2023

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

Discussion of Combined Financial Statements

The June 30, 2024 basic combined financial statements include three required statements: the combined statement of net position; the combined statement of revenues, expenses, and changes in net position; and the combined statement of cash flows. Comparative totals as of and for the years ended June 30, 2023 and 2022 are also presented. Although not required, these comparative totals are intended to facilitate an enhanced understanding of the Program’s financial position and results of operations for the current fiscal year in comparison to the prior fiscal years. Additional information, following the *Notes to Combined Financial Statements*, includes the combining statement of net position; the combining statement of revenues, expenses, and changes in net position; as well as the combining statement of cash flows. These combining statements detail the Revolving Loan Fund, the Fees and Expense Set Aside, the Small System Technical Assistance Set Aside, the Well Head Protection Set Aside, the Capacity Development Set Aside and the State Program Management Set Aside, which comprise the Program.

Condensed Financial Information – Combined Statements of Net Position

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

The Program’s total assets have increased over the past three years. At June 30, 2024, total assets increased \$50.9 million from June 30, 2023, which is primarily attributable to cash and cash equivalents increasing \$49.8 million due to the issuance of bonds, loan prepayments, and interest earnings. At June 30, 2023, total assets increased \$12.1 million from June 30, 2022, which is primarily attributable to cash and cash equivalents increasing \$24.3 million offset by a \$12.5 million decrease in loans receivable - restricted. The Program issued bonds of \$36.6 million with a premium of \$3.7 million on August 30, 2023 for an additional funding source to fund new loans.

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

Management’s Discussion and Analysis (cont.)

For the Years Ended June 30, 2024 and 2023

The following table reports loan activity for each year:

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

Grants from the Environmental Protection Agency (“EPA”) comprised 0%, 0%, and 14% of the funding source of the repayable loan disbursements for fiscal years ended June 30, 2024, 2023, and 2022, respectively. Per EPA guidelines, federal grants are allocated between repayable and principal forgiveness loans and administrative costs. Depending on funds available, the amount funded from EPA base federal grants will fluctuate. At June 30, 2024, the Program had \$29.4 million available to fund repayable and principal forgiveness loans. The table below reflects the amounts used from each funding source to fund repayable loans for fiscal years June 30, 2024, 2023, and 2022 as follows:

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

The Program utilized EPA federal grants to fund loans, along with other funding sources. The Program’s loan activity has begun to increase with the funding of several water meter projects to municipalities, water user associations and public facilities boards. The Program has several funding sources to meet the increasing loan activity, including the bond proceeds received in fiscal 2024.

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

**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, 2024 and 2023

The Program’s loan repayments have increased over the past three years, which consists of the scheduled loan repayments and loan prepayments. The Program received prepayments from repayable loans totaling \$17.2 million in fiscal year 2024, \$13.4 million in fiscal year 2023, and \$9.9 million in fiscal year 2022.

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

The Program’s total liabilities increased to \$38.7 million at June 30, 2024 from \$614,000 at June 30, 2023. The increase is primarily due to the issuance of bonds as an additional funding source for the loan volume.

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

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

**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, 2024 and 2023

Total interest income has increased over the past three years. Included in total interest income is interest earned on cash and interest earned on loans, which has increased to \$9.5 million for the year ended June 30, 2024. The increase in fiscal year 2024 of \$3.7 million is due to the increase of \$4.5 million in interest earned on cash offset by a decline of \$0.8 million in interest earned from loans. The Program monitors its investments and earnings to provide additional income for the Program. At fiscal year-ends 2024 and 2023, the State Treasury MMTF interest rate was 5.37% and 5.08%, respectively, with an average of 5.35% for fiscal 2024. The Program considers the \$62.6 million in State Treasury MMTF as cash and cash equivalents. These funds yield a slightly higher rate of return than the Program's other money market mutual fund rates. The average yield on cash, cash equivalents, and investments for fiscal year 2024 was 4.98%; whereas the average yields for fiscal years 2023 and 2022 were 3.66% and 0.24%, respectively.

Interest on loans has fluctuated over the past three years. The Program is continuously making loans with interest rates between 0.00% and 2.90%. The average return on loans is 0.69%, 1.23%, and 1.36% for the fiscal years June 30, 2024, 2023, and 2022, respectively.

Other income includes financing fee income and the net appreciation (depreciation) of investments. In the current fiscal year, the Program had a decrease of \$524,000 in other income which was due to a decrease in financing fee income of \$523,000. In the prior fiscal year, other income decreased \$138,000 due to a decrease in financing fee income of \$305,000, which is offset by a net appreciation of investments of \$168,000. Net appreciation (depreciation) of investments is the change in the market value of the portfolio. Financing fee represents servicing fees, ranging from 0% to 1%, charged on the outstanding loan balances in the portfolio.

Total operating expenses have fluctuated over the past three years and have increased significantly to \$5.6 million for the year ended June 30, 2024. In the current year, the increase of \$5.2 million is due to the increase in federal financial assistance - base federal grants of \$3.1 million and the increase in bond interest expense of \$1.5 million due to the issuance of the bonds in August 2023. In fiscal year 2023, the decrease of \$5.6 million in operating expenses is primarily due to the decrease in federal financial assistance - base federal grants. In fiscal year 2012, the Program began funding principal forgiveness loans from the Base Capitalization Grant as required by EPA. Each construction draw is forgiven at the time of the draw. The Program is required by state law to use only federal grant funds to make principal forgiveness loans. For the years ended June 30, 2024 and 2023, the Program has awarded principal forgiveness loans to multiple borrowers and has forgiven \$3.4 million and \$0.3 million, respectively. The federal financial assistance - base federal grants expense is based upon the loans available to be funded and the rate at which the borrower completes their project.

Base and BIL/IIJA federal grant revenue increased \$3.7 million for fiscal year 2024, which comprises of draws for loans and administrative expenses. Base federal grant revenue for construction draws for principal forgiveness loans increased by \$3.1 million this fiscal year. No federal grant funds were disbursed for repayable loans this fiscal year or the prior year. Federal funding on construction loans is based upon the loans available for funding and the rate at which the borrower completes their project; therefore, fluctuations can occur. Arkansas Natural Resources Commission ("ANRC") and Arkansas Department of Health ("ADH") incur administration expenses and are reimbursed using base and BIL/IIJA federal grant revenue for administrating the Program. The Program primarily used federal grants for funding loans and paying expenses. These funds were drawn down from the federal government as the municipalities, ANRC, or ADH, incurred expenses.

**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, 2024 and 2023

For the fiscal years 2024 and 2023, the Program's transfers in (out), net were \$59,000 in and \$0.9 million in, respectively. As funds are available, the Program receives transfers in from the ANRC Water, Waste Disposal and Pollution Abatement Facilities General Obligation Bond Fund Program, which represents the state matching funds for the Program. Transfers out are transfers to state agencies for Program administration expenses. The details of transfers in and out are presented in the following table:

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

The net position of the Program increased \$24.7 million in the past two years. The bond resolution and the Program guidelines restrict all of the net position.

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

Contact Regarding the Program

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

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

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Combined Statements of Net Position

June 30, 2024 and 2023

(In Thousands)

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

(In Thousands)

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

(In Thousands)

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

1. Nature of Operations and Summary of Significant Accounting Policies

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

ADFA serves as financial manager for the Program under an interagency agreement. ADFA is responsible for investing and disbursing funds as authorized by the lead agency, servicing loans, preparing, and submitting monthly financial reports and annual combined financial statements and procuring audit services. ADFA is reimbursed for the Program’s administration costs through a calculation based on loans outstanding in accordance with the interagency agreement. The amounts incurred to ADFA for administration costs were approximately \$142,000 and \$144,000 for the years ended June 30, 2024 and 2023, respectively, and are included in the Program’s administration expenses.

- b. **Estimates** – The preparation of combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
- c. **Measurement focus and basis of accounting** – The Program is accounted for as an enterprise fund for financial reporting purposes and utilizes the economic resource measurement focus and accrual basis of accounting wherein revenues are recognized when earned and expenses when incurred.

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

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

Notes to Combined Financial Statements

June 30, 2024 and 2023

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

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

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

- e. **Cash and cash equivalents** – The Program considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2024 and 2023, cash equivalents of approximately \$159.5 million and \$109.7 million, respectively, consisted of money market mutual funds with variable interest rates and an internal governmental investment pool administered by the State of Arkansas. The maturity of the funds is considered to be less than three months because they are redeemable in full immediately.
- f. **Bond premiums** – Premiums on sales of bonds are capitalized and are amortized over the term of the bonds using the effective interest method. Early retirement of bonds results in the acceleration of amortization of premiums. There were no bonds payable outstanding during the year ended June 30, 2023. See Note 4 for further information.
- g. **Financing fees** – The Program receives up to a 1% annual financing fee from borrowers as part of their contractual payment.
- h. **Net position restricted by bond resolution, enabling legislation and Program requirements** – Net position restricted by bond resolution, enabling legislation and Program requirements represent funds restricted due to the specific provisions of the Program.
- i. **Income taxes** – As an essential government function of the State of Arkansas, the Program is exempt from income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law.

Notes to Combined Financial Statements

June 30, 2024 and 2023

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.

At June 30, 2024 and 2023, none of the Program's deposits were exposed to custodial credit risk.

Arkansas statutes authorize the Program to invest in direct obligations of the U.S. government; obligations on which the principal and interest are fully guaranteed or are fully secured, insured or covered by commitments or agreements to purchase by the U.S. government; obligations of agencies and instrumentalities created by act of the United States Congress and authorized thereby to issue securities or evidence of indebtedness, regardless of guarantee of repayment by the U.S. government; obligations of political subdivisions of the United States; certain obligations issued by the State Board of Education; short-term warrants of political subdivisions of the State of Arkansas and municipalities; the sale of federal funds with a maturity of not more than one business day; demand, savings, or time deposits fully insured by a federal deposit insurance agency; repurchase agreements that are fully insured by obligations of the U.S. government, any U.S. state or any political subdivision thereof; securities of, or other interest in, any open-end type investment company or investment trust registered under the Investment Company Act of 1940, and which is considered a money market fund, provided that the portfolio is limited principally to U.S. government obligations and the investment company or trust takes delivery of collateral either directly or through an authorized custodian; guaranteed investment contracts; and bank certificates of deposit.

- a. **Interest rate risk** – As a means of limiting its exposure to fair value losses due to rising interest rates, the Program limits the maturity of investments to expected cash flow needs of the Program. The Program invests in an internal governmental investment pool administered by the State of Arkansas. The Program may request withdrawal of its funds with one business days' notice.
- b. **Credit risk** – Credit risk is the risk the issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2024 and 2023, the Program did not have any direct investments in U.S. agencies obligations. The Program's amounts in money market mutual funds, or investments of those funds, were rated "AAAm" or "AAA" by Standard & Poor's and "Aaa-mf" or "Aaa" by Moody's Investors Service.
- c. **Concentration of credit risk** – The Program places no limit on the amount that may be invested in any one issuer. The Program had no investments as of June 30, 2024 or 2023.

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

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Notes to Combined Financial Statements

June 30, 2024 and 2023

2. Deposits (cont.)

Summary of Carrying Values

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

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

3. Loans Receivable

The Program originates loans with Arkansas municipalities for financing the construction of drinking water treatment facilities. These loans are payable in semiannual installments. At June 30, 2024 and 2023, such loans had a carrying value of approximately \$206.3 million and \$205.3 million, respectively. The loans bear interest at 0.0% to 2.9% and are collateralized by special assessments, user charges or sales and use tax bonds issued by the municipalities.

In fiscal 2010, the Program funded loans with American Recovery and Reinvestment Act (“ARRA”) federal funds, along with other funding sources. At June 30, 2024 and 2023, the Program’s outstanding loan balance for ARRA loans totaled \$11.8 million and \$11.9 million, respectively, which is included in loans receivable - restricted - construction on the accompanying combined statements of net position.

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

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

Notes to Combined Financial Statements

June 30, 2024 and 2023

4. Bonds Payable

Bonds payable consist of the following:

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

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

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

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

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

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

Notes to Combined Financial Statements

June 30, 2024 and 2023

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

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

5. **Concentrations**

Economic Dependency

The Program is economically dependent upon revenue from the Environmental Protection Agency (“EPA”). For the years ended 2024 and 2023, the Program received approximately 42% and 34%, respectively, of total revenue in the form of federal grants.

Program Set Asides

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

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

The Code of Federal Regulations section 40 CFR 3540, regarding the DWSRF, states a state may reserve or “bank” set aside funds at the time of the grant application. The intent is that the authority for a set aside activity from one year can be used in a future year when the amount available in that future year is not enough to accomplish the set aside activity. Each set aside activity has specific eligible costs associated with it. Reserved authority in a set aside activity can only be used for that same set aside activity in the future. For each grant application, the state has to demonstrate to EPA that the funds requested for each set aside activity can be used within a two-year period. If this results in the state having additional authority for that activity that they cannot use within the two-year period, they can reserve that additional authority for some unspecified future grant. The amount of authority reserved for each set aside activity will be reported in the Intended Use Plan (“IUP”) for that fiscal year and every succeeding IUP until the authority is used. When the state wants to use the authority that has been reserved, the state must demonstrate to EPA that all of the authority in the future grant and the additional reserved authority can be expended within the two-year period. The management of the Program is aware if future federal capitalization grants are not made available, the reserved authority is lost. Currently, the Arkansas Department of Health has reserved authority of \$6.1 million in the Small System Technical Assistance and the State Program Management set aside with the caveat that those redirected funds may be reclaimed as set aside funds in future federal grants.

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

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Notes to Combined Financial Statements

June 30, 2024 and 2023

5. Concentrations (cont.)

Principal Forgiveness Loans

In fiscal year 2012, the Program began funding principal forgiveness (“PF”) loans with base federal grant funds. The EPA requires, as part of the base capitalization grant requirements, that a percentage of the grant be available as subsidy to eligible borrowers. The percentage was changed to be not less than 20%, but not greater than 30% of the federal fiscal years 2012 through 2018 grants. Starting with the 2019 grants, a minimum of 6%, but not greater than 35%, of the grant must be provided as subsidization be in the form of a loan with principal forgiveness or negative interest to disadvantaged communities. Beginning with the 2020 capitalization grants, the minimum subsidy was changed to 14%. In the federal fiscal year 2022, the Bipartisan Infrastructure Law (“BIL”)/Infrastructure Investment Jobs Act created additional funding for the Program. For fiscal years 2022 and 2023, BIL General (“Gen”) capitalization grant and lead service line replacement (“LSL”), a minimum of 49% additional subsidy is required for disadvantaged communities. For fiscal year 2023, BIL Emerging Contaminants (“EC”) capitalization grant, 100% must go to disadvantaged communities.

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

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

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

Notes to Combined Financial Statements

June 30, 2024 and 2023

5. Concentrations (cont.)

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

Federal Fiscal Year	Base Capitalization <u>Grant Award</u>	PF Minimum <u>Amount</u>	DV PF Minimum <u>Amount</u>	PF Maximum <u>Amount</u>	Program Allocation <u>Amount</u>	Cumulative <u>Disbursements</u>	PF Remaining to <u>Disburse</u>
	<i>(In thousands)</i>						
2010-Reopened	\$ 8,920	\$ 8,920	\$ -	\$ -	\$ 6,709	\$ -	\$ 2,211
2011-Reopened	7,979	7,979	-	-	7,249	-	730
2012-Reopened	94	94	-	-	-	-	94
2013-Reopened	1,251	1,251	-	-	-	-	1,251
2014-Reopened	63	63	-	-	-	-	63
2015-Reopened	32	32	-	-	-	-	32
2020-Base	16,566	2,319	993	5,798	8,117	2,736	5,381
2021-Base	16,551	2,317	994	5,793	8,110	1,613	6,497
2022-Base	10,543	1,476	1,265	3,690	3,164	-	3,164
2022-BIL Gen	27,070	-	13,264	13,264	13,264	-	13,264
2022-BIL EC	11,367	-	11,367	11,367	10,773	15	10,758
2022-BIL LSL	42,653	-	20,890	20,890	12,880	12	12,868
2022-Base	5,912	828	709	2,069	2,562	-	2,562
2023-BIL Gen	25,209	-	12,352	12,352	7,651	-	7,651
2023-BIL EC	9,147	-	9,147	9,147	6,206	-	6,206
						<u>\$ 4,376</u>	<u>\$ 72,732</u>

The EPA has financially and programmatically closed all Cap grants through the 2019 Cap Grant. The Program has allocated the maximum amount for federal fiscal years 2020, 2021, 2022, and 2023 base capitalization grants are presented above. The Program has the option to spend up to the maximum amount for each base capitalization grant. In March 2023, the EPA allowed ANRC to obtain unallocated subsidy funds from closed grants. ANRC was able to reclaim \$18.4 million in unused subsidy and allocated most of that in June 2023.

The Program forgives the loans as the construction draws are disbursed. In fiscal years 2024 and 2023, the Program expensed \$3.4 million and \$283,000, respectively, in PF loans.

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

Notes to Combined Financial Statements

June 30, 2024 and 2023

5. **Concentrations (cont.)**

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

Contingencies

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

6. **Subsequent Events Evaluation Date**

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

STATE OF ARKANSAS SAFE DRINKING WATER REVOLVING LOAN FUND PROGRAM

Combining Statement of Net Position

June 30, 2024

(In Thousands)

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

See independent auditor's report.

STATE OF ARKANSAS SAFE DRINKING WATER REVOLVING LOAN FUND PROGRAM

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

For the Year Ended June 30, 2024

(In Thousands)

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

See independent auditor's report.

STATE OF ARKANSAS SAFE DRINKING WATER REVOLVING LOAN FUND PROGRAM

Combining Statement of Cash Flows

For the Year Ended June 30, 2024

(In Thousands)

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

See independent auditor's report.

STATE OF ARKANSAS SAFE DRINKING WATER REVOLVING LOAN FUND PROGRAM

Combining Statement of Cash Flows (cont.)

For the Year Ended June 30, 2024

(In Thousands)

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

See independent auditor's report.

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

Commissioners of the Arkansas Natural
Resources Commission

Board of Directors
Arkansas Development Finance Authority
Little Rock, Arkansas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* (“GAS”) issued by the Comptroller General of the United States, the combined financial statements of the State of Arkansas Safe Drinking Water Revolving Loan Fund Program, which comprise the combined statement of net position as of June 30, 2024, and the related combined statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the combined financial statements, and have issued our report thereon dated November 14, 2024, which contained an “emphasis of matter” paragraph regarding a definition of the reporting entity.

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State of Arkansas Safe Drinking Water Revolving Loan Fund Program's internal control or on compliance. This report is an integral part of an audit performed in accordance with *GAS* in considering the State of Arkansas Safe Drinking Water Revolving Loan Fund Program's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Frost, PLLC

Certified Public Accountants

Little Rock, Arkansas
November 14, 2024

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

Commissioners of the Arkansas Natural
Resources Commission

Board of Directors
Arkansas Development Finance Authority
Little Rock, Arkansas

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the State of Arkansas Safe Drinking Water Revolving Loan Fund Program’s compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on each of the State of Arkansas Safe Drinking Water Revolving Loan Fund Program’s major federal programs for the year ended June 30, 2024. The State of Arkansas Safe Drinking Water Revolving Loan Fund Program’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

In our opinion, the State of Arkansas Safe Drinking Water Revolving Loan Fund Program complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2024.

Basis for Opinion on Each Major Federal Program

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

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

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

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

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

Report on Internal Control Over Compliance

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

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

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

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

Frost, PLLC

Certified Public Accountants

Little Rock, Arkansas
November 14, 2024

STATE OF ARKANSAS SAFE DRINKING WATER
REVOLVING LOAN FUND PROGRAM

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2024

Section I – Summary of Auditor’s Results

Combined Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to combined financial statements noted? Yes No

Federal Awards

Internal control over major programs:

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

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

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

Identification of major federal programs:

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

Capitalization Grants for Drinking Water State Revolving Funds 66.468

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

Auditee qualified as a low-risk auditee? Yes No

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

Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2024

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

No matters were reported in the June 30, 2023 Schedule of Findings and Questioned Costs.

STATE OF ARKANSAS SAFE DRINKING WATER
REVOLVING LOAN FUND PROGRAM

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2024

(In Thousands)

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

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

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

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Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2024

1. The accompanying schedule of expenditures of federal awards (“SEFA”) includes the federal award activity of the State of Arkansas Safe Drinking Water Revolving Loan Fund Program under programs of the federal government for the year ended June 30, 2024. The information in the SEFA is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (“Uniform Guidance”). Because the SEFA presents only a selected portion of the operations of the State of Arkansas Safe Drinking Water Revolving Loan Fund Program, it is not intended to and does not present the net position, changes in net position or cash flows of the State of Arkansas Safe Drinking Water Revolving Loan Fund Program.
2. Expenditures reported on the SEFA are reported on the accrual basis of accounting. Disbursements are recognized following, as applicable, the cost principles in the U.S. Office of Management and Budget’s Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The State of Arkansas Safe Drinking Water Revolving Loan Fund Program has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.
3. Expenditures reflected in FAL 66.468, Capitalization Grants for Drinking Water State Revolving Funds, include loans to counties, municipalities, and other tax-exempt water system entities for construction of new water systems, expansion, or repair of existing water systems and/or consolidation of new or existing water systems. The funding source for these loans includes federal grant funds, state match funds, bond funds and revolving program funds. The funds are disbursed to the subrecipients after expenses have been incurred as forgiveness of principal and repayable loans. The State of Arkansas Safe Drinking Water Revolving Loan Fund Program’s outstanding loan receivable balance from subrecipients from all funding sources was \$206.3 million for the year ended June 30, 2024. There were no federal loan disbursements for repayable loans during fiscal year 2024. Total loans forgiven totaled \$3.4 million during fiscal year 2024. For the year ended June 30, 2024, the State of Arkansas Safe Drinking Water Revolving Loan Fund Program received \$4.2 million in federal funds for administrative costs, which were disbursed to the administration agencies.

APPENDIX E

CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement") is executed and delivered by the Arkansas Development Finance Authority, a body politic and corporate, organized and existing under the laws of the State of Arkansas (the "Issuer"), and the Arkansas Natural Resources Commission (the "Commission"), which covenant and agree for the benefit of the holders of the \$69,045,000* Arkansas Development Finance Authority Revolving Loan Fund Revenue Bonds, Series 2025 (the "Series 2025 Bonds") issued under (i) the "Revolving Loan Fund Revenue Bond Program General Bond Resolution" adopted by the Authority on July 20, 2023, (ii) a series resolution entitled "Series Resolution Authorizing the Issuance of Revolving Loan Fund Revenue Bonds, Series 2025 in a Principal Amount Not to Exceed \$75,000,000" adopted by the Authority on January 16, 2025 and (iii) a confirming resolution entitled "Resolution Confirming the Aggregate Principal Amount, Maturity and Interest Rate Schedules, and Redemption Features of the Revolving Loan Fund Revenue Bonds, Series 2025" adopted on February 20, 2025 (collectively, the "Series Resolution" and together with the General Resolution, the "Resolution").

Section 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Issuer and the Commission for the benefit of the Owners of the Series 2025 Bonds and in order to assist the Participating Underwriter in complying with, and constitutes the written undertaking for the benefit of the Owners of the Series 2025 Bonds required by Section (b)(5)(1) of Securities and Exchange Commission Rule 15c2-12 under the Securities Exchange Act of 1934, as amended (17 C.F.R. § 240.15c2-12) (the "Rule"). Capitalized terms used in this Disclosure Agreement not otherwise defined shall have the meanings assigned to them in Section 2 herein or in the Resolution.

The Issuer and the Commission, as "obligated persons" within the meaning of the Rule, undertake to provide the following information as provided in this Disclosure Agreement:

- (a) Annual Financial Information;
- (b) Audited Financial Statements; and
- (c) Listed Event Notices.

Section 2. Definitions. In addition to the definitions set forth in the Resolution, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Financial Information" means the financial information, provided at least annually, consisting of the financial and operating information contained in the sections of the Official Statement dated _____, 2025 more particularly described in Schedule 1, attached hereto, which Annual Financial Information shall include Audited Financial Statements. Any or all of the items listed above may be included in the Annual Financial Information by specific reference to other documents, including official statements of debt issues of the Issuer or the Commission or related public entities, which have been previously provided to the MSRB or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the MSRB. The Issuer and the Commission shall clearly identify in the Annual Financial Information each such other document so included by reference.

"Audited Financial Statements" means the annual financial statement of the Clean Water Program, the Drinking Water Program and certain Borrowers, if any, who are deemed by the Issuer or the Commission as "obligated persons" with respect to the Series 2025 Bonds, if any, prepared in accordance with generally accepted accounting principles for governmental units as prescribed by the Governmental Accounting

* Preliminary; subject to change.

Standards Board, which financial statements shall have been audited by a firm of independent certified public accountants or such auditor as shall be required or permitted by the State of Arkansas.

"Dissemination Agent" means the Issuer, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Issuer and which has filed with the Trustee, a written acceptance of such designation.

"EMMA" shall mean the Electronic Municipal Market Access system as described in 1934 Act Release No. 59062 and maintained by the MSRB for purposes of the Rule.

"Financial Obligation" shall mean a

- (A) Debt obligation;
- (B) Derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or
- (C) Guarantee of obligations described in (A) or (B).

The term Financial Obligation shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

"Listed Event" means any of the following events with respect to the Series 2025 Bonds:

- (i) Principal and interest payment delinquencies;
- (ii) Non-payment related defaults, if material;
- (iii) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) Substitution of credit or liquidity providers, or their failure to perform;
- (vi) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Series 2025 Bonds, or other material events adversely affecting the tax status of the Series 2025 Bonds;
- (vii) Modifications to rights of Owners of the Series 2025 Bonds, if material;
- (viii) Series 2025 Bond calls (other than mandatory sinking fund redemptions, if any), if material;
- (ix) Defeasances and tender offers;
- (x) Release, substitution, or sale of property securing repayment of the Series 2025 Bonds, if material;
- (xi) Rating changes;
- (xii) Bankruptcy, insolvency, receivership or similar event of the Issuer, the Commission or any other obligated person;
- (xiii) The consummation of a merger, consolidation or acquisition involving the Issuer, the Commission or any other obligated person or the sale of all or substantially all of the assets of the Issuer,

the Commission or any other obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;

(xiv) Appointment of a successor or additional trustee or the change of name of a trustee, if material;

(xv) Incurrence of a Financial Obligation of the Issuer, the Commission or any other obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the Issuer, the Commission or any other obligated person, any of which affect Owners of the Series 2025 Bonds, if material; and

(xvi) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the Issuer, the Commission or any other obligated person, any of which reflect financial difficulties.

"Listed Event Notice" means notice of a Listed Event.

"MSRB" means the Municipal Securities Rulemaking Board.

"Obligated Persons" means, in addition to the Issuer and the Commission, certain Borrowers which have a Borrower Obligation or Obligations with an outstanding aggregate principal amount on the last day of the Issuer's fiscal year equal to or greater than an amount which represents 20% of the total outstanding principal amount of all Designated Borrower Obligations.

"Owner" of a Series 2025 Bond shall mean any person who has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Series 2025 Bonds (including persons holding Series 2025 Bonds through nominees, depositories or other intermediaries).

"Participating Underwriter" means collectively Stephens Inc., Crews & Associates, Inc. and Raymond James & Associates, Inc., the original underwriters of the Series 2025 Bonds required to comply with the Rule in connection with an offering of the Series 2025 Bonds.

"Trustee" means Regions Bank, as trustee and paying agent for the Series 2025 Bonds.

Section 3. Provision of Annual Reports. (a) While any Series 2025 Bonds are outstanding, the Issuer and the Commission shall, or shall cause the Dissemination Agent to, provide the Annual Financial Information on or before 180 days after the end of the Issuer's fiscal year (the "Report Date"), commencing with the report for the fiscal year ending June 30, 2025, to the MSRB, through its continuing disclosure service portal provided through EMMA at <http://www.emma.msrb.org> or any similar system acceptable to the Securities and Exchange Commission. The Annual Financial Information shall be filed in electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB. Not later than 15 Business Days prior to said date, the Issuer and the Commission shall provide the Annual Financial Information to the Dissemination Agent. The Issuer shall include with each such submission of Annual Financial Information to the Dissemination Agent a written representation to the effect that the Annual Financial Information is the Annual Financial Information required to be provided by the Issuer and the Commission pursuant to this Disclosure Agreement and that it complies with the applicable requirements of this Disclosure Agreement. In each case, the Annual Financial Information may be submitted as a single document or as a set of documents, and all or any part of such Annual Financial Information may be provided by specific cross-reference to other documents previously provided to the MSRB, or filed with the Securities and Exchange Commission, and, if such a document is a final official statement within the meaning of the Rule, available from the MSRB, as provided in the definition of Annual Financial Information.

(b) If not available at the time Annual Financial Information is due as set forth in (a) above, the Issuer shall, or shall cause the Dissemination Agent to, file the Audited Financial Statements on EMMA within 30 days after receipt thereof by the Issuer or the Commission, as the case may be.

(c) If the Issuer is not serving as Dissemination Agent, and if by 15 Business Days prior to a Report Date the Dissemination Agent has not received a copy of the Annual Financial Information, the Dissemination Agent shall contact the Issuer to notify the Issuer that it has not received the Annual Financial Information and remind each party that such information must be provided to the MSRB by the Report Date. For the purposes of determining whether information received from the Issuer and the Commission is Annual Financial Information, the Dissemination Agent shall be entitled conclusively to rely on the Issuer's written representation made pursuant to clause (a) of this Section.

(d) The Dissemination Agent shall file a report to be maintained by the Issuer certifying that the Annual Financial Information has been provided pursuant to this Disclosure Agreement and stating the date it was provided.

(e) If the Issuer is not serving as Dissemination Agent, and if the Dissemination Agent does not receive the Annual Financial Information, the Dissemination Agent shall, without further direction or instruction from the Issuer, provide in a timely manner to the MSRB notice of any failure by the Issuer and the Commission while any Series 2025 Bonds are Outstanding to provide to the Dissemination Agent Annual Financial Information on or before the Report Date.

Section 4. Reporting of Listed Events. (a) If a Listed Event occurs while any Series 2025 Bonds are Outstanding (and, in the case of a Listed Event with respect to an obligated person other than the Issuer, then upon the Issuer having knowledge thereof), the Issuer shall provide, or shall cause to be provided by the Trustee, a Listed Event Notice, in a timely manner not in excess of 10 Business Days after the occurrence of such Listed Event, to the MSRB, through its continuing disclosure service portal provided through EMMA at <http://www.emma.msrb.org> or any other similar system that is acceptable to the Securities and Exchange Commission. Each notice of the occurrence of a Listed Event shall be captioned "Notice of Listed Event" and shall be filed in electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

(b) Whenever the Commission obtains knowledge of the occurrence of a Listed Event, the Commission agrees to report such occurrence to the Issuer as soon as reasonably possible. The Issuer shall as soon as reasonably possible determine if such event must be filed pursuant to this Disclosure Agreement.

(c) The Trustee shall promptly advise the Issuer whenever, in the course of performing its duties as Trustee hereunder, the Trustee identifies an occurrence which would require the Issuer to provide a Listed Event Notice, provided that the failure of the Trustee so to advise the Issuer shall not constitute a breach by the Trustee of any of its duties and responsibilities hereunder.

(d) If the Trustee has been instructed by the Issuer to report the occurrence of a Listed Event, the Trustee shall file a notice of such occurrence with the MSRB through EMMA. Notwithstanding the foregoing, notice of Listed Events described in subsections (viii) and (ix) of the definition of "Listed Event" in Section 2 of this Disclosure Agreement need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to the beneficial owners of affected Series 2025 Bonds pursuant to the Resolution.

(e) Notwithstanding the above, the Trustee shall file a notice in accordance with subsection (d) above of Listed Events described in subsections (viii) and (ix) of the definition of "Listed Event" in Section 2 of this Disclosure Agreement without direction from the Issuer and without a determination by the Issuer as whether such event must be filed pursuant to applicable federal securities laws.

Section 5. Termination of Reporting Obligation. The Issuer's and the Commission's obligations under this Disclosure Agreement shall automatically terminate once the Series 2025 Bonds are no longer outstanding. Any provision of this Disclosure Agreement shall be null and void in the event the Issuer

delivers an opinion of nationally recognized bond counsel to the effect that those portions of the Rule which require the provisions of such undertaking or portion thereof are invalid, have been repealed retroactively or otherwise do not apply to the Series 2025 Bonds; provided that the Issuer shall have provided notice of such delivery and the cancellation of such undertaking or provision thereof to the MSRB.

Section 6. Dissemination Agent. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. If at anytime there is not any other designated Dissemination Agent, the Issuer shall be the Dissemination Agent.

Section 7. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Issuer and the Commission may amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived by the parties hereto, if such amendment or waiver is supported, by an opinion of counsel expert in federal securities laws, acceptable to the Issuer, to the effect that such amendment or waiver would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule, provided that the Issuer shall have provided notice of such delivery and of the amendment to the MSRB. Any such amendment shall satisfy, unless otherwise permitted by the Rule, the following conditions:

(a) The amendment may only be made in connection with a change in circumstances that arises from a change in legal reimbursements, change in law or change in the identity, nature or status of the obligated person or type of business conducted;

(b) This Disclosure Agreement, as amended, would have complied with the requirements of the Rule at the time of the primary offering, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment does not materially impair the interests of the Owners of the Series 2025 Bonds, as determined by a nationally recognized bond counsel, or by approving vote of the Owners of the Series 2025 Bonds pursuant to the terms of the Resolution at the time of the amendment.

The initial Annual Financial Information after the amendment shall explain, in narrative form, the reasons for the amendment and the effect of the change, if any, in the type of operating data or financial information being provided.

Section 8. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Issuer or the Commission from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Financial Information or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Issuer or the Commission chooses to include any information in any Annual Financial Information or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, neither the Issuer nor the Commission shall have any obligation under this Disclosure Agreement to update such information or include it in any future Annual Financial Information or notice of occurrence of a Listed Event.

Section 9. Default. In the event of a failure of the Issuer, the Commission or the Dissemination Agent to comply with any provision of this Disclosure Agreement, any Owner of the Series 2025 Bonds may seek mandate or specific performance by court order, to cause the Issuer or the Commission, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Resolution, and the rights and remedies provided by the Resolution upon the occurrence of an "Event of Default" shall not apply to any such failure. Neither the Issuer nor the Commission shall be liable for any breach of its obligations under this Section unless such breach is the result of willful or reckless actions or omissions. The sole remedy under this Disclosure Agreement in the event of any failure of the Issuer or the Dissemination Agent to comply with this

Disclosure Agreement shall be an action to compel performance and the Issuer, its members, officers and employees shall incur no liability under this Disclosure Agreement by reason of any act or failure to act hereunder. Without limiting the generality of the foregoing, neither the commencement nor the successful completion of an action to compel performance under this Section shall entitle any person to attorney's fees, financial damages of any sort or any other relief other than an order or injunction compelling performance.

Section 10. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Issuer and the Commission agree to indemnify and save the Dissemination Agent, its officers, directors, employees and agents harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the Issuer and the Commission under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Series 2025 Bonds.

Section 11. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Issuer, the Commission and the Owners from time to time of the Series 2025 Bonds or any interest therein, and shall create no rights in any other person or entity.

Section 12. Interpretation. It being the intention of the parties that there be full and complete compliance with the Rule, this Disclosure Agreement shall be construed in accordance with the written interpretative guidance and no-action letters published from time to time by the Securities and Exchange Commission and its staff with respect to the Rule.

Section 13. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 14. Choice of Law. This Disclosure Agreement shall be governed by and construed in accordance with the laws of the State of Arkansas, provided that to the extent this Disclosure Agreement addresses matters of federal securities laws, including the Rule, this Disclosure Agreement shall be construed in accordance with such federal securities laws and official interpretations thereof.

Dated: _____, 2025.

ARKANSAS DEVELOPMENT FINANCE AUTHORITY

By: _____
Authorized Representative

ARKANSAS NATURAL RESOURCES COMMISSION

By: _____
Authorized Representative

**SCHEDULE 1 TO CONTINUING DISCLOSURE AGREEMENT
ANNUAL FINANCIAL INFORMATION**

The Issuer shall provide the financial information that is included in the Official Statement under the following headings:

1. "APPENDIX B - INFORMATION CONCERNING THE CLEAN WATER LOANS AND CERTAIN BORROWERS"*;
2. "APPENDIX B - INFORMATION CONCERNING THE DRINKING WATER LOANS AND CERTAIN BORROWERS"*; and
3. Audited financial statements under "APPENDIX D - FINANCIAL STATEMENTS OF THE REVOLVING LOAN FUND PROGRAMS."

* "Appendix B" discloses certain financial and operating information of certain Borrowers to the extent that such Borrowers are defined as Obligated Persons.

APPENDIX F BOOK-ENTRY ONLY SYSTEM

The Depository Trust Company, New York, New York ("DTC"), or its successor, will act as securities depository for the Series 2025 Bonds. The Series 2025 Bonds will each be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 2025 Bond certificate for each maturity, interest rate and series will be issued in the principal amount of the maturity and interest rate and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Series 2025 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2025 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2025 Bond (referred to herein as "Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2025 Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interest in Series 2025 Bonds, except in the event that use of the book-entry system for the Series 2025 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2025 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2025 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2025 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices will be sent only to Cede & Co. If fewer than all of the Series 2025 Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2025 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2025 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, interest and premium, if any, payments on the Series 2025 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or Trustee, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, interest and premium, if any, to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2025 Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Series 2025 Bonds are required to be printed and delivered. The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Series 2025 Bonds will be printed and delivered.

The information concerning DTC and DTC's book-entry system set forth above has been obtained from DTC. Neither the Underwriters nor the Authority make any representation or warranty regarding the accuracy or completeness thereof.

So long as the Series 2025 Bonds are in book-entry only form, Cede & Co., as nominee for DTC, will be treated as the sole owner of the Series 2025 Bonds for all purposes under the Resolutions, including receipt of all principal of and interest on the Series 2025 Bonds, receipt of notices, voting and requesting or directing the Trustee to take or not to take, or consenting to, certain actions under the Resolutions. The Authority and the Trustee have no responsibility or obligation to the Participants or the Beneficial Owners with respect to (a) the accuracy of any records maintained by DTC or any Participant; (b) the payment by any Participant of any amount due to any Beneficial Owner in respect of the principal of and interest on the Series 2025 Bonds; (c) the delivery or timeliness of delivery by any Participant of any notice to any Beneficial Owner which is required or permitted under the terms of the Indenture to be given to owners of Series 2025 Bonds; or (d) other action taken by DTC or Cede & Co. as owner of the Series 2025 Bonds.