

**Arkansas Development Finance Authority,
A Component Unit of the State of Arkansas**

Auditor's Report and Financial Statements

June 30, 2014 and 2013



**Arkansas Development Finance Authority,
A Component Unit of the State of Arkansas**
June 30, 2014 and 2013

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Independent Auditor's Report

The Board of Directors of
Arkansas Development Finance Authority (ADFA)

We have audited the accompanying basic financial statements of Arkansas Development Finance Authority (the Authority), a component unit of the State of Arkansas, which are comprised of statements of net position as of June 30, 2014 and 2013, and the related statements of revenues, expenses and changes in net position and statements of cash flows for the years ended June 30, 2014 and 2013, and the related notes to the basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in *Note 9* to the financial statements, in 2014 the Authority adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*, by restating the 2013 financial statements. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic 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 financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic 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 an opinion on the basic financial statements as a whole. The supplementary information listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic 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 financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2014, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

BKD, LLP

Little Rock, Arkansas
October 31, 2014

**Arkansas Development Finance Authority,
A Component Unit of the State of Arkansas**
Management's Discussion and Analysis
June 30, 2014 and 2013

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 Arkansas Development Finance Authority ("ADFA" or "the Authority"). Readers are encouraged to consider the information presented in conjunction with the financial statements and notes as a whole.

Understanding the Financial Statements

The June 30, 2014 basic financial statements include three required statements: the statement of net position; the statement of revenues, expenses and changes in net position; and the statement of cash flows. Comparative totals as of and for the years ended June 30, 2013 and 2012, are also presented. These comparative totals are intended to facilitate an enhanced understanding of the Authority's financial position and results of operations for the current fiscal year in comparison to the prior fiscal years. The statement of net position and the statement of revenues, expenses and changes in net position are presented for all of ADFA's programs in the Combining Statements. ADFA has eight programs presented as supplementary information following the Notes to Financial Statements: Single Family Housing Programs, Federal Housing Programs, Multi-Family Programs, Economic Development Bond Guaranty Program, State Facilities and Amendment 82 Programs, Other Economic Development Programs, Tobacco Bonds Program and General Fund Programs. In addition, there is further information provided on the Single Family Housing Programs to detail the Authority's Single Family Mortgage Revenue Bond Resolution, adopted on July 20, 1995, which is part of the Single Family Mortgage Purchase Program and the New Issue Bond Program (NIBP). A description of each of these programs is included in *Note 1* of the Notes to Financial Statements. ADFA adopted a new accounting principle applicable to prior years that resulted in a restatement of net position. These changes are reflected as a cumulative restatement to beginning net position in 2013. The balances presented for 2012 have not been restated for this change. See *Note 9* to the financial statements.

Condensed Statements of Net Position

(In thousands)

	2014	2013 Restated	2012
Capital assets	\$ 72	\$ 102	\$ 126
Other assets	<u>1,146,047</u>	<u>1,112,914</u>	<u>1,206,815</u>
Total assets	<u>1,146,119</u>	<u>1,113,016</u>	<u>1,206,941</u>
Deferred outflow of resources	<u>183</u>	<u>588</u>	<u>-</u>
Current liabilities	49,591	46,174	89,574
Noncurrent liabilities	<u>789,434</u>	<u>773,152</u>	<u>826,993</u>
Total liabilities	<u>839,025</u>	<u>819,326</u>	<u>916,567</u>
Net position			
Restricted by bond resolution and programs	216,666	183,983	169,972
Invested in capital assets	72	102	126
Unrestricted	<u>90,539</u>	<u>110,193</u>	<u>120,276</u>
Net position	<u>\$ 307,277</u>	<u>\$ 294,278</u>	<u>\$ 290,374</u>

**Arkansas Development Finance Authority,
A Component Unit of the State of Arkansas**
Management's Discussion and Analysis
June 30, 2014 and 2013

June 30, 2014 to June 30, 2013

At June 30, 2014, total assets were \$1.14 billion compared to \$1.11 billion at June 30, 2013, increasing \$30 million, or 3%. Total assets consisted primarily of investments of \$457.6 million, cash of \$235.6 million, loans (net of allowance) of \$299.6 million and direct financing leases of \$132.2 million at June 30, 2014.

Investments decreased \$63.2 million, or 12%, to \$457.6 million at June 30, 2014, from \$520.8 million at June 30, 2013. The decrease is attributed to the principal receipts on mortgage-backed security balances, which were used to redeem outstanding bonds, primarily in the Single Family Housing Programs and the liquidation of a guaranteed investment contract to redeem the 2001C Multi-family bonds.

The Authority's current assets increased \$92.3 million, or 60%, to \$245.3 million at June 30, 2014, from \$153.0 million at June 30, 2013. The increase is mainly attributable to the increase in cash and cash equivalents from receipt of approximately \$125 million in bond proceeds at the end of June due to the issuance of the Amendment 82 bonds. This increase was offset by paying down debt service on other bond issues or complete redemptions.

Direct financing leases increased \$3.6 million, or 3%, since June 30, 2013. This increase is primarily attributed to funding leases closed in prior year, net of repayments received.

The Authority's current liabilities increased to \$49.6 million from \$46.2 million. This increase is attributed mainly to the 1988 Below Market Interest Rate (BMIR) bond program scheduled to mature during fiscal year 2015 and the residual assets owed to several states who participated in the bond deal. Also affecting the increase in current liabilities are the Department of Corrections' Prison Construction Trust Fund contract obligations expected to be funded in fiscal year 2015. These increases are offset by decreases in bond interest due next fiscal year compared to last year. Total noncurrent liabilities increased \$16.3 million, or 2%, since June 30, 2013, and consisted primarily of net bonds and notes payable. This increase is attributed to new issuances exceeding bond redemptions. The increase in total liabilities was mainly due to new issuances of bonds and notes of \$193.4 million offset by scheduled bond and note redemptions of \$51.5 million and special and optional bond and note redemptions of \$129.5 million. Additional information on the Authority's long-term debt can be found in *Note 5* of the Notes to Financial Statements.

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June 30, 2013 to June 30, 2012

At June 30, 2013, total assets were \$1.1 billion compared to \$1.2 billion at June 30, 2012, decreasing \$91.2 million or 8%. Total assets consisted primarily of investments of \$520.8 million, cash of \$146.5 million, loans (net of allowance) of \$302.3 million and direct financing leases of \$128.6 million at June 30, 2013.

Investments decreased \$75.6 million, or 13%, to \$520.8 million at June 30, 2013, from \$596.4 million at June 30, 2012. The decrease is attributed to the decrease in the fair value and to the principal receipts on mortgage-backed security balances, which were used to redeem outstanding bonds, primarily in the Single Family Housing Programs.

The Authority's current assets decreased \$9.6 million, or 6%, to \$153.0 million at June 30, 2013, from \$162.5 million at June 30, 2012. Part of this decrease is attributed to the net decrease in cash and cash equivalents of \$5.1 million, or 3%, since June 30, 2012. The decrease was attributed to the decline in the NIBP money market fund, which was used to redeem escrow bonds and to fund mortgage-backed securities ("MBS"). The cash decrease was offset by the receipt of MBS remittances of principal and interest and the proceeds from a Single Family Bond issue during June 2013. Current loans also decreased \$3.7 million, or 70%, due to a bond anticipation loan converting to a long term loan.

Direct financing leases decreased \$6.0 million, or 4%, since June 30, 2012. This decrease is primarily attributed to repayments on outstanding leases.

The Authority's current liabilities decreased to \$46.2 million from \$89.6 million. This decrease is attributed to \$30 million in NIBP escrow bonds being redeemed during the year. Total noncurrent liabilities decreased \$53.8 million, or 7%, since June 30, 2012, and consisted primarily of net bonds and notes payable. The decrease is attributed to bond redemptions exceeding new issuances. Total liabilities decreased due to scheduled bond and note redemptions of \$127.2 million and special and optional bond and note redemptions of \$394.9 million offset by new issuances of bonds and notes of \$426.0 million. Additional information on the Authority's long-term debt can be found in *Note 5* of the Notes to Financial Statements.

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Condensed Statements of Revenues, Expenses and Changes in Net Position

<i>(In thousands)</i>	2014	2013 Restated	2012
Total investment income	\$ 41,899	\$ 22,193	\$ 53,387
Other income	<u>11</u>	<u>19</u>	<u>271</u>
Total operating revenues	<u>41,910</u>	<u>22,212</u>	<u>53,658</u>
Total interest on bonds and notes	28,222	32,106	38,333
Total amortization	(478)	195	379
Administrative expenses	<u>13,009</u>	<u>21,951</u>	<u>31,823</u>
Total operating expenses	<u>40,753</u>	<u>54,252</u>	<u>70,535</u>
Operating gain (loss)	1,157	(32,040)	(16,877)
Federal grants	10,724	28,313	45,637
State grants	<u>-</u>	<u>-</u>	<u>50</u>
Total nonoperating revenues	<u>10,724</u>	<u>28,313</u>	<u>45,687</u>
Income (loss) before transfers in	11,881	(3,727)	28,810
Transfers in	<u>1,118</u>	<u>8,419</u>	<u>17,587</u>
Change in net position	12,999	4,692	46,397
Net position			
Beginning of year	<u>294,278</u>	<u>289,586</u>	<u>243,977</u>
End of year	<u>\$ 307,277</u>	<u>\$ 294,278</u>	<u>\$ 290,374</u>

ADFA's income before transfers in totaled \$11.9 million for the year ended June 30, 2014, compared with a loss of \$3.7 million and income of \$28.8 million for the years ended June 30, 2013 and 2012, respectively. The increase from the prior year relates primarily to the increase in the fair value of investments of \$23.7 million along with decreases in provision for loan losses of \$7.4 million and federal financial assistance programs expense of \$3.7 million. These positive impacts on income before transfers in were offset by the decrease in federal grants of \$17.6 million. The decrease from the year ended June 30, 2012 to June 30, 2014, primarily relates to a decrease in interest and dividends of \$6.1 million and federal grants of \$34.9 million, offset by decreases in interest on bonds and notes of \$10.1 million, provision of loan losses of \$8.9 million and federal financial assistance programs expense of \$11.0 million.

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Transfers in have historically represented the receipt of the annual tobacco settlement revenue pledged to the Tobacco Bonds Program of \$5.0 million. Transfers in decreased \$7.3 million from the prior year ended June 30, 2013 and decreased \$16.5 million from June 30, 2012 to June 30, 2014. Part of the decrease for fiscal year 2014 relates to the State Small Business Credit Initiative (SSBCI) program transferring funds out of \$3.9 million to programs ADFA administers for other state entities. The two-year decrease in transfers in since June 30, 2012, is also attributed to the Community Development Block Grant (CDBG) Program funds received of \$9.4 million from the U.S. Housing and Urban Development through the Arkansas Economic Development Commission to be used for affordable housing pursuant to a Memorandum of Understanding between the two state agencies. The majority of this funding was done in fiscal years 2012 and 2013, but not in fiscal year 2014. In addition, the large fluctuation from fiscal year 2012 is attributed to the receipt of \$9 million in fiscal year 2012 allocated to ADFA by the Attorney General for the purpose of funding affordable housing programs for Arkansas residents. These funds were part of a total sum received by the State of Arkansas pursuant to a lawsuit commonly referred to as the national mortgage foreclosure settlement (Settlement Funds.)

Other Financial Highlights

Years ended June 30, 2014 to June 30, 2013

Loans and direct financing lease income was \$15.5 million for fiscal year ended June 30, 2014, compared with \$17.4 million for the prior year. The decrease relates primarily to declining loan and lease balances in the majority of all programs but the Federal Housing Program. Interest income on Federal Housing Program loans will be recognized when loan repayment begins. The related average interest yield decreased to 2.86% for June 30, 2014, from 3.2% at June 30, 2013.

Revenues from investment interest and dividends were \$20.5 million for fiscal year 2014 and \$23.5 million for fiscal year 2013. The decrease is primarily attributable to the average cash and investment balance declining from \$606.2 million to \$573.3 million. The average return on cash, cash equivalents and investments was 3.6% for June 30, 2014, and 3.9% for June 30, 2013.

Federal grants decreased \$17.6 million during the year to \$10.7 million for the year ended June 30, 2014. The decrease is primarily attributed to the Neighborhood Stabilization Programs declining \$7.7 million from prior year and the SSBCI Program of \$8.8 million funding in fiscal year 2013, with no funding in fiscal year 2014.

The average interest expense on bonds and notes payable was 3.9% at June 30, 2014 and 4.0% at June 30, 2013.

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Total administrative expenses vary from year to year primarily due to changes in the provision for loan losses and federal financial assistance programs. Fiscal year ended June 30, 2014, reflected an \$8.9 million decrease in total administrative expenses. The federal financial assistance programs decreased \$3.7 million and the provision for loan losses decreased \$7.4 million, offset by an increase of \$2.2 million in other expenses. Federal financial assistance programs decreased due to forgivable loan activity decreasing in the HOME and CDBG programs during the current year. Settlement funds were used instead of HOME funds in the current year for this activity and were recorded in other expenses. Provision for loan losses decrease was due to CDBG, Tax Credit Assistance Program (TCAP), and Bond Guaranty Programs decreasing the amount of reserves needed in the current year. CDBG and TCAP programs are reserved at 100% when loans are funded. CDBG had no activity during the current year and TCAP reserves were adjusted due to repayments being received. Bond Guaranty Programs were decreased due to some loans receiving a lower credit risk than in prior years.

Years ended June 30, 2013 to June 30, 2012

Loans and direct financing lease income was \$17.4 million for fiscal year ended June 30, 2013, compared with \$18.1 million for the prior year. The decrease relates primarily to declining loan and lease balances in the majority of all programs but the Federal Housing Program. Interest income on Federal Housing Program loans will be recognized when loan repayment begins. The related average interest yield decreased to 3.2% for June 30, 2013, from 3.4% at June 30, 2012.

Revenues from investment interest and dividends were \$23.5 million for fiscal year 2013 and \$26.6 million for fiscal year 2012. The decrease is primarily attributable to the average cash and investment balance declining from \$720.7 million to \$606.2 million. The average return on cash, cash equivalents and investments was 3.9% for June 30, 2013, and 3.7% for June 30, 2012.

Federal grants decreased \$17.3 million during the year to \$28.3 million for the year ended June 30, 2013. The decrease is primarily attributed to the HOME Program declining \$16.6 million from prior year and the Section 1602 Exchange Program declining \$8 million, which ended December 2011. The decrease was offset by increases in the State Small Business Credit Initiative Program of \$4.8 million and Neighborhood Stabilization Programs of \$3 million.

The average interest expense on bonds and notes payable was 4.0% at June 30, 2013 and 4.2% at June 30, 2012.

Total administrative expenses vary from year to year primarily due to changes in the provision for loan losses and federal financial assistance programs. Fiscal year ended June 30, 2013, reflected a \$9.9 million decrease in total administrative expenses. The federal financial assistance programs decreased \$7.3 million, due to the Section 1602 Exchange Program activity ending in the prior year. The provision for loan losses decreased \$1.5 million, attributed mainly to the HOME program decreased activity from prior year.

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Other Information

Tobacco Bonds Program—ADFA issued \$60.0 million of revenue bonds in 2001 associated with the State of Arkansas' Tobacco Settlement Revenue (TSR) used by participating colleges to construct and equip three facilities outlined by the Arkansas Tobacco Settlement Funds Act of 2000. The bonds are repaid from the first \$5.0 million of annual TSRs paid to the state. The financial statements for this program primarily reflect the debt service reserve account and bonds payable, but not the buildings as they reside on the financial statements of the respective colleges. Interest income is recorded as deposits against financing arrangements on the statement of net position while interest expense is recorded as such on the statement of revenues, expenses and changes in net position.

ADFA issued \$36.9 million in non-callable capital appreciation bonds for the Arkansas Cancer Research Center Project in 2006. These 40-year bonds utilize the revenue stream of the initial tobacco bonds when those bonds are fully redeemed, which is projected for 2021. This bond issue includes a loan agreement between ADFA and the University of Arkansas Board of Trustees (the University), whereby the University agreed to provide for repayment of the bonds in the event the TSRs are not available. Therefore, as bond proceeds were disbursed, ADFA recorded a loan receivable for the corresponding amounts, as well as for any interest accretion on the bonds. The loan receivable was \$54.6 million at June 30, 2014, compared with \$51.9 million and \$49.5 million at June 30, 2013 and 2012, respectively.

Amendment 82 Program—ADFA issued \$125 million of general obligation bonds of the State of Arkansas on June 30, 2014, as authorized under Amendment 82 of the Arkansas Constitution. The Bonds were issued to provide funds to finance certain costs of a steel mill project. The Bonds are direct general obligations of the State of Arkansas, secured by an irrevocable pledge of the full faith and credit of the State, and payable from the general revenues of the State and other sources. The financial statements for this program primarily reflect the bond proceeds held to pay certain project costs and the corresponding bonds payable. Interest income is offset by interest expense on the statement of revenues, expenses, and changes in net position.

Credit Ratings

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

The Authority also administers the Bond Guaranty Fund created by Act 505. The fund currently has a rating of "A" from Standard & Poor's. The obligations of the Authority as guarantor are limited to available monies in the ADFA Guaranty Reserve Account, created and maintained pursuant to the authority conferred in the ADFA Guaranty Act.

ADFA's overall financial position has improved.

**Arkansas Development Finance Authority,
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Management's Discussion and Analysis
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Contacting ADFA

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

Arkansas Development Finance Authority, A Component Unit of the State of Arkansas

Statements of Net Position June 30, 2014 and 2013

<i>(In thousands)</i>	<u>2014</u>	<u>2013</u> <i>Restated –</i> <i>Note 9</i>
Current Assets		
Cash and cash equivalents	\$ 235,623	\$ 146,547
Accrued interest receivable		
Investments	1,712	1,954
Loans	941	1,095
Accounts receivable	686	712
Investments – current portion	3,523	1,024
Loans – current portion	<u>2,801</u>	<u>1,637</u>
Total current assets	<u>245,286</u>	<u>152,969</u>
Noncurrent Assets		
Investments – unrestricted	49,154	49,884
Investments – restricted	404,909	469,911
Loans, net of allowance for loan losses of \$77,769 and \$82,256 at June 30, 2014 and 2013, respectively	296,750	300,632
Long term receivable	5,000	-
Direct financing leases – restricted	132,210	128,608
Installment sale agreement	10,340	10,870
Real estate owned	2,398	40
Capital assets, net	<u>72</u>	<u>102</u>
Total noncurrent assets	<u>900,833</u>	<u>960,047</u>
Total assets	<u>1,146,119</u>	<u>1,113,016</u>
Deferred Outflow of Resources		
Deferred charge on refunding	<u>183</u>	<u>588</u>
Current Liabilities		
Accounts payable	2,849	248
Accrued interest payable	6,639	8,762
Contract obligations – current portion	7,158	4,784
Bonds and notes payable – current portion	<u>32,945</u>	<u>32,380</u>
Total current liabilities	<u>49,591</u>	<u>46,174</u>
Noncurrent Liabilities		
Unearned fees	2,399	2,012
Contract obligations	998	2,027
Bonds and notes payable, net of unamortized premiums and discounts	751,257	736,998
Deposits against financing arrangements	29,240	28,674
Other liabilities	<u>5,540</u>	<u>3,441</u>
Total noncurrent liabilities	<u>789,434</u>	<u>773,152</u>
Total liabilities	<u>839,025</u>	<u>819,326</u>
Net Position		
Restricted by bond resolution and programs	216,666	183,983
Invested in capital assets	72	102
Unrestricted	<u>90,539</u>	<u>110,193</u>
Net position	<u>\$ 307,277</u>	<u>\$ 294,278</u>

**Arkansas Development Finance Authority,
A Component Unit of the State of Arkansas**
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2014 and 2013

<i>(In thousands)</i>	2014	2013 Restated – Note 9
Operating Revenues		
Investment income		
Interest and dividends	\$ 20,477	\$ 23,497
Loans and direct financing leases	15,538	17,355
Amortization of discounts on loans	106	197
Financing fees	4,037	3,075
Net appreciation (depreciation) of investments	<u>1,741</u>	<u>(21,931)</u>
Total investment income	41,899	22,193
Other	<u>11</u>	<u>19</u>
Total operating revenues	<u>41,910</u>	<u>22,212</u>
Operating Expenses		
Interest on bonds and notes		
Current	25,288	29,327
Accreted	<u>2,934</u>	<u>2,779</u>
Total interest on bonds and notes	<u>28,222</u>	<u>32,106</u>
Amortization		
Amortization of discounts and premiums on bonds and notes	(478)	(523)
Amortization of bond and note issuance costs	<u>-</u>	<u>718</u>
Total amortization	<u>(478)</u>	<u>195</u>
Administrative expenses		
Provision for loan losses	(62)	7,336
Federal financial assistance programs	4,502	8,206
Salaries and benefits	4,744	4,599
Operations and maintenance	1,330	1,442
BMIR program participant expense	3	23
Other	<u>2,492</u>	<u>345</u>
Total administrative expenses	<u>13,009</u>	<u>21,951</u>
Total operating expenses	<u>40,753</u>	<u>54,252</u>
Operating Income (Loss)	1,157	(32,040)
Nonoperating Revenue		
Federal grants	<u>10,724</u>	<u>28,313</u>
Income (Loss) Before Transfers In	11,881	(3,727)
Transfers In	<u>1,118</u>	<u>8,419</u>
Change in Net Position	<u>12,999</u>	<u>4,692</u>
Net Position, Previously Reported	-	290,374
Change in Accounting Principle (Note 9)	<u>-</u>	<u>(788)</u>
Net Position, Restated Beginning of Year	<u>294,278</u>	<u>289,586</u>
Net Position, End of Year	<u>\$ 307,277</u>	<u>\$ 294,278</u>

Arkansas Development Finance Authority, A Component Unit of the State of Arkansas

Statements of Cash Flows Years Ended June 30, 2014 and 2013

<i>(In thousands)</i>	2014	2013 <i>Restated – Note 9</i>
Operating Activities		
Interest received on investments	\$ 20,719	\$ 23,851
Interest received on loans	12,969	14,560
Financing fee income received	4,016	2,288
Principal repayments on loans	43,981	42,536
Principal repayments on capital leases	37,441	25,947
Principal repayments on installment sales	530	510
Other received	11	19
Loan disbursements	(40,883)	(44,494)
Direct financing lease disbursements	(41,044)	(19,962)
Cash received for financing arrangements	590	781
Cash paid for interest	(27,410)	(31,157)
Cash paid for program administration	<u>(11,859)</u>	<u>(14,477)</u>
Net cash (used in) provided by operating activities	<u>(939)</u>	<u>402</u>
Noncapital Financing Activities		
Proceeds from issuance of bonds and notes payable	193,372	426,010
Repayments of bonds and notes payable	(181,004)	(522,092)
Nonoperating grants received	10,724	28,313
Transfers in	1,118	8,419
Payments of debt issuance costs	-	(718)
Collection of financing fees	<u>821</u>	<u>480</u>
Net cash provided by (used in) noncapital financing activities	<u>25,031</u>	<u>(59,588)</u>
Investing Activities		
Purchase of investments	(42,584)	(152,218)
Maturities of investments	107,558	205,902
Proceeds from sale of real estate owned	16	430
Purchase of capital assets	<u>(6)</u>	<u>(15)</u>
Net cash provided by investing activities	<u>64,984</u>	<u>54,099</u>
Increase (Decrease) in Cash and Cash Equivalents	89,076	(5,087)
Cash and Cash Equivalents, Beginning of Year	<u>146,547</u>	<u>151,634</u>
Cash and Cash Equivalents, End of Year	<u>\$ 235,623</u>	<u>\$ 146,547</u>

**Arkansas Development Finance Authority,
A Component Unit of the State of Arkansas**
Statements of Cash Flows (Continued)
Years Ended June 30, 2014 and 2013

<i>(In thousands)</i>	2014	2013 Restated
Reconciliation of Operating Income to Net Cash Used in Operating Activities		
Operating income (loss)	\$ 1,157	\$ (32,040)
Items not requiring (providing) operating activities cash flows		
Amortization of discounts on loans	(106)	(197)
Amortization of deferred financing fees	(434)	(399)
Accreted interest on loans	(2,610)	(2,779)
Accreted interest on bonds	2,934	2,779
Amortization of bond and note discounts and premiums	(478)	(522)
Amortization of bond and note issuance costs	382	-
Depreciation of capital assets	36	39
Provision for loan losses	(62)	7,336
Loss on sale of real estate owned	24	60
Net (appreciation) depreciation of investments	(1,741)	21,931
Changes in		
Accounts receivable	26	280
Accrued interest receivable	396	452
Loans receivable	3,098	(1,958)
Direct financing leases	(3,603)	5,985
Installment sale agreement	530	510
Other assets	(4,977)	3,211
Accounts payable	2,601	(97)
Accrued interest payable	(2,122)	(2,054)
Contract obligations	1,345	1,109
Other liabilities	2,665	(3,244)
Net cash (used in) provided by operating activities	\$ (939)	\$ 402
Supplemental Cash Flows Information		
Real estate acquired in settlement of loans	\$ 4,398	\$ 192

Arkansas Development Finance Authority, A Component Unit of the State of Arkansas

Notes to Financial Statements

June 30, 2014 and 2013

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

The Arkansas Development Finance Authority (the Authority), a Component Unit of the State of Arkansas, was created May 1, 1985, by Act 1062 of 1985 (Arkansas Development Finance Authority Act) as a successor to the former Arkansas Housing Development Agency (created in 1977) whereby all records, funds, property, obligations, debts, functions, powers and duties were transferred to the Authority. The Authority is a public body politic and corporate, with corporate succession, to be an independent instrumentality exercising essential public functions. Pursuant to Act 1062, the Authority is authorized and empowered to issue bonds and various other debt instruments for the purpose of financing qualified agricultural business enterprises, capital improvement facilities, educational facilities, health care facilities, housing developments and industrial enterprises.

The affairs of the Authority are governed by a board of directors composed of the Arkansas State Treasurer, Director of the Department of Finance and Administration and 11 public members appointed by the Governor of Arkansas. The State of Arkansas (the State) is financially accountable for the Authority because of the governor's ability to appoint the majority of the members of its governing body and its ability to impose its will on the Authority's operations.

Bonds and other debt instruments issued by the Authority and included on the Authority's financial statements are usually special obligations of the Authority, payable solely from, and collateralized by, a first lien on the proceeds, monies, revenues, rights, interests and collections pledged therefore under the resolutions authorizing the particular issues. The Authority has issued bonds and other debt instruments, which are general obligations of the Authority, supported by the Authority's general fund assets and/or pledge of the Authority's issuer credit rating. With the exception of the Amendment 82 Bonds, the State of Arkansas is not obligated to pay the bonds and other debt instruments, and neither the faith and credit nor the taxing power of the State of Arkansas is pledged to the payment of the principal or redemption price of, or interest on, the bonds and other debt instruments. The Amendment 82 bonds, issued on June 30, 2014 for \$125 million, are direct general obligations of the State of Arkansas, secured by an irrevocable pledge of the full faith and credit of the State, and payable from the general revenues of the State and other sources. The Authority has no taxing power.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

Arkansas Development Finance Authority, A Component Unit of the State of Arkansas

Notes to Financial Statements

June 30, 2014 and 2013

Recently Issued Accounting Pronouncements

In March 2012, the Governmental Accounting Standards Board issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The fiscal year 2013 financial statements have been restated to reflect the implementation of the new accounting standard. (See *Note 9*)

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, will amend the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 50, *Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27*, as they relate to governmental employers that account for pensions provided through trusts, or equivalent arrangements, that meet certain criteria. The statement further includes guidance for accounting for participating employers in single-employer and multiple-employer defined benefit pension plans, cost-sharing plans, defined contribution plans and plans with insured benefits. The note disclosure and required supplementary information requirements for employers whose employees are provided with defined benefit pensions through qualified trusts also are addressed. Finally, the statement includes guidance on accounting for special funding situations where an entity other than the employer government is legally responsible for plan contributions. The Statement also requires employers participating in cost-sharing multiple-employer plans to recognize their proportional share of the plan's collective net pension liability, pension expense and deferred outflows of resources and deferred inflows of resources in the employer's financial statements. The pension expense will no longer be based on the contractually required contribution or contributions actually made, but will be actuarially determined. This will result in the pension expense and liability being recognized as benefits are earned by employees, and is expected to increase current pension expense along with the recognition of the proportional share of the net pension liability. Note disclosures and required supplementary information would also be expanded. The requirements of GASB 68 are effective for financial statements for fiscal years beginning after June 15, 2014.

Fund Accounting

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

**Arkansas Development Finance Authority,
A Component Unit of the State of Arkansas**
Notes to Financial Statements
June 30, 2014 and 2013

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

(i) Single Family Housing Programs

- (a) *Single Family Mortgage Purchase Program*—Accounts for proceeds from single family mortgage revenue bonds, the debt service requirements of the bonds and the related mortgage-backed securities or mortgage loans for single family owner-occupied housing in Arkansas. Included within this program is the Authority’s Single Family Mortgage Revenue Bond General Resolution, adopted on July 20, 1995 (1995 General Resolution).
- (b) *New Issue Bond Program*—Accounts for the issuance of single family bonds, as well as the related deferred charges and investment of bond proceeds, issued under a general resolution created specifically for this program. The U.S. Department of the Treasury developed this program for housing finance agencies, whereby ADFA sold \$193.1 million in bonds to Fannie Mae and Freddie Mac (the GSEs) in December 2009 as escrow bonds. The bonds sold to the GSEs initially would represent 60% of the total long-term bond issue, and the other 40% would be issued in the marketplace. The 40% marketplace requirement was eliminated when the program was extended to December 31, 2012, as of January 1, 2012. The GSEs will purchase 100% of a bond issue. The interest rate on the GSEs’ portion of ADFA’s long-term bonds also changed, whereby the interest rate is calculated and capped as outlined in the bond documents.

(ii) Federal Housing Programs

- (a) *HOME Partnership Program*—Accounts for federal financial assistance received from the Department of Housing and Urban Development (HUD) for the purpose of developing and supporting affordable housing through tenant based rental assistance, rental rehabilitation, new construction, or assistance to homebuyers and homeowners.
- (b) *Tax Credit Assistance Program (TCAP)*—Accounts for federal financial assistance in the form of American Reinvestment and Recovery Act (ARRA) funds received from HUD for the purpose of providing additional financing in the form of loans to developers to ensure that developments have sufficient financing to provide quality affordable housing. Only developments that were awarded low-income housing tax credits under Section 42(h) of the Internal Revenue Code (IRC) in federal fiscal years 2007, 2008 and 2009 were eligible for the sub-awards granted to the State of Arkansas from HUD for TCAP funding.

Arkansas Development Finance Authority, A Component Unit of the State of Arkansas

Notes to Financial Statements

June 30, 2014 and 2013

- (c) *Neighborhood Stabilization Programs (NSP)*—Accounts for federal financial assistance received from HUD for the purpose of stabilizing neighborhoods that have suffered the most from foreclosures and abandonment. ADFa participated in two of the three NSP offered by HUD. The first NSP was authorized by the Housing and Economic Recovery Act, which was signed into law on July 30, 2008. The third NSP was authorized by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) of 2010. NSP provides loans to purchase and rehabilitate foreclosed or abandoned homes for sale or rent in order to stabilize neighborhoods and stem the decline of house values in neighboring homes.
 - (d) *Community Development Block Grant–Disaster Funds Program (CDBG)*—Accounts for federal financial assistance received from HUD through the Arkansas Economic Development Commission (AEDC) for use in the development or redevelopment of affordable rental housing related to the five presidentially-declared disaster areas declared from February to October 2008. The Authority is administering \$10.1 million of a \$25.0 million disaster funds award reserved to the State of Arkansas for affordable rental housing to address the effects of these disasters through a Memorandum of Understanding between the Authority and AEDC.
 - (e) *Preservation Revolving Loan Fund Program (PRLF)* – Accounts for federal financial assistance received from United States Department of Agriculture Rural Housing Service (USDA) to loan funds to carry out a demonstration program that provides revolving loans for the preservation and revitalization of low-income Multi-Family Housing.
- (iii) Multi-Family Programs
- (a) *Multi-Family Mortgage Purchase Program*—Accounts for the proceeds of the multi-family mortgage revenue bonds, the debt service requirements of the bonds and the related mortgage loans for multi-family housing in Arkansas, most of which are HUD approved and insured.
 - (b) *GNMA/BMIR Bond Program*—Accounts for proceeds from the sale of GNMA Guaranteed Bonds, debt service requirements on the bonds, related Below Market Interest Rate (BMIR) mortgages purchased with bond proceeds, disbursements to program participants of excess loan prepayments and the Authority’s fees and expenses in connection with the program.
 - (c) *FAF/New BMIR Loan Programs*—Accounts for loans receivable funded by distributions the Authority received from the GNMA/BMIR Bond Program as well as from Financing Adjustment Factor (FAF) distributions from the federally funded Section 8 Housing Assistance Payment Program.

**Arkansas Development Finance Authority,
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Notes to Financial Statements
June 30, 2014 and 2013

- (iv) Economic Development Bond Guaranty Program
 - (a) *Bond Guaranty Program*—Accounts for guaranty fees collected, interest earned on investments and disbursements made in connection with bond guaranties provided by the Authority, as well as the proceeds from the sale of development revenue bonds issued by ADFA and guaranteed by the Bond Guaranty Fund; the debt service requirements of the bonds and related loans; and leases to private companies. The fund was created by Act 505 of 1985, which authorized a grant of \$6 million from the Arkansas State Treasurer (which was subsequently repaid by the Authority) for the purpose of enhancing and supporting the creditworthiness of bonds and other debt instruments guaranteed by the Authority. At June 30, 2014 and 2013, the fund had cash and cash equivalents and investments totaling \$20.4 million and \$19.8 million, respectively, in the reserve account to collateralize Authority-guaranteed bonds and future issues under the bond guaranty program.
- (v) State Facilities and Amendment 82 Programs
 - (a) *State Facilities Programs*—Accounts for the proceeds from the sale of development revenue bonds; the debt service requirements of the bonds and related loans and leases to public and government bodies within the State of Arkansas; and includes certain assets not owned and related obligations not owed by the Authority.
 - (b) *Amendment 82 Programs*—Accounts for the proceeds from the sale of general obligation bonds of the State of Arkansas as authorized under Amendment 82 of the Arkansas Constitution; the debt service requirements of the bonds and related loans and leases to private institutions and government bodies within the State of Arkansas; and includes certain assets not owned and related obligations not owed by the Authority.
- (vi) Other Economic Development Programs
 - (a) *Other Economic Development Programs*—Accounts for the proceeds from the sale of the Higher Education Capital Asset Program bonds and the related debt service requirements of the bonds and related loans to public higher education institutions. Also, accounts for loan reserve programs, such as Capital Access, Business Life and Disadvantaged Business Enterprise.
 - (b) *State Small Business Credit Initiative Program (SSBCI)*—Accounts for federal financial assistance received from the U.S. Treasury as grants under the State Small Business Credit Initiative Act of 2010. The State of Arkansas was awarded and received approximately \$13.2 million to support six programs, three of which are included within these financial statements: Arkansas Capital Access Program, Bond Guaranty/Loan Participation Program and Disadvantaged Business Enterprise/Small Business Loan Guaranty Program. As of June 30, 2014, approximately \$12.5 million of the awarded amount has been disbursed or obligated.

**Arkansas Development Finance Authority,
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Notes to Financial Statements
June 30, 2014 and 2013

(vii) Tobacco Bonds Program

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

(viii) General Fund Programs

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

Use of Estimates

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

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, valuation of real estate acquired in connection with foreclosures or in satisfaction of loans and fair values of investments.

Cash and Cash Equivalents

The Authority considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2014 and 2013, cash equivalents of \$235.6 million and \$146.5 million, respectively, consisted primarily of money market mutual funds with variable interest rates.

Investments and Investment Income

Investments are carried at fair value. Fair value is determined using quoted market prices, if available.

Guaranteed investment contracts are valued at contract value, which does not vary significantly from fair market value.

Arkansas Development Finance Authority, A Component Unit of the State of Arkansas

Notes to Financial Statements

June 30, 2014 and 2013

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

The fair value of the investments at June 30, 2014 and 2013, was in excess of the cost basis by \$31.6 million and \$30.4 million, respectively.

Loans

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

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

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to income. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

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

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired and additional loans specifically reviewed by management. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers nonclassified loans and is based on historical charge-off experience and expected loss given default derived from the Authority's internal risk rating process. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

Arkansas Development Finance Authority, A Component Unit of the State of Arkansas

Notes to Financial Statements

June 30, 2014 and 2013

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

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

Income Taxes

As an essential government function of the State of Arkansas, the Authority is exempt from income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law.

Direct Financing Leases

The Authority issues revenue bonds to provide financing of correction facilities, office space for the State of Arkansas and certain transactions for private companies. In all cases, the Authority does not maintain or operate the facilities. Arrangements of this type are accounted for in the various funds as financing arrangements in accordance with the provisions of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance contained in pre-November 30, 1989 FASB and AICPA Pronouncements*, paragraphs 211-271.

Capital Assets

Premises and equipment are carried at cost, less accumulated depreciation. Depreciation for financial statement purposes is computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 10 years.

Arkansas Development Finance Authority, A Component Unit of the State of Arkansas

Notes to Financial Statements June 30, 2014 and 2013

Deposits Against Financing Arrangements

Deposits against financing arrangements represent debt service funds and interest earned on funds created by trust indentures associated with bond issuances that are held by the Authority to be used by the borrower to pay debt service to the Authority. If not used to pay debt service, these funds are returned to the borrower at the end of the financing arrangement.

Contract Obligations

Contract obligations consist of payables on contracts the Authority entered into with the Arkansas Department of Corrections (ADC) to fund certain projects using funds received from fees deposited into a trust fund the Authority holds for the benefit of ADC.

Unearned Guaranty Fees

The Authority receives guaranty fees from borrowers who participate in the Bond Guaranty Fund Programs. Fees, which are nonrefundable, are amortized into income ratably over the term of the respective programs using the effective interest method.

Conduit Debt Obligations

Conduit debt issued by the Authority is recorded on the Authority's statement of net position if either (a) the Authority has a vested interest in the residual value of the bond issue after its retirement or (b) the Authority guarantees the debt through the Bond Guaranty Fund.

Additionally, the Authority reports conduit debt obligations of entities that are included in the State of Arkansas reporting entity on its statement of net position. At June 30, 2014 and 2013, the principal balance of these bonds included in the Authority's statement of net position totaled \$352.6 million and \$237.1 million, respectively.

Reclassifications

Certain reclassifications have been made to the fiscal year 2013 financial statements to conform to the fiscal year 2014 financial statement presentation. These reclassifications had no effect on the change in net position.

Net Position

Restricted by Bond Resolution and Programs—Represents those funds restricted within the respective bond resolution or by specific provisions of the programs.

Invested in Capital Assets—Represents the balance of capital assets, net of depreciation. No related debt exists.

**Arkansas Development Finance Authority,
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**Notes to Financial Statements
June 30, 2014 and 2013**

Unrestricted Net Position—Represents those funds used at the discretion of the ADFA Board of Directors to compliment bond and loan programs and to provide for the Authority’s operations.

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

Note 2: Deposits and Investments

Deposits

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

At June 30, 2014 and 2013, the carrying value of the Authority’s deposits was \$2.3 million and \$7.1 million, respectively. The balances per the bank statements totaled \$2.6 million and \$7.4 million, respectively. Of those deposits, \$1.1 million and \$5.9 million, respectively, were exposed to custodial credit risk as follows:

<i>(In thousands)</i>	2014	2013
Uninsured and uncollateralized	\$ 813	\$ 5,533
Uninsured and collateral held by pledging financial institution’s trust department or agent in other than the Authority’s name	241	352
	\$ 1,054	\$ 5,885

The uninsured and uncollateralized balance represents deposits with the Federal Home Loan Bank of Dallas.

Investments

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

**Arkansas Development Finance Authority,
A Component Unit of the State of Arkansas**

**Notes to Financial Statements
June 30, 2014 and 2013**

At June 30, 2014 and 2013, the Authority had the following investments and maturities:

Type	June 30, 2014				
	Fair Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
U.S. Treasury obligations	\$ 3,176	\$ 1,031	\$ 2,107	\$ 38	\$ -
U.S. agencies obligations	22,181	8,146	13,775	260	-
Mortgage-backed securities	423,432	-	1,130	12,526	409,776
Money market mutual funds	234,275	234,275	-	-	-
Guaranteed investment contracts	6,814	670	1,450	-	4,694
Mutual bond funds	<u>983</u>	<u>983</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 690,861</u>	<u>\$ 245,105</u>	<u>\$ 18,462</u>	<u>\$ 12,824</u>	<u>\$ 414,470</u>
Type	June 30, 2013				
	Fair Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
U.S. Treasury obligations	\$ 7,385	\$ 3,628	\$ 3,352	\$ 405	\$ -
U.S. agencies obligations	14,666	441	11,023	3,202	-
Mortgage-backed securities	484,237	-	-	9,211	475,026
Money market mutual funds	140,487	140,487	-	-	-
Guaranteed investment contracts	12,506	-	2,104	-	10,402
Municipal bonds	<u>984</u>	<u>984</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 660,265</u>	<u>\$ 145,540</u>	<u>\$ 16,479</u>	<u>\$ 12,818</u>	<u>\$ 485,428</u>

Arkansas Development Finance Authority, A Component Unit of the State of Arkansas

Notes to Financial Statements June 30, 2014 and 2013

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

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

Credit Risk—Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The Authority complies with various trust indentures or internal investment policy whereby investments and debt securities are typically rated “A” or higher. The Authority’s investments in U.S. agencies obligations and mortgage-backed securities not directly guaranteed by the U.S. government were primarily rated “AA+” by Standard & Poor’s and “Aaa” by Moody’s Investors Service at June 30, 2014. Investments in money market mutual funds or the investments of those funds were primarily rated “AAAm” by Standard & Poor’s and “Aaa” by Moody’s Investors Service. The Authority’s investments in guaranteed investment contracts were with providers having at least one rating, with all ratings being rated at least “A-” with the exception of one unrated by both Standard & Poor’s and Moody’s Investors Service as of June 30, 2014, totaling \$4.1 million.

Custodial Credit Risk—For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Authority’s investments in mutual funds and guaranteed investment contracts are not classified by custodial risk category as they are not evidenced by securities in physical or book entry form.

Concentration of Credit Risk—The Authority places no limit on the amount that may be invested in any one issuer. Investments of the Authority (not guaranteed by the U.S. government or considered a mutual fund) representing five percent or more of total investments at June 30, 2013, are as follows (in thousands):

Issuer	Fair Value	Percentage
Federal National Mortgage Association	\$ 37,593	8.22%

Arkansas Development Finance Authority, A Component Unit of the State of Arkansas

Notes to Financial Statements June 30, 2014 and 2013

Summary of Carrying Values

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

<i>(In thousands)</i>	2014	2013
Carrying value		
Deposits	\$ 2,348	\$ 7,101
Investments	690,861	660,265
	\$ 693,209	\$ 667,366
Included in the following balance sheet captions:		
Current assets		
Cash and cash equivalents	\$ 235,623	\$ 146,547
Investments – current portion	3,523	1,024
Noncurrent assets		
Investments – unrestricted	49,154	49,884
Investments – restricted	404,909	469,911
	\$ 693,209	\$ 667,366

Note 3: Loans and Direct Financed Leases

Federal Housing Programs—Includes loans funded by federal agencies, mainly HUD, and are either for multi-family housing developments or single-family housing assistance. The programs offer different types of loan structures, such as deferred loans and surplus cash loans, as well as loans with below market interest rates and standard amortization. As of June 30, 2014 and 2013, respectively, the Authority reported loans of \$52.8 million and \$60.0 million as deferred loans and \$42.2 million for both years as surplus cash loans. These types of loans had related combined allowances of \$62.6 million and \$64.4 million at June 30, 2014 and 2013, respectively.

Multi-Family Mortgage Purchase Program—Includes a 2001 bond issue that refinanced mortgage loans on multi-family residential rental properties intended for occupancy by persons and families of low and moderate income. The loans are insured by the FHA under Section 223(a)(7) of the National Housing Act of 1937, as amended. All of the units of each housing development are rented to persons qualifying under the HUD Section 8 Housing Assistance Payment Program. Each of the loans, as refinanced, bears an interest rate of 6.5% and has a maturity and final payment date of October 1, 2035. In June 2014, the bonds were redeemed in full, and the remaining loans of \$7.9 million were transferred to the General Fund.

**Arkansas Development Finance Authority,
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Notes to Financial Statements
June 30, 2014 and 2013

Bond Guaranty Program—Loans and leases to private companies for financing the acquisition or expansion of facilities are collateralized by liens on and security interests in collateral granted by the companies and by guaranty agreements between the Authority and one or more guarantors. To a limited extent, and only when specified by a specific trust indenture, the payment of principal and interest on the bonds is guaranteed by the Authority under the ADFA Bond Guaranty Act (Act 505 of 1985). At June 30, 2014 and 2013, respectively, the Authority reported in its statement of net position, \$43.8 million and \$46.6 million in loans and leases to private companies, as well as \$57.6 million and \$54.1 million in related bond issues, which are guaranteed by the Bond Guaranty Fund. Differences between the loan balance and the related bond balance are attributed primarily to construction draw payables of \$7.2 million and \$1.2 million, the allowance for loan loss of \$3.0 million and \$8.2 million, and timing differences between loan collection and bond payment of \$2.3 million and \$1.9 million. Differences also exist due to delinquencies, foreclosures, and financing of real estate owned properties of \$1.4 million for 2014 and offset by \$3.8 million for 2013.

Additionally, the Bond Guaranty Fund guarantees principal and interest on revenue bonds issued by municipalities within the State of Arkansas for economic development purposes. At June 30, 2014 and 2013, revenue bonds outstanding of \$24.6 million and \$27.2 million, respectively, were guaranteed by the Bond Guaranty Fund. Furthermore, the Bond Guaranty Fund guarantees bond anticipation notes. At June 30, 2014 and 2013, respectively, the principal amount on these notes totaled \$8.0 million and \$5.6 million outstanding with \$5.5 million and \$3.1 million guaranteed.

Construction draws payable will be advanced to a customer as long as there is no violation of any condition established in the contract. Construction draws payable generally have fixed expiration dates or other termination clauses. Since a portion of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained is based on management's credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment and commercial real estate.

State Facilities & Amendment 82 Programs—Includes financing activities with various state agencies and private borrowers. At June 30, 2014 and 2013, respectively, the Authority reported loans of \$85.6 million and \$90.8 million, direct financing leases and installment sale of \$139.4 million and \$134.6 million and bonds outstanding of \$352.6 million and \$237.1 million related to the financing arrangements with these institutions and agencies. Differences between the loan and lease balances and the related bond balances are attributed primarily to construction draw payable accounts of \$126.7 million and \$10.2 million at June 30, 2014 and 2013, respectively.

Tobacco Bonds Program—Includes a loan agreement between the Authority and the University of Arkansas Board of Trustees (the University), whereby the University agrees to provide for repayment in the event Tobacco Settlement Revenues are not available.

Arkansas Development Finance Authority, A Component Unit of the State of Arkansas

Notes to Financial Statements June 30, 2014 and 2013

General Fund Programs—Includes loans that are residual assets of the Single Family Mortgage Purchase Program, Multi-family Mortgage Purchase Program (as described above,) or funded by the general fund as special initiatives of the Authority. Mortgage loans purchased by the Authority under the Single Family Mortgage Purchase Program are typically FHA insured, guaranteed by USDA Rural Development or VA guaranteed.

The stated interest rates on the loans are as follows:

	Stated Interest Rate
Federal Housing and Multi-Family Programs	0.00 to 6.50%
Bond Guaranty Program	Rate on bonds
State Facilities and Amendment 82 Programs	Rate on bonds
Tobacco Bonds Program	4.77 to 5.10%
General Fund Programs	1.00 to 8.50%

Impaired loans totaled \$130.0 million and \$138.0 million at June 30, 2014 and 2013, respectively, with related allowances for loan losses of \$73.1 million and \$77.1 million. Impaired loans include loans with a reserve percentage of 20% or more. Impaired loans for the Bond Guaranty Fund and the general fund programs totaled \$1.3 million and \$13.3 million at June 30, 2014 and 2013, respectively, with related allowances for loan losses of \$0.7 million and \$5.4 million. Impaired loans also include loans made under the Federal Housing programs with repayment terms allowing deferment or repayment based on net income of the multi-family developments. The Federal Housing impaired loans totaled \$123.8 million and \$120.0 million at June 30, 2014 and 2013, respectively, with related allowances for loan losses of \$69.7 million and \$69.6 million.

At June 30, 2014 and 2013, respectively, accruing loans delinquent 180 days or more where payment is anticipated due to current payment activity totaled approximately \$3.7 million and \$800,000. Non-accruing loans at June 30, 2014 and 2013, respectively, were \$2.5 million and \$17.1 million.

Net Investment in Direct Financing Leases-The Authority is the lessor under various direct financing capital leases whereby the Authority issued bonds for the acquisition or construction of certain facilities and then leased the facilities to other state agencies or private companies. At the end of the lease terms, these leases either transfer ownership to the other agencies or contain bargain purchase options.

**Arkansas Development Finance Authority,
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**Notes to Financial Statements
June 30, 2014 and 2013**

Future minimum lease payments receivable under these leases at June 30, 2014, were as follows:

<i>(In thousands)</i>	<u>Lease Payments</u>
Year ending June 30,	
2015	\$ 11,997
2016	12,936
2017	12,931
2018	12,778
2019	12,486
2020–2024	49,501
2025–2029	34,030
2030–2034	20,097
2035–2039	5,558
2040–2044	<u>1,580</u>
Total minimum lease payments receivable	173,894
Less amount representing interest	(40,344)
Less unfunded lease amount	<u>(1,340)</u>
Present value of minimum lease payments receivable	<u>\$ 132,210</u>

Note 4: Capital Assets

Premises and equipment at June 30 are summarized as follows:

<i>(In thousands)</i>	<u>2014</u>	<u>2013</u>
Cost		
Premises and equipment	\$ 522	\$ 516
Less accumulated depreciation	<u>(450)</u>	<u>(414)</u>
Net	<u>\$ 72</u>	<u>\$ 102</u>

Depreciation expense for the years ended June 30, 2014 and 2013, respectively, was approximately \$36,000 and \$39,000.

**Arkansas Development Finance Authority,
A Component Unit of the State of Arkansas**

**Notes to Financial Statements
June 30, 2014 and 2013**

Note 5: Bonds and Notes Payable

Bonds and notes payable at June 30 were as follows:

(In thousands)

	2014	2013
Total Single Family Bonds Payable, with interest rates ranging from 0.14 – 9.878% and final maturity at varying dates through 2043	\$ 287,066	\$ 379,374
Less unamortized discount/plus unamortized premium	647	1,131
Total Single Family Bonds Payable, net	287,713	380,505
Total Federal Housing Notes Payable and Multi-Family Bonds Payable, with interest rates ranging from 1 – 9.75% and final maturity at varying dates through 2014	1,841	12,260
Total Economic Development Bonds Payable, Guaranteed by the Bond Guaranty Fund, with interest rates ranging from 0.66 – 7.45% and final maturity at varying dates through 2037	57,637	54,082
Total State Facilities Bonds and Amendment 82 Bonds Payable, with interest rates ranging from 0.457 – 7.0% and final maturity at varying dates through 2040	352,570	237,120
Total Other Economic Development Bonds Payable, with interest rates ranging from 5.6 – 5.7% and final maturity at varying dates through 2015	245	315
Less unamortized discount/plus unamortized premium	(5)	(11)
Total Other Economic Development Bonds Payable, net	240	304
Tobacco Bonds Payable, with interest rates ranging from 4.77 – 5.5% and final maturity at varying dates through 2046	84,201	85,107
Total all programs bonds and notes payable, net	\$ 784,202	\$ 769,378

Arkansas Development Finance Authority, A Component Unit of the State of Arkansas

Notes to Financial Statements June 30, 2014 and 2013

The Single Family Housing Programs have two variable rate series totaling \$24.2 million. The rates change weekly based on the lowest rate that, in the judgment of the Remarketing Agent, would enable the bonds to be remarketed.

Activity in bonds and notes payable for fiscal year 2014 was as follows:

<i>(In thousands)</i>	Beginning Balance	Additions Including Accretion	Reductions	Ending Balance	Amount Due within One Year
Bonds payable	\$ 767,035	\$ 191,060	\$ (176,004)	\$ 782,091	\$ 32,945
Notes payable	<u>1,223</u>	<u>5,246</u>	<u>(5,000)</u>	<u>1,469</u>	<u>-</u>
	768,258	196,306	(181,004)	783,560	32,945
Unamortized premiums	<u>1,120</u>	<u>-</u>	<u>(478)</u>	<u>642</u>	<u>-</u>
Total	<u>\$ 769,378</u>	<u>\$ 196,306</u>	<u>\$ (181,482)</u>	<u>\$ 784,202</u>	<u>\$ 32,945</u>

Activity in bonds and notes payable for fiscal year 2013 – restated was as follows:

<i>(In thousands)</i>	Beginning Balance	Additions Including Accretion	Reductions	Ending Balance	Amount Due within One Year
Bonds payable	\$ 822,034	\$ 128,756	\$ (183,755)	\$ 767,035	\$ 32,380
Notes payable	<u>39,527</u>	<u>300,033</u>	<u>(338,337)</u>	<u>1,223</u>	<u>-</u>
	861,561	428,789	(522,092)	768,258	32,380
Unamortized premiums	<u>1,642</u>	<u>-</u>	<u>(522)</u>	<u>1,120</u>	<u>-</u>
Total	<u>\$ 863,203</u>	<u>\$ 428,789</u>	<u>\$ (522,614)</u>	<u>\$ 769,378</u>	<u>\$ 32,380</u>

Arkansas Development Finance Authority, A Component Unit of the State of Arkansas

Notes to Financial Statements June 30, 2014 and 2013

Future amounts required for principal and interest on all bonds and notes payable at June 30, 2014, were as follows:

<i>(In thousands)</i>	Principal	Interest
Year Ending June 30,		
2015	\$ 32,945	\$ 24,558
2016	34,114	25,789
2017	35,042	24,721
2018	33,973	23,579
2019	32,666	22,360
2020–2024	173,804	94,074
2025–2029	160,712	64,790
2030–2034	151,509	36,987
2035–2039	104,006	15,540
2040–2044	87,263	6,855
2045–2047	14,977	-
Unamortized premiums and discounts	642	-
Accreted interest	(77,451)	77,451
Total	\$ 784,202	\$ 416,704

Under certain bond resolutions, the Authority has the option to redeem bonds early at various premium rates. Generally, the redemption option cannot be exercised prior to the time the bonds have been outstanding for 6 to 10 years. Certain special redemptions, as governed by the bond resolutions, are permitted or required prior to such time.

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

As of June 30, 2014, the remaining principal amounts outstanding on defeased issues (which are excluded from the Authority's financial statements) are as follows:

<i>(In thousands)</i>	Issue	Date of Defeasance	Principal Outstanding
2005 Series ADFA State Agencies Facilities Revenue Bonds (Arkansas Department of Corrections – Special Needs Unit)		July 2013	\$ 28,245

Arkansas Development Finance Authority, A Component Unit of the State of Arkansas

Notes to Financial Statements

June 30, 2014 and 2013

During the normal course of business, the Authority issues economic development revenue bonds and multi-family housing revenue bonds on behalf of private companies within the State of Arkansas. The bonds are payable solely from, and secured by, a pledge of revenues from the private companies to which the bond proceeds were remitted and, accordingly, have been excluded from the Authority's financial statements. At June 30, 2014 and 2013, respectively, the bonds outstanding issued under these programs aggregated \$226.8 million and \$228.2 million.

Note 6: Concentrations of Risk in Lending and Loan Receivable Insurance

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

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

Note 7: Retirement Plan

The officials and employees of the Authority participate in a state-wide, cost-sharing, multiple-employer, defined benefit pension plan administered by the Arkansas Public Employees Retirement System (the Plan). There is no legal obligation imposed upon the member agencies relative to the operation of the Plan other than the payment of a percentage of the gross salaries of eligible employees participating in the Plan as an employer contribution. State law provides that Authority contributions for all covered state employees are to be based on 14.88% of gross payroll for the year ended June 30, 2014; 14.24% of gross payroll for the year ended June 30, 2013; and 13.47% of gross payroll for the year ended June 30, 2012. Required payroll contributions totaled approximately \$502,000, \$477,000 and \$447,000 for the years ended June 30, 2014, 2013 and 2012, respectively. All contributions required of the Authority were made for the years ended June 30, 2014, 2013 and 2012. For the years ended June 30, 2014, 2013 and 2012, the Authority's covered payroll and total payroll for all employees amounted to \$4.7 million, \$4.6 million and \$4.7 million, respectively.

Arkansas Development Finance Authority, A Component Unit of the State of Arkansas

Notes to Financial Statements

June 30, 2014 and 2013

The contributory plan has been in effect since the beginning of the Plan and is available to all persons who became members before January 1, 1978. The noncontributory plan was effective January 1, 1978, and applies automatically to all persons hired January 1, 1978 to June 30, 2005, in Plan-covered employment. Employees joining the Plan prior to July 1, 1997, are vested after 10 years of employment. Beginning July 1, 1997, the vesting period for new members was reduced to five years; however, this Act was not retroactive. In order to vest under this provision, a person must have been a member of the Plan on July 1, 1997, and have been a member for not less than 90 consecutive calendar days prior to July 1, 1997, with five or more years of service. The Plan is audited separately, and included therein is financial data and trend information, which gives an indication of the extent to which the Plan is accumulating sufficient assets to pay benefits when due. The report may be obtained by writing to the Plan at 124 W. Capitol, Suite 400, Little Rock, Arkansas 72201 or by calling 501.682.7800.

Act 2084 of 2005 established a new contributory program for Plan members first hired on or after July 1, 2005, and those non-contributory members who elected by December 31, 2005, to become contributory. Members participating in the contributory program will contribute five percent of their annual compensation, pre-tax.

Other Post-Employment Benefits

During the fiscal years ended June 30, 2014, 2013 and 2012, the Authority recorded expenses of \$268,000, \$179,000 and \$322,000, respectively, for the annual required contributions (ARC) and cumulative liabilities of \$1,673,000, \$1,405,000 and \$1,226,000, respectively, included in other liabilities on the statements of net position, in accordance with the parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. The complete disclosures required by GASB 45 are included in the State of Arkansas Comprehensive Annual Financial Report (CAFR).

Note 8: Commitments and Contingencies

The Authority participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Authority has not complied with the rules and regulations governing the grants, refunds of any money received may be required, and the collectability of any related receivable at June 30, 2014 and 2013, may be impaired. In the opinion of the Authority, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

**Arkansas Development Finance Authority,
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Notes to Financial Statements
June 30, 2014 and 2013

The Authority currently participates in an arrangement whereby a liability may be created through prepayments of debt associated with a loan portfolio recorded in the GNMA/BMIR Bond Program. A portion of the prepayments of loan principal in this portfolio is reinvested in investments to cover future debt service payments associated with this portfolio. Any excess amount is then disbursed to various housing agencies in other states based on a participation agreement.

The Authority has \$134.0 million and \$17.2 million of amounts recorded as cash and investments in the statement of net position that may be disbursed to borrowers under loan and lease agreements closed prior to June 30, 2014 and 2013, respectively.

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

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; workers compensation claims; fiduciary liability; and fidelity for which the Authority either carries commercial insurance or participates in insurance through the State of Arkansas. There have not been any settlements which exceeded insurance coverage in the past three years.

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

The Internal Revenue Code's recapture tax requires some mortgagors to pay the federal government a portion of the Authority's borrowers' gain on sale of single family homes if the home was financed using a mortgage revenue bond. The tax will never exceed one half of the gain on the sale of the home, or 6.25% of the original mortgage, whichever is less. In order to owe the tax, three conditions must apply with respect to the ADFFA borrower. First, the borrower's household income must rise in aggregate approximately five percent or more per year. Second, the home must be sold within the first nine years of ownership, and third, there must be a gain on the sale of the home. For all reservations received on or after October 1, 2008, ADFFA has committed to reimburse mortgagors for any recapture paid. The potential amount due to mortgagors under this program is not expected to be significant. This reimbursement program may be discontinued at any time at the Authority's discretion. No reimbursements have been paid to date relative to ADFFA's commitment.

Arkansas Development Finance Authority, A Component Unit of the State of Arkansas

Notes to Financial Statements

June 30, 2014 and 2013

In 2003, the Authority initiated the funding for the Arkansas Institutional Fund (AIF), an institutional fund of funds venture capital program created by the Arkansas General Assembly in 2001. The Venture Capital Investment Act of 2001 authorizes the Authority to assist in increasing the availability of equity and near-equity capital for emerging, expanding, relocating and restructuring enterprises in the state through the creation of an institutional partnership fund. The Bond Guaranty Fund is subject to the first \$10 million of losses incurred by the AIF. The funding is structured as a guaranteed line of credit with a financial institution with draws occurring on an as-needed basis. The outstanding balances were \$24.7 million as of June 30, 2014, and \$25.7 million as of June 30, 2013. As of June 30, 2014, there were 10 approved investments totaling \$33.2 million, of which \$10.0 million has yet to be funded, that are anticipated to become part of the AIF.

Note 9: Adoption of Accounting Standard

Effective July 1, 2012, the Authority implemented GASB No. 65, *Items Previously Reported as Assets and Liabilities*. The objectives of GASB No. 65 are to (a) properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources and (b) recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses) or inflows of resources (revenues). In conjunction with the adoption of GASB No. 65, the Authority restated beginning net position as of July 1, 2012, to expense \$3.2 million of unamortized bond issuance costs that had previously been assets of the Authority and recognize \$2.4 million of deferred loan commitment fees that had been previous liabilities of the Authority. Prior to the accounting change, the bond issuance costs and the deferred loan commitment fees were amortized over the term of the bonds using the effective interest method. Loan commitment fees are now recognized when the loan commitment is exercised. The net effect of the adoption of GASB No. 65 was a decrease in change in net position for the year ended June 30, 2013 and beginning net position as of July 1, 2012 of \$286,000 and \$788,000, respectively. Additionally, deferred losses on refunding of debt are reclassified as a deferred outflow of resources.

Supplementary Information

Arkansas Development Finance Authority, A Component Unit of the State of Arkansas

Combining Statement of Net Position

June 30, 2014

<i>(In thousands)</i>	Single Family Housing Programs	Federal Housing Programs	Multi-Family Programs	Economic Development Bond Guaranty Program
Current Assets				
Cash and cash equivalents	\$ 36,021	\$ 1,502	\$ 4,113	\$ 16,557
Accrued interest receivable	1,381	53	35	92
Accounts receivable	-	62	-	12
Investments – current portion	-	-	-	-
Loans – current portion	-	-	-	-
Total current assets	<u>37,402</u>	<u>1,617</u>	<u>4,148</u>	<u>16,661</u>
Noncurrent Assets				
Investments – unrestricted	-	-	-	-
Investments – restricted	383,742	-	5	15,080
Loans, net	-	83,197	4,620	40,634
Long term receivable	-	-	-	-
Direct financing leases – restricted	-	-	-	3,190
Installment sale agreement	-	-	-	-
Real estate owned	-	548	-	1,850
Capital assets, net	-	-	-	-
Total noncurrent assets	<u>383,742</u>	<u>83,745</u>	<u>4,625</u>	<u>60,754</u>
Total assets	<u>421,144</u>	<u>85,362</u>	<u>8,773</u>	<u>77,415</u>
Deferred Outflow of Resources				
Deferred charge on refunding	183	-	-	-
Current Liabilities				
Accounts payable	103	188	1,755	17
Accrued interest payable	4,638	4	4	424
Contract obligations – current portion	-	-	-	-
Bonds and notes payable – current portion	10,810	-	372	3,688
Total current liabilities	<u>15,551</u>	<u>192</u>	<u>2,131</u>	<u>4,129</u>
Noncurrent Liabilities				
Unearned fees	-	-	-	2,399
Contract obligations	-	-	-	-
Bonds and notes payable, net of unamortized premiums and discounts	276,903	1,469	-	53,949
Deposits against financing arrangements	-	9	3	1,905
Other liabilities	-	-	-	-
Total noncurrent liabilities	<u>276,903</u>	<u>1,478</u>	<u>3</u>	<u>58,253</u>
Total liabilities	<u>292,454</u>	<u>1,670</u>	<u>2,134</u>	<u>62,382</u>
Net Position (Deficit)				
Restricted by bond resolution and programs	128,873	83,692	6,639	15,033
Invested in capital assets	-	-	-	-
Unrestricted	-	-	-	-
Net position (deficit)	<u>\$ 128,873</u>	<u>\$ 83,692</u>	<u>\$ 6,639</u>	<u>\$ 15,033</u>

State Facilities and Amendment 82 Programs	Other Economic Development Programs	Tobacco Bonds Program	General Fund Programs	Eliminations	Total
\$ 157,286	\$ 5,890	\$ 2,688	\$ 11,566	\$ -	\$ 235,623
757	4	46	285	-	2,653
533	1	-	722	(644)	686
-	-	-	3,523	-	3,523
<u>-</u>	<u>-</u>	<u>-</u>	<u>2,801</u>	<u>-</u>	<u>2,801</u>
<u>158,576</u>	<u>5,895</u>	<u>2,734</u>	<u>18,897</u>	<u>(644)</u>	<u>245,286</u>
-	-	-	49,154	-	49,154
1,793	-	4,289	-	-	404,909
85,592	3,098	54,551	25,058	-	296,750
5,000	-	-	-	-	5,000
129,020	-	-	-	-	132,210
10,340	-	-	-	-	10,340
-	-	-	-	-	2,398
<u>-</u>	<u>-</u>	<u>-</u>	<u>72</u>	<u>-</u>	<u>72</u>
<u>231,745</u>	<u>3,098</u>	<u>58,840</u>	<u>74,284</u>	<u>-</u>	<u>900,833</u>
<u>390,321</u>	<u>8,993</u>	<u>61,574</u>	<u>93,181</u>	<u>(644)</u>	<u>1,146,119</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>183</u>
817	8	-	605	(644)	2,849
1,439	1	129	-	-	6,639
7,158	-	-	-	-	7,158
<u>16,305</u>	<u>75</u>	<u>1,695</u>	<u>-</u>	<u>-</u>	<u>32,945</u>
<u>25,719</u>	<u>84</u>	<u>1,824</u>	<u>605</u>	<u>(644)</u>	<u>49,591</u>
-	-	-	-	-	2,399
998	-	-	-	-	998
336,265	165	82,506	-	-	751,257
23,776	23	3,523	1	-	29,240
<u>3,563</u>	<u>-</u>	<u>13</u>	<u>1,964</u>	<u>-</u>	<u>5,540</u>
<u>364,602</u>	<u>188</u>	<u>86,042</u>	<u>1,965</u>	<u>-</u>	<u>789,434</u>
<u>390,321</u>	<u>272</u>	<u>87,866</u>	<u>2,570</u>	<u>(644)</u>	<u>839,025</u>
-	8,721	(26,292)	-	-	216,666
-	-	-	72	-	72
<u>-</u>	<u>-</u>	<u>-</u>	<u>90,539</u>	<u>-</u>	<u>90,539</u>
<u>\$ -</u>	<u>\$ 8,721</u>	<u>\$ (26,292)</u>	<u>\$ 90,611</u>	<u>\$ -</u>	<u>\$ 307,277</u>

**Arkansas Development Finance Authority,
A Component Unit of the State of Arkansas**
Combining Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2014

<i>(In thousands)</i>	Single Family Housing Programs	Federal Housing Programs	Multi-Family Programs	Economic Development Bond Guaranty Program
Operating Revenues				
Investment income				
Interest and dividends	\$ 17,427	\$ -	\$ 187	\$ 449
Loans and direct financing leases	-	492	580	2,763
Amortization of discounts on loans	-	-	106	-
Financing fees	-	-	-	484
Net (depreciation) appreciation of investments	<u>2,187</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total investment income	19,614	492	873	3,696
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total operating revenues	<u>19,614</u>	<u>492</u>	<u>873</u>	<u>3,696</u>

State Facilities and Amendment 82 Programs	Other Economic Development Programs	Tobacco Bonds Program	General Fund Programs	Eliminations	Total
\$ 12	\$ 1	\$ -	\$ 2,401	\$ -	\$ 20,477
8,131	98	2,610	864	-	15,538
-	-	-	-	-	106
-	38	-	4,473	(958)	4,037
<u>2</u>	<u>-</u>	<u>-</u>	<u>(448)</u>	<u>-</u>	<u>1,741</u>
8,145	137	2,610	7,290	(958)	41,899
<u>-</u>	<u>7</u>	<u>-</u>	<u>4</u>	<u>-</u>	<u>11</u>
<u>8,145</u>	<u>144</u>	<u>2,610</u>	<u>7,294</u>	<u>(958)</u>	<u>41,910</u>

**Arkansas Development Finance Authority,
A Component Unit of the State of Arkansas**

**Combining Statement of Revenues, Expenses and Changes in Net Position (Continued)
Year Ended June 30, 2014**

<i>(In thousands)</i>	Single Family Housing Programs	Federal Housing Programs	Multi-Family Programs	Economic Development Bond Guaranty Program
Operating Expenses				
Interest on bonds and notes				
Current	\$ 11,751	\$ 14	\$ 777	\$ 2,524
Accreted	<u>325</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total interest on bonds and notes	<u>12,076</u>	<u>14</u>	<u>777</u>	<u>2,524</u>
Amortization				
Amortization of discounts and premiums on bonds and notes	<u>(484)</u>	<u>-</u>	<u>1</u>	<u>-</u>
Administrative expenses				
Provision for loan losses	-	177	576	(1,041)
Federal financial assistance programs	-	4,213	-	289
Salaries and benefits	-	-	-	-
Operations and maintenance	-	1,019	-	-
BMIR program participant expense	-	-	3	-
Other	<u>644</u>	<u>71</u>	<u>50</u>	<u>34</u>
Total administrative expenses	<u>644</u>	<u>5,480</u>	<u>629</u>	<u>(718)</u>
Total operating expenses	<u>12,236</u>	<u>5,494</u>	<u>1,407</u>	<u>1,806</u>
Operating Income (Loss)	7,378	(5,002)	(534)	1,890
Nonoperating Revenue				
Federal grants	<u>-</u>	<u>9,993</u>	<u>-</u>	<u>289</u>
Income (Loss) Before Transfers In (Out)	7,378	4,991	(534)	2,179
Transfers In (Out)	<u>25,492</u>	<u>70</u>	<u>(6,315)</u>	<u>-</u>
Change in Net Position (Deficit)	32,870	5,061	(6,849)	2,179
Net Position (Deficit), Beginning of Year	<u>96,003</u>	<u>78,631</u>	<u>13,488</u>	<u>12,854</u>
Net Position (Deficit), End of Year	\$ <u>128,873</u>	\$ <u>83,692</u>	\$ <u>6,639</u>	\$ <u>15,033</u>

State Facilities and Amendment 82 Programs	Other Economic Development Programs	Tobacco Bonds Program	General Fund Programs	Eliminations	Total
\$ 8,528	\$ 16	\$ 1,677	\$ 1	\$ -	\$ 25,288
<u>-</u>	<u>-</u>	<u>2,609</u>	<u>-</u>	<u>-</u>	<u>2,934</u>
<u>8,528</u>	<u>16</u>	<u>4,286</u>	<u>1</u>	<u>-</u>	<u>28,222</u>
<u>-</u>	<u>5</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(478)</u>
-	-	-	226	-	(62)
-	-	-	-	-	4,502
-	-	-	4,744	-	4,744
-	-	-	911	(600)	1,330
-	-	-	-	-	3
<u>-</u>	<u>51</u>	<u>-</u>	<u>2,000</u>	<u>(358)</u>	<u>2,492</u>
<u>-</u>	<u>51</u>	<u>-</u>	<u>7,881</u>	<u>(958)</u>	<u>13,009</u>
<u>8,528</u>	<u>72</u>	<u>4,286</u>	<u>7,882</u>	<u>(958)</u>	<u>40,753</u>
(383)	72	(1,676)	(588)	-	1,157
<u>385</u>	<u>-</u>	<u>-</u>	<u>57</u>	<u>-</u>	<u>10,724</u>
2	72	(1,676)	(531)	-	11,881
<u>-</u>	<u>(3,899)</u>	<u>5,000</u>	<u>(19,230)</u>	<u>-</u>	<u>1,118</u>
2	(3,827)	3,324	(19,761)	-	12,999
<u>(2)</u>	<u>12,548</u>	<u>(29,616)</u>	<u>110,372</u>	<u>-</u>	<u>294,278</u>
<u>\$ -</u>	<u>\$ 8,721</u>	<u>\$ (26,292)</u>	<u>\$ 90,611</u>	<u>\$ -</u>	<u>\$ 307,277</u>

Arkansas Development Finance Authority, A Component Unit of the State of Arkansas

Single Family Housing Programs Combining Statement of Net Position June 30, 2014

<i>(In thousands)</i>	1995 General Resolution	Single Family New Issue Bond Program	Other Single Family Housing Programs	Single Family Housing Programs (Total)
Current Assets				
Cash and cash equivalents	\$ 28,613	\$ 6,829	\$ 579	\$ 36,021
Accrued interest receivable	<u>1,130</u>	<u>238</u>	<u>13</u>	<u>1,381</u>
Total current assets	<u>29,743</u>	<u>7,067</u>	<u>592</u>	<u>37,402</u>
Noncurrent Assets				
Investments – restricted	<u>298,869</u>	<u>80,703</u>	<u>4,170</u>	<u>383,742</u>
Total noncurrent assets	<u>298,869</u>	<u>80,703</u>	<u>4,170</u>	<u>383,742</u>
Total assets	<u>328,612</u>	<u>87,770</u>	<u>4,762</u>	<u>421,144</u>
Deferred Outflow of Resources				
Deferred charge on refunding	<u>183</u>	<u>-</u>	<u>-</u>	<u>183</u>
Current Liabilities				
Accounts payable	90	13	-	103
Accrued interest payable	3,388	1,250	-	4,638
Bonds and notes payable – current portion	<u>5,045</u>	<u>2,265</u>	<u>3,500</u>	<u>10,810</u>
Total current liabilities	<u>8,523</u>	<u>3,528</u>	<u>3,500</u>	<u>15,551</u>
Noncurrent Liabilities				
Bonds and notes payable, net of unamortized premiums and discounts	<u>197,746</u>	<u>79,165</u>	<u>(8)</u>	<u>276,903</u>
Total noncurrent liabilities	<u>197,746</u>	<u>79,165</u>	<u>(8)</u>	<u>276,903</u>
Total liabilities	<u>206,269</u>	<u>82,693</u>	<u>3,492</u>	<u>292,454</u>
Net Position				
Restricted by bond resolution and programs	<u>122,526</u>	<u>5,077</u>	<u>1,270</u>	<u>128,873</u>
Net position	<u>\$ 122,526</u>	<u>\$ 5,077</u>	<u>\$ 1,270</u>	<u>\$ 128,873</u>

**Arkansas Development Finance Authority,
A Component Unit of the State of Arkansas**

Single Family Housing Programs

**Combining Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2014**

<i>(In thousands)</i>	1995 General Resolution	Single Family New Issue Bond Program	Other Single Family Housing Programs	Single Family Housing Programs (Total)
Operating Revenues				
Investment income				
Interest and dividends	\$ 14,278	\$ 3,093	\$ 56	\$ 17,427
Loans and direct financing leases	-	-	-	-
Financing fees	-	-	-	-
Net (depreciation) appreciation of investments	<u>966</u>	<u>1,201</u>	<u>20</u>	<u>2,187</u>
Total investment income	<u>15,244</u>	<u>4,294</u>	<u>76</u>	<u>19,614</u>
Total operating revenues	<u>15,244</u>	<u>4,294</u>	<u>76</u>	<u>19,614</u>

**Arkansas Development Finance Authority,
A Component Unit of the State of Arkansas**

Single Family Housing Programs

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

Year Ended June 30, 2014

<i>(In thousands)</i>	1995 General Resolution	Single Family New Issue Bond Program	Other Single Family Housing Programs	Single Family Housing Programs (Total)
Operating Expenses				
Interest on bonds and notes				
Current	\$ 9,081	\$ 2,670	\$ -	\$ 11,751
Accreted	<u>-</u>	<u>-</u>	<u>325</u>	<u>325</u>
Total interest on bonds and notes	<u>9,081</u>	<u>2,670</u>	<u>325</u>	<u>12,076</u>
Amortization				
Amortization of discounts and premiums on bonds and notes	<u>(484)</u>	<u>-</u>	<u>-</u>	<u>(484)</u>
Administrative expenses				
Other	<u>610</u>	<u>33</u>	<u>1</u>	<u>644</u>
Total administrative expenses	<u>610</u>	<u>33</u>	<u>1</u>	<u>644</u>
Total operating expenses	<u>9,207</u>	<u>2,703</u>	<u>326</u>	<u>12,236</u>
Operating Income (Loss)	6,037	1,591	(250)	7,378
Transfers In (Out)	<u>25,494</u>	<u>-</u>	<u>(2)</u>	<u>25,492</u>
Change in Net Position (Deficit)	31,531	1,591	(252)	32,870
Net Position, Beginning of Year	<u>90,995</u>	<u>3,487</u>	<u>1,521</u>	<u>96,003</u>
Net Position, End of Year	<u>\$ 122,526</u>	<u>\$ 5,078</u>	<u>\$ 1,269</u>	<u>\$ 128,873</u>