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

Accountants' Report and Financial Statements

June 30, 2004 and 2003

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Management Discussion and Analysis

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 basic financial statements include three required statements: the statement of net assets, the statement of revenues, expenses and changes in net assets and the statement of cash flows. These statements are presented for all of ADFA's programs in the Combined Statements. Comparative totals as of and for the year ended June 30, 2003 are also presented. Although not required, 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 year. ADFA has eight programs presented as supplementary information following the Notes to the Financial Statements: Single Family Housing Programs; Federal Housing Programs; Multi-Family Programs; Economic Development Bond Guaranty Program; State and Health Facilities Program; Other Economic Development Programs; Tobacco Bond Program and General Fund Programs. A description of each of these programs is included in *Note 1* of the Notes to the Financial Statements.

Condensed Statements of Net Assets

In thousands	**2004**	**2003**
Capital assets	$ 198	$ 233
Other assets	1,578,794	1,686,705
Total assets	1,578,992	1,686,938
Current liabilities	255,453	184,878
Noncurrent liabilities	1,188,167	1,314,447
Total liabilities	1,443,620	1,499,325
Net assets		
Restricted by bond resolution	71,545	126,245
Invested in capital assets	198	233
Unrestricted	63,629	61,135
Total net assets	$ 135,372	$ 187,613

At June 30, 2004, ADFA's total assets of $1.6 billion consisted primarily of investments of $1.0 billion, loans receivable, net of $296.9 million and cash of $185.4 million. Total assets decreased $107.9 million or six percent (6%), attributed to the decrease in investments of $59.4 million and the decrease of loans receivable, net, of $40.2 million. The decrease in investments is largely due to the net depreciation in the fair value of investments of $30.6 million and the decrease in investments, representing construction draws, for the Tobacco Bond Program of $23.3 million. The decrease in loans receivable, net is attributable to originations of new loans not exceeding loan remittances.

ADFA's total liabilities, primarily bonds and notes payable, net, decreased $55.7 million, or four percent (4%), to $1.4 billion as of June 30, 2004. The decrease is primarily attributed to the Authority's new bond issuance of $350.5 million during the fiscal year not exceeding total bond redemptions of $406.7 million. Included in these amounts is activity related to the single family convertible note program, which the Authority uses to preserve single family tax-exempt bond issuance authority. The Authority borrowed $128.1 million and redeemed $55.0 million using the convertible note program during the current year.

Condensed Statements of Revenues, Expenses and Changes in Net Assets

In thousands	2004	2003
Total investment income	$ 45,465	$ 121,119
Other income	23	183
Total operating revenues	45,488	121,302
Total interest on bonds and notes	70,145	79,118
Total amortization	2,297	2,105
Administrative expenses	23,034	15,704
Total operating expenses	95,476	96,927
Operating (loss) income	(49,988)	24,375
Federal grants	12,864	13,079
Transfers out	(15,117)	(22,661)
Change in net assets	(52,241)	14,793
Net assets		
Beginning of year	187,613	172,820
End of year	$ 135,372	$ 187,613

ADFA had an operating loss of $50.0 million for the fiscal year ending June 30, 2004, compared with operating income of $24.4 million for the fiscal year ending June 30, 2003. The difference is primarily attributed to a net decline in the fair value of investments of $30.6 million, compared with a net increase in the prior year of $33.5 million. In addition, the provision for loan losses increased to $5.2 million for the current year, compared with $0.5 million for the previous year.

Other Financial Highlights

Loans and direct financing lease income decreased $1.8 million, to $20.8 million for year ending June 30, 2004. The average interest yield declined to 4.6% at June 30, 2004 compared with 4.9% at June 30, 2003. Revenues from investment interest and dividends were $46.9 million and $55.8 million for fiscal years ending June 30, 2004 and June 30, 2003, respectively. The average return on cash, cash equivalents and investments declined to 4.3% at June 30, 2004 compared with 4.7% at June 30, 2003.

The Authority has certain bond issues whereby interest earnings on cash, cash equivalents and investments are deferred until the borrower uses the funds for debt service. These are primarily in the State and Health Facilities Program, Economic Development Bond Guaranty Program and the Tobacco Bond Program. The total interest deferred for these programs was $1.6 million and $2.8 million for June 30, 2004 and 2003, respectively. The yield above does not include these deferred amounts.

In September 2002, the Authority's general fund began warehousing mortgage-backed securities created by its Single Family Housing Programs. The securities are funded directly by the general fund or by borrowing from the Federal Home Loan Bank. The Authority will use bond proceeds to purchase the securities from the general fund. The average yield of the warehoused mortgage-backed securities at June 30, 2004 and June 30, 2003 was 4.71% and 5.08%, respectively.

The average interest expense on bonds and notes payable was 5.0% at June 30, 2004, compared with 5.6% at June 30, 2003. The decrease is due to bond refundings and redemptions, some of which is attributed to the high mortgage loan prepayments experienced during the year.

Total administrative expenses increased $7.3 million during fiscal year ending June 30, 2004. This is primarily attributed to increases of $4.7 million and $1.7 million for the provision for loan losses and federal financial assistance expenses for the years ended June 30, 2004 and June 30, 2003, respectively. Approximately one-half of the increase in the provision for loan losses is attributed to Bond Guaranty Program and General Fund Program loans to two borrowers, in unrelated industries. Most of the remaining increase in the provision for loan losses relates to the federally funded HOME program (Federal Housing Programs) for multi-family loans, whereby the loan repayment is deferred or based on the net income of the development. The increase in the federal financial assistance expenses is a function of HOME program activity and disbursements. If the recipient receives HOME funds in the form of a "forgivable loan" (the funds are not repayable if compliance period and other restrictions are met), it is expensed when disbursed.

During 2001, ADFA issued $60 million of revenue bonds associated with the State of Arkansas' Tobacco Settlement Revenue ("TSR") to be used by participating colleges to construct and equip three facilities outlined by the Arkansas Tobacco Settlement Funds Act of 2000. The bonds are to be repaid from the first $5 million of annual TSRs paid to the State. Once the construction of the three facilities is completed and the bond proceeds and related interest are expended, the financial statements will only reflect the bonds payable, not the corresponding assets, as the resulting buildings will reside on the financial statements of the respective colleges. Interest income on the bond proceeds is recorded as deposits against financing arrangements on the statement of net assets while interest expense is recorded as such on the statement of revenues, expenses and changes in net assets. For the fiscal years ending June 30, 2004 and June 30, 2003, interest expense was $2.9 million for this bond issue.

Credit Ratings

ADFA has maintained an Issuer Credit Rating ("ICR") from Standard & Poors of 'A' since it was received in 1999. During the year, Standards & Poors affirmed the 'A' rating and upgraded the outlook to "positive" from "stable". Changes in state and federal legislation 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 & Poors. The obligations of the Authority as guarantor are limited to available moneys in the ADFA Guaranty Reserve Account created and being maintained pursuant to the authority conferred in the ADFA Guaranty Act.

In March 2003, Moody's Investor Service downgraded its rating on outstanding tobacco settlement-related securitizations following the downgrade of the parent company of one of the larger tobacco companies. The tobacco bonds issued by ADFA in 2001 were downgraded from 'Aa2' to 'A2'. The impact of the downgrade to the Authority has not been significant.

Independent Accountants' Report on Financial Statements and Supplementary Information

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

We have audited the accompanying statements of net assets of the Arkansas Development Finance Authority, a component unit of the State of Arkansas (the "Authority") as of June 30, 2004 and 2003, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2004 and 2003, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 3, 2004, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

/s/ **BKD, LLP**

Little Rock, Arkansas
September 3, 2004

Arkansas Development Finance Authority,
A Component Unit of the State of Arkansas
Statements of Net Assets
June 30, 2004 and 2003

In thousands	2004	2003
Current Assets		
Cash and cash equivalents	$ 185,379	$ 184,109
Accrued interest receivable		
Investments	4,101	4,472
Loans	1,898	2,169
Accounts receivable	1,064	1,046
Investments	—	194
Loans – current portion	13,993	797
Prepaid insurance	64	—
Total current assets	206,499	192,787
Noncurrent Assets		
Deferred charges	6,777	8,061
Investments – unrestricted	59,206	68,944
Investments – restricted	941,849	991,350
Loans, net of allowance for loan losses of $13,660 and $11,873 at June 30, 2004 and 2003, respectively	282,899	336,321
Direct financing leases – restricted	79,401	84,591
Real estate owned	2,163	4,651
Capitalized assets, net	198	233
Total noncurrent assets	1,372,493	1,494,151
Total assets	1,578,992	1,686,938
Current Liabilities		
Accounts payable	3,828	3,276
Accrued interest payable	23,572	25,652
Bonds and notes payable – current portion	228,053	155,950
Total current liabilities	255,453	184,878
Noncurrent Liabilities		
Deferred fees	7,646	9,106
Bonds and notes payable, net of unamortized premiums and discounts	1,131,846	1,260,497
Deposits against financing arrangements	48,675	44,844
Total noncurrent liabilities	1,188,167	1,314,447
Total liabilities	1,443,620	1,499,325
Net Assets		
Restricted by bond resolution	71,545	126,245
Invested in capital assets	198	233
Unrestricted	63,629	61,135
Total net assets	$ 135,372	$ 187,613

Arkansas Development Finance Authority,
A Component Unit of the State of Arkansas
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2004 and 2003

In thousands	2004	2003
Operating Revenues		
Investment income		
Interest and dividends	$ 46,887	$ 55,839
Loans and direct financing leases	20,782	22,544
Amortization of discounts on loans	4,759	5,673
Financing fees	3,587	3,539
Net (decrease) increase in the fair value of investments	(30,550)	33,524
Total investment income	45,465	121,119
Other	23	183
Total operating revenues	45,488	121,302
Operating Expenses		
Interest on bonds and notes		
Current	69,765	78,632
Accreted	380	486
Total interest on bonds and notes	70,145	79,118
Amortization		
Amortization of discounts and premiums on bonds and notes	320	247
Amortization of bond and note issuance costs	1,977	1,858
Total amortization	2,297	2,105
Administrative expenses		
Provision for loan losses	5,173	520
Federal financial assistance programs	10,041	8,315
Salaries and benefits	3,708	3,711
Operations and maintenance	886	869
BMIR program participant expense	115	215
Other	3,111	2,074
Total administrative expenses	23,034	15,704
Total operating expenses	95,476	96,927
Operating (Loss) Income	(49,988)	24,375
Nonoperating Revenue		
Federal grants	12,864	13,079
(Loss) Income Before Transfers Out	(37,124)	37,454
Transfers Out	(15,117)	(22,661)
Change in Net Assets	(52,241)	14,793
Net Assets, Beginning of Year	187,613	172,820
Net Assets, End of Year	$ 135,372	$ 187,613

Arkansas Development Finance Authority,
A Component Unit of the State of Arkansas
Statements of Cash Flows
Years Ended June 30, 2004 and 2003

In thousands	2004	2003
Operating Activities		
Interest received on investments	$ 47,258	$ 56,892
Interest received on loans	21,053	23,198
Financing fee income received	5,047	3,798
Loan disbursements	(36,133)	(38,100)
Principal repayments on loans	73,960	62,701
Direct financing lease disbursements	(4,161)	(29,592)
Principal repayments on capital leases	10,351	27,094
Other cash received (paid)	1,078	(3,515)
Cash paid for interest	(71,845)	(81,723)
Cash paid for program administration	(17,234)	(16,690)
Net cash provided by operating activities	29,374	4,063
Noncapital Financing Activities		
Proceeds from issuance of bonds and notes payable	350,114	306,246
Repayments of bonds and notes payable	(406,658)	(320,636)
Nonoperating grants received	12,864	13,079
Transfers out	(15,117)	(22,661)
Payments of debt issuance costs	(1,155)	(867)
Collection of financing fees	814	1,754
Net cash used in noncapital financing activities	(59,138)	(23,085)
Investing Activities		
Purchase of investments	(872,679)	(1,005,541)
Maturities of investments	901,562	1,070,045
Proceeds from sale of real estate owned	2,191	227
Purchase of capitalized assets	(40)	(106)
Net cash provided by investing activities	31,034	64,625
Increase in Cash and Cash Equivalents	1,270	45,603
Cash and Cash Equivalents, Beginning of Year	184,109	138,506
Cash and Cash Equivalents, End of Year	$ 185,379	$ 184,109

Arkansas Development Finance Authority,
A Component Unit of the State of Arkansas
Statements of Cash Flows (Continued)
Years Ended June 30, 2004 and 2003

In thousands	2004	2003
Reconciliation of Operating (Loss) Income to Net Cash Provided By Operating Activities		
Operating (loss) income	$ (49,988)	$ 24,375
Items not requiring (providing) operating activities cash flows		
Amortization of discounts on loans	(4,759)	(5,673)
Amortization of deferred financing fees	(2,274)	(1,768)
Accreted interest	380	486
Amortization of bond and note discounts	(384)	247
Amortization of bond and note issuance costs	2,363	1,858
Depreciation of capitalized assets	75	98
Provision for loan losses	5,173	520
Loss on sale of real estate owned	25	34
Provision for loss on real estate owned	1,477	346
Net depreciation (appreciation) of investments	30,550	(33,524)
Changes in		
Accounts receivable	(18)	150
Accrued interest receivable	642	1,707
Loans receivable	37,827	24,601
Direct financing leases	6,190	(2,498)
Other assets	12	159
Accounts payable	552	(1,604)
Accrued interest payable	(2,080)	(3,091)
Other liabilities	3,611	(2,360)
Net cash provided by operating activities	$ 29,374	$ 4,063
Supplemental Cash Flows Information		
Real estate acquired in settlement of loans	$ 2,041	$ 3,596
Sale and financing of real estate owned	$ 1,056	$ 175

Arkansas Development Finance Authority,
A Component Unit of the State of Arkansas
Notes to Financial Statements
June 30, 2004 and 2003

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

Nature of Operations and Reporting Entity

The Arkansas Development Finance Authority, a Component Unit of the State of Arkansas (the "Authority") 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.

Bonds and other debt instruments issued by the Authority and included on the Authority's financial statements are 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 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 Authority has no taxing power.

Accounting Method

The Authority utilizes the proprietary fund method of accounting whereby operating revenues and expenses are distinguished from nonoperating items. 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. All revenues and expenses are recognized on the accrual basis. Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority has elected not to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989, unless the GASB specifically adopts such FASB Statements or Interpretations. The Authority first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

Fund Accounting

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

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

(i) Single Family Housing Program

(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.

(b) *Single Family Convertible Note Program* – A drawdown bond program utilized by ADFA to warehouse tax-exempt authority obtained through replacement refundings. The program utilizes privately placed, tax-exempt bonds, with the bond interest rate determined by collateral earnings.

(ii) Federal Housing Programs

(a) *Section* 8 *Housing Assistance Payment Program* – Accounts for Section 8 housing assistance funds received in advance, housing assistance payment disbursements, and Authority fees and expenses related to the Section 8 Housing Assistance Payment Program.

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

(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 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* – These programs were funded by distributions the Authority received from the GNMA/BMIR Bond Program as well as from Financing Adjustment Factor distributions from the federally funded Section 8 Housing Assistance Payment Program.

(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 fund; the debt service requirements of the bonds and related loans and leases to private companies and one state commission. The fund was created by Act 505 of 1985 which authorized a grant of $6 million from the State Treasurer (which was subsequently repaid by the Authority) for the purpose of enhancing and supporting the creditworthiness of bonds and other debt instruments guaranteed by the Authority. At June 30, 2004 and 2003, the fund has cash and cash equivalents and investments totaling $21.2 million and $21.9 million, respectively, in the reserve account to collateralize Authority-guaranteed bonds and future issues under the bond guaranty program.

(v) State and Health Facilities Programs

(a) *State and Health 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 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 a note payable for the Intermediary Relending Program; the related debt service requirements of the bonds and note and related loans to private businesses and public higher education institutions. Also, accounts for loan reserve programs, such as Capital Access, Business Life and Disadvantaged Business Enterprise.

(vii) Tobacco Bond Program

(a) *Tobacco Settlement Revenue Bonds, Series* 2001 – Accounts for the proceeds from the sale of tobacco settlement revenue bonds; 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 three projects outlined by the Arkansas Tobacco Settlement Funds Act of 2000.

(viii) Other Programs and General Fund

(a) *ADFA General Fund* – Accounts for 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 and funding downpayment assistance; and money or residual assets, such as 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.

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, 2004 and 2003, cash equivalents of $184.8 million and $183.2 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.

Investment income includes dividend and interest income, realized gains and losses on investments carried at other than fair value 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, 2004 and 2003, was in excess of the cost basis by $21.3 million and $54.5 million, respectively.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoffs are reported at their outstanding principal balances adjusted for any charge-offs, the allowance for loan losses and any deferred fees or costs on origination. Interest income is reported using the interest method and includes amortization of net deferred loan fees and costs over the loan term. Generally, loans are placed on non-accrual status at 180 days past due and interest is considered a loss, unless the loan is well-secured and in the process of collection.

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.

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.

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.

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 Financial Accounting Standards Board Statement No. 13, *Accounting for Leases.*

Deferred Charges

Costs related to issuing bonds and underwriters' compensation on sale of bonds are capitalized and are amortized over the term of the bonds based on the balance of bonds outstanding. Early retirement of bonds results in proportionate amounts of amortization of bond issuance costs and discounts.

Capitalized Assets

Furniture, fixtures 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.

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.

Deferred Fees

The Authority receives commitment fees for earmarking funds and financing fees from borrowers. Deferred commitment fees which are nonrefundable are amortized into income ratably over the term of the respective programs based on the balance of bonds outstanding, which approximates the mortgage loans outstanding.

Conduit Debt Obligations

Conduit debt issued by the Authority is recorded on the Authority's balance sheet 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 assets.

Net Assets

Restricted by Bond Resolution – Represents those funds restricted within the respective bond resolution.

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

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

Note 2: Deposits and Investments

Deposits

At June 30, 2004 and 2003, the carrying value and the bank balance of the Authority's deposits were as follows:

In thousands	2004	2003
Insured (FDIC) or collateralized with securities held by the Authority or the Authority's agent in the Authority's name	$ 32,311	$ 2,061
Carrying value	$ 31,610	$ 1,235

State law requires collateralization of all deposits with federal depository insurance and other acceptable collateral in specific amounts. No legal opinion has been obtained regarding the enforceability of any of the collateral arrangements.

Investments

In accordance with Governmental Accounting Standards Board Statement No.3, *Accounting and Financial Reporting for Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements,* the Authority's investments are categorized to give an indication of the level of credit risk assumed. Category 1 includes investments that are insured, collateralized or registered, or for which the securities are held by the Authority or its agent in the Authority's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Authority's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent but not in the Authority's name.

Investments at June 30, 2004, by security type and level of credit risk:

In thousands Security Type	Category 1	Category 2	Category 3	Fair Value
Categorized				
U.S. Government and agency securities	$ 722,662	$ —	$ —	$ 722,662
Repurchase agreements	1,386	—	—	1,386
Total investments categorized by investment type	$ 724,048	$ 0	$ 0	724,048
Uncategorized				
Investment agreements				245,959
Money market mutual funds				184,817
Total uncategorized				430,776
Total investments				$ 1,154,824

Investments at June 30, 2003, by security type and level of credit risk:

In thousands Security Type	Category 1	Category 2	Category 3	Fair Value
Categorized				
U.S. Government and agency securities	$ 819,555	$ —	$ —	$ 819,555
Commercial paper	253	—	—	253
Repurchase agreements	1,131	—	—	1,131
Total investments categorized by investment type	$ 820,939	$ 0	$ 0	820,939
Uncategorized				
Investment agreements				239,254
Money market mutual funds				183,169
Total uncategorized				422,423
Total investments				$ 1,243,362

Under the investment agreements noted above, monies held by the trustees of the respective issues are invested at guaranteed rates for predetermined periods of time. The investments are backed by noncollateralized promissory notes of the lending institutions, most of which are rated A or better; therefore, the collectibility of such investments is dependent in part on the ability of the institutions to repay the promissory notes. As discussed in *Notes 1* and *6*, bonds issued by the Authority are payable solely from and collateralized by a lien on the proceeds, monies, revenues, rights, interest, and collections pledged under the resolutions authorizing the particular issues; consequently, any loss from investments impacts the particular related bond fund.

The following schedule reconciles the carrying amount of investments as disclosed above to the statement of net assets:

In thousands	2004	2003
Reported amount of investments	$ 1,154,824	$ 1,243,362
Cash equivalents disclosed as investments for GASB 3	31,048	295
Investments disclosed as cash equivalents for GASB 3	(184,817)	(183,169)
Investments as reported on the statement of net assets	$ 1,001,055	$ 1,060,488

The Authority invests in various asset and mortgage-backed securities. These securities are reported at fair value in the statement of net assets. They are also included in the totals of U.S. Government and agency securities in the disclosure of custodial credit risk. 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.

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the balance sheets as follows:

	2004	2003
Carrying value		
Deposits	$ 31,610	$ 1,235
Investments	1,154,824	1,243,362
	$ 1,186,434	$ 1,244,597
Included in the following balance sheet captions:		
Current assets		
Cash and cash equivalents	$ 185,379	$ 184,109
Investments – current portion	—	194
Noncurrent assets		
Investments – unrestricted	59,206	68,944
Investments – restricted	941,849	991,350
	$ 1,186,434	$ 1,244,597

Note 3: Loans

Single Family Mortgage Purchase Programs and Multi-Family Mortgage Purchase Programs – All mortgage loans purchased under the single family and multi-family mortgage purchase programs are collateralized by first liens on real property. All mortgage loans purchased by the Authority under the FHA/VA Single Family Mortgage Purchase Programs are FHA insured or VA guaranteed mortgage loans. Loans purchased under the Conventional Single Family Mortgage Purchase Program are insured up to an aggregate limit for each issue by supplemental mortgage insurance. Private mortgage insurance is required to the extent that individual loans purchased under the Conventional Single Family Mortgage Purchase Program exceed 80% of the lessor of the appraised value of the property or sales price.

Each loan purchased under the GNMA/BMIR Loan Purchase Program was made pursuant to the FHA program for below market interest rate mortgage loans and is insured by the FHA pursuant to Section 212(d)(3) of Title II of the National Housing Act.

Bond Guaranty Programs – 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, 2004 and 2003, respectively, the Authority reported in its statement of net assets $53.4 million and $62.0 million in loans and leases to private companies and with an agency of the State of Arkansas as well as $65.4 million and $75.6 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 the allowance for loan loss of $6.8 million and $7.5 million, construction draw payable accounts of $.3 million and $2.6 million, and timing differences between loan collection and bond payment of $8.0 million and $4.1 million offset by loans with no associated bonds of $3.1 million and $0.7 million at June 30, 2004 and 2003, respectively. 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, 2004 and 2003, bonds outstanding of $12.2 million and $10.7 million, respectively, were guaranteed by the Bond Guaranty Fund. Furthermore, the Bond Guaranty Fund guarantees principal and interest on bond anticipation notes. At June 30, 2004, principal guaranteed on these notes totaled $6.5 million.

Construction draw payables will be advanced to a customer as long as there is no violation of any condition established in the contract. Construction draw payables 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 and Health Facilities Programs – Includes financing activities with various state agencies and health facilities. At June 30, 2004 and 2003, respectively, the Authority reported loans of $67.1 million and $87.6 million, direct financing leases of $71.7 million and $77.3 million, and bonds outstanding of $197.1 million and $169.0 million related to the financing arrangements with these institutions and agencies. Differences between the loan and lease balances and the related bond balance are attributed primarily to construction draw payable accounts of $60.6 million and $5.5 million at June 30, 2004 and 2003, respectively.

Other Economic Development Programs – Includes financing activities with educational institutions and financing activities to private companies through various means. At June 30, 2004 and 2003, respectively, the Authority reported loans of $10.6 million and $12.0 million, and bonds and note payable of $18.0 million and $18.2 million. Differences between the loan balances and the related bonds and notes payable balances are attributed primarily to a debt service reserve balance of $6.5 million for June 30, 2004 and 2003.

The stated interest rates on the loans are as follows:

	Stated Interest Rate
Single Family Housing Program Fund	4.00 to 10.78%
Multi-Family Housing Program Fund	0.00 to 7.334%
Bond Guaranty Programs	Rate on bonds
State and Health Facilities Programs	Rate on bonds
Other Economic Development Programs	
U.S. Department of Agriculture/Farmers Home Administration	3.00%
Higher Education Capital Access Program	Rate on bonds
General Fund Programs	0.00 to 8.50%

Impaired loans totaled $20.2 million and $29.5 million at June 30, 2004 and 2003, respectively. An allowance for loan losses of $5.3 million and $4.9 million relates to impaired loans of $20.2 million and $29.5 million, at June 30, 2004 and 2003, respectively.

At June 30, 2004 and 2003, respectively, accruing loans delinquent 180 days or more totaled $0.6 million and $2.1 million. Non-accruing loans at June 30, 2004 and 2003, respectively, were $16.6 million and $26.0 million.

Note 4: 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. Future minimum lease payments receivable under these leases which begin expiring in 2007 are as follows:

In thousands	Lease Payments
Year ending June 30,	
2005	$ 11,144
2006	11,162
2007	11,082
2008	11,149
2009	8,394
2010 – 2014	30,901
2015 – 2019	13,439
2020 – 2024	2,489
Total minimum lease payments receivable	99,760
Less amount representing interest	(20,359)
Present value of minimum lease payments receivable	$ 79,401

Note 5: Capitalized Assets

Premises and equipment at June 30 are summarized as follows:

In thousands	2004	2003
Cost		
Furniture, fixtures and equipment	$ 673	$ 595
Less accumulated depreciation	(475)	(362)
Net	$ 198	$ 233

Depreciation expense for the years ending June 30, 2004 and 2003, respectively, was approximately $75,000 and $98,000.

Note 6: Bonds and Notes Payable

Bonds and notes payable at June 30 were as follows:

In thousands	2004	2003
Total Single Family Bonds and Note Payable, with interest rates ranging from 1.15 – 10.00% and final maturity at varying dates through 2035	$ 856,830	$ 911,302
Less unamortized discount/plus unamortized premium	(859)	(223)
Total Single Family Bonds Payable, net	855,971	911,079
Total Multi-Family Bonds Payable, with interest rates ranging from 2.75 – 9.75% and final maturity at varying dates through 2035	141,102	157,050
Less unamortized discount/plus unamortized premium	(958)	(1,107)
Total Multi-Family Bonds, net	140,144	155,943
Total Economic Development Bonds Payable, Guaranteed by the Bond Guaranty Fund, with interest rates ranging from 1.58 – 8.125% and final maturity at varying dates through 2023	65,408	75,615
Total State and Health Facilities Bonds Payable, with interest rates ranging from 1.89 – 7.125% and final maturity at varying dates through 2034	197,240	169,220
Less unamortized discount/plus unamortized premium	(163)	(246)
Total State and Health Facilities Bonds Payable, net	197,077	168,974
Total Other Economic Development Bonds and Note Payable, with interest rates ranging from 1.00 – 5.70% and final maturity at varying rates through 2016	18,090	18,315
Less unamortized discount/plus unamortized premium	(118)	(139)
Total Other Economic Development Bonds Payable, net	17,972	18,176
Tobacco Bond Payable, with interest rates ranging from 2.80 – 5.50% and final maturity at varying dates through 2042	58,900	60,000
Total General Fund Note Payable, with interest rates ranging from 1.21 – 1.55% and final maturity at varying dates through 2004	24,427	26,660
Total all programs bonds and notes payable, net	$ 1,359,899	$ 1,416,447

Activity in bonds and notes payable for 2004 was as follows:

In thousands	Beginning Balance	Additions Including Accretion	Reductions	Ending Balance	Amount Due within One Year
Bonds payable	$ 1,269,113	$ 159,404	$ (282,835)	$ 1,145,682	$ 44,887
Notes payable	149,049	191,089	(123,823)	216,315	183,166
	1,418,162	350,493	(406,658)	1,361,997	228,053
Unamortized premiums (discounts)	(1,715)	(724)	341	(2,098)	—
Total long - term debt	$ 1,416,447	$ 349,769	$ (406,317)	$ 1,359,899	$ 228,053

Activity in bonds and notes payable for 2003 was as follows:

In thousands	Beginning Balance	Additions Including Accretion	Reductions	Ending Balance
Bonds payable	$ 1,364,768	$ 101,944	$ (197,599)	$ 1,269,113
Notes payable	67,298	204,788	(123,037)	149,049
	1,432,066	306,732	(320,636)	1,418,162
Unamortized premiums (discounts)	(1,962)	—	247	(1,715)
Total long - term debt	$ 1,430,104	$ 306,732	$ (320,389)	$ 1,416,447

Future amounts required to pay principal and interest on all bonds and notes payable at June 30, 2004, were as follows:

In thousands	Principal	Interest
Year Ending June 30,		
2005	$ 228,053	$ 65,063
2006	80,044	61,003
2007	48,319	57,765
2008	48,322	54,751
2009	44,938	51,849
2010 – 2014	218,850	222,581
2015 – 2019	212,161	164,058
2020 – 2024	176,680	111,030
2025 – 2029	186,300	60,592
2030 – 2034	106,080	16,291
2035 – 2039	9,800	1,356
2040 – 2044	2,450	197
	1,361,997	866,536
Unamortized premiums and discounts	(2,098)	—
Total	$ 1,359,899	$ 866,536

The Authority has entered into an interest rate swap agreement to effectively convert $10 million of variable rate debt based on the 3-month LIBOR to fixed rate debt with an effective rate of 7.698%. The Authority is exposed to interest rate risk under the swap agreement if the 3-month LIBOR rate is less than 7.418%. The interest rate swap agreement is set to expire January 2, 2014.

Under the bond resolutions, the Authority has the option to redeem bonds at various premium rates. Generally, the redemption option cannot be exercised prior to the time the bonds have been outstanding for six to ten 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, 2004, the remaining principal amount outstanding on the issue defeased in a previous year is as follows:

In thousands **Issue**	**Date of Defeasance**	**Principal Outstanding**
1979 Series A Single Family Conventional Bonds	September 1988	$ 42,685

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, 2004 and 2003, respectively, the bonds outstanding issued under these programs aggregated $435.0 million and $426.7 million.

The Authority pledged $27.2 million and $26.7 million of securities as collateral for advances to the Federal Home Loan Bank in the amount of $27.2 million and $26.7 million at June 30, 2004 and 2003, respectively.

Note 7: Concentrations of Risk in Lending and Loan Receivable Insurance

The Authority, through its normal lending activity, originates and maintains loans receivable which 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 heavily 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 8: Retirement Plan

The officials and employees of the Authority participate in a state-wide, multiple-employer public employee retirement system administered by the Arkansas Public Employees Retirement System (the "System"). There is no legal obligation imposed upon the member agencies relative to the operation of the System other than the payment of a percent of the gross salaries of eligible employees participating in the System as an employer contribution. State law provides that Authority contributions for all covered state employees are to be based on 12% of gross payroll. All contributions required of the Authority were made for the years ended June 30, 2004, 2003 and 2002. For the years ended June 30, 2004, 2003 and 2002, the Authority's covered payroll and total payroll for all employees amounted to $3.7 million, $3.7 million and $3.3 million, respectively.

The contributory plan has been in effect since the beginning of the System, 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, or later in System covered employment. Employees joining the System prior to July 1, 1997, are vested after ten years of employment. Beginning July 1, 1997, the vesting period for new members was reduced to five years. A member covered by the contributory plan can elect to be covered by the noncontributory plan, and the change will be effective January 1, 1978, regardless of when the election was made. The System is audited separately, and included therein is financial data and trend information which gives an indication of the extent to which the system is accumulating sufficient assets to pay benefits when due.

Note 9: 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 collectibility of any related receivable at June 30, 2004 and 2003, 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.

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 Multi-Family Housing Programs Fund. A portion of the prepayments of loan principal in this portfolio are 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 $65.5 million and $14.0 million of amounts recorded as cash and investments in the statement of net assets that will be disbursed to borrowers under loan and lease agreements closed prior to June 30, 2004 and 2003, respectively.

The Authority is a defendant in a number of legal actions. While the final outcome of many of these legal actions cannot be determined at this time, management is of the opinion that the ultimate liability, if any, for these legal actions will not have a material effect on the Authority's financial position.

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 Authority offers continuous lending in its HomeToOwn Single Family Program, which offers thirty-year mortgage loans to first time homebuyers, subject to income and purchase price limitations. The Authority allows lenders to reserve funds at a specific interest rate via the Internet. The interest rate is determined by the Authority and can change at any time, based on program volume, conventional mortgage rates, and other factors. At the time of the reservation, the Authority may or may not have corresponding long-term bonds to fund the loans. This exposes the Authority to interest rate risk. At June 30, 2004 and 2003, respectively, the Authority had accepted loan reservations of $46.2 million and $42.1 million, for which there were no corresponding long-term bond commitments.

The Internal Revenue Service limits the amount of interest rate spread that an issuer can earn on tax-exempt single family mortgage revenue bonds. In some of its previous bond issues, the Authority earned in excess of the allowed amount. In order to maintain compliance with the IRS, the excess is directed to bond issues earning less than the allowed amount. At June 30, 2004 and 2003, respectively, the present value of excess subsidy was approximately $13.5 million and $12.0 million. In the event the cost of long-term bonds exceeds the reserved loan rates, the Authority would utilize this subsidy to limit losses.

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 Authority is authorized to provide its guaranty to certain obligations utilizing the Bond Guaranty fund, up to $10.0 million. After the guaranty funds are exhausted, the State of Arkansas will issue tax credits. During the year ended June 30, 2004, the fund made its first investment and the resulting exposure to the Bond Guaranty fund was $1.4 million at June 30, 2004.

On June 10, 2004, the Authority executed a bond purchase agreement as part of the Single Family Mortgage Revenue Bonds 2004 Series B bond issue. The Authority agreed to sell $34.5 million in bonds, closing on July 28, 2004. In addition, on June 30, 2004, the Authority executed a bond purchase agreement as part of a state facility transaction, the Donaghey Plaza Project, Series 2004. The Authority agreed to issue $44.0 million in bonds, to be delivered on July 13, 2004.

Supplementary Information

Arkansas Development Finance Authority,
A Component Unit of the State of Arkansas
Combining Statement of Net Assets
June 30, 2004

In thousands	Single Family Housing Programs	Federal Housing Programs	Multi-Family Programs	Economic Development Bond Guaranty Program
Current Assets				
Cash and cash equivalents	$ 91,302	$ 85	$ 4,573	$ 7,571
Accrued interest receivable	3,479	16	511	385
Accounts receivable	412	248	56	(4)
Loans – current portion	—	—	—	—
Prepaid insurance	—	—	—	—
Total current assets	95,193	349	5,140	7,952
Noncurrent Assets				
Deferred charges	6,203	—	574	—
Investments – unrestricted	—	—	—	—
Investments – restricted	810,442	—	64,869	20,516
Loans, net	25,285	27,587	94,592	45,643
Direct financing leases – restricted	—	—	—	7,749
Real estate owned	—	100	—	1,980
Capitalized assets, net	—	—	—	—
Total noncurrent assets	841,930	27,687	160,035	75,888
Total assets	937,123	28,036	165,175	83,840
Current Liabilities				
Accounts payable	2,086	318	2,182	—
Accrued interest payable	18,947	—	1,580	705
Bonds and notes payable – current	168,807	—	14,961	6,106
Total current liabilities	189,840	318	18,723	6,811
Noncurrent Liabilities				
Deferred fees	5,446	—	303	1,879
Bonds and notes payable, net of unamortized premiums and discounts	687,164	—	125,184	59,302
Deposits against financing arrangements	—	—	410	2,379
Total noncurrent liabilities	692,610	0	125,897	63,560
Total liabilities	882,450	318	144,620	70,371
Net Assets				
Restricted by bond resolution	54,673	27,718	20,555	13,469
Invested in capital assets	—	—	—	—
Unrestricted	—	—	—	—
Total net assets	$ 54,673	$ 27,718	$ 20,555	$ 13,469

State and Health Facilities Programs	Other Economic Development Programs	Tobacco Bond Program	General Fund Programs	Eliminations	Total
$ 69,249	$ 4,338	$ 7,065	$ 1,196	$ —	$ 185,379
1,109	24	21	454	—	5,999
—	—	—	1,505	(1,153)	1,064
—	—	—	13,993	—	13,993
—	64	—	—	—	64
70,358	4,426	7,086	17,148	(1,153)	206,499
—	—	—	—	—	6,777
—	—	—	59,206	—	59,206
35,335	6,951	3,736	—	—	941,849
67,129	10,638	—	12,025	—	282,899
71,652	—	—	—	—	79,401
—	—	—	83	—	2,163
—	—	—	198	—	198
174,116	17,589	3,736	71,512	0	1,372,493
244,474	22,015	10,822	88,660	(1,153)	1,578,992
10	—	—	385	(1,153)	3,828
2,039	36	243	22	—	23,572
11,340	1,279	1,134	24,426	—	228,053
13,389	1,315	1,377	24,833	(1,153)	255,453
18	—	—	—	—	7,646
185,737	16,694	57,765	—	—	1,131,846
45,176	174	536	—	—	48,675
230,931	16,868	58,301	0	0	1,188,167
244,320	18,183	59,678	24,833	(1,153)	1,443,620
154	3,832	(48,856)	—	—	71,545
—	—	—	198	—	198
—	—	—	63,629	—	63,629
$ 154	$ 3,832	$ (48,856)	$ 63,827	$ 0	$ 135,372

Arkansas Development Finance Authority,
A Component Unit of the State of Arkansas
Combining Statement of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2004

In thousands	Single Family Housing Programs	Federal Housing Programs	Multi-Family Programs	Economic Development Bond Guaranty Program
Operating Revenues				
Investment income				
Interest and dividends	$ 42,634	$ 1	$ 425	$ 1,203
Loans and direct financing leases	2,458	141	4,795	3,009
Amortization of discounts on loans	—	—	4,759	—
Financing fees	1,432	4	89	564
Net increase (decrease) in the fair value of investments	(24,669)	—	(477)	(1,379)
Total investment income	21,855	146	9,591	3,397
Other	—	—	2	—
Total operating revenues	$ 21,855	$ 146	$ 9,593	$ 3,397

State and Health Facilities Programs	Other Economic Development Programs	Tobacco Bond Program	General Fund Programs	Eliminations	Total
$ —	$ 196	$ —	$ 2,428	$ —	$ 46,887
9,181	179	—	1,019	—	20,782
—	—	—	—	—	4,759
—	14	—	3,162	(1,678)	3,587
(8)	—	—	(4,017)	—	(30,550)
9,173	389	0	2,592	(1,678)	45,465
—	9	—	12	—	23
$ 9,173	$ 398	$ 0	$ 2,604	$ (1,678)	$ 45,488

Arkansas Development Finance Authority,
A Component Unit of the State of Arkansas
Combining Statement of Revenues, Expenses and Changes in Net Assets
(Continued)
Year Ended June 30, 2004

	Single Family Housing Programs	Federal Housing Programs	Multi-Family Programs	Economic Development Bond Guaranty Program
Operating Expenses				
Interest on bonds and notes				
Current	$ 40,960	$ —	$ 12,605	$ 3,696
Accreted	380	—	—	—
				—
Total interest on bonds and notes	41,340	0	12,605	3,696
Amortization				
Amortization of discounts and premiums on bonds and notes	88	—	128	—
Amortization of bond and note issuance costs	1,809	—	168	—
Total amortization	1,897	0	296	0
Administrative expenses				
Provision for loan losses	—	1,703	(123)	2,462
Federal financial assistance programs	—	10,602	—	—
Salaries and benefits	—	—	—	—
Operations and maintenance	—	—	—	—
BMIR program participant expense	—	—	115	—
Other	1,072	249	631	1,401
Total administrative expenses	1,072	12,554	623	3,863
Total operating expenses	44,309	12,554	13,524	7,559
Operating Income (Loss)	(22,454)	(12,408)	(3,931)	(4,162)
Nonoperating Revenue				
Federal grants	—	12,767	—	—
Income (Loss) Before Transfers In (Out)	(22,454)	359	(3,931)	(4,162)
Transfers In (Out)	(5,680)	5	(498)	—
Change in Net Assets	(28,134)	364	(4,429)	(4,162)
Net Assets, Beginning of Year	82,807	27,354	24,984	17,631
Net Assets, End of Year	$ 54,673	$ 27,718	$ 20,555	$ 13,469

State and Health Facilities Programs	Other Economic Development Programs	Tobacco Bond Program	General Fund Programs	Eliminations	Total
$ 9,180	$ 227	$ 2,927	$ 170	$ —	$ 69,765
—	—	—	—	—	380
9,180	227	2,927	170	0	70,145
84	20	—	—	—	320
—	—	—	—	—	1,977
84	20	0	0	0	2,297
—	114	—	1,017	—	5,173
—	—	—	—	(561)	10,041
—	—	—	3,708	—	3,708
—	—	—	886	—	886
—	—	—	—	—	115
—	241	—	634	(1,117)	3,111
0	355	0	6,245	(1,678)	23,034
9,264	602	2,927	6,415	(1,678)	95,476
(91)	(204)	(2,927)	(3,811)	0	(49,988)
—	—	—	97	—	12,864
(91)	(204)	(2,927)	(3,714)	0	(37,124)
—	—	(15,117)	6,173	—	(15,117)
(91)	(204)	(18,044)	2,459	0	(52,241)
245	4,036	(30,812)	61,368	—	187,613
$ 154	$ 3,832	$ (48,856)	$ 63,827	$ 0	$ 135,372