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

Accountants' Report and Financial Statements

June 30, 2008 and 2007

Arkansas Development Finance Authority,
A Component Unit of the State of Arkansas
June 30, 2008 and 2007

Contents

BKD LLP

Independent Accountants' Report on Financial Statements and Supplementary Information

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

We have audited the accompanying basic financial statements of the Arkansas Development Finance Authority, a component unit of the State of Arkansas (the Authority), as of and for the years ended June 30, 2008 and 2007, as listed in the table of contents. 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. 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 audit provides 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, 2008 and 2007, and its changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis as listed in the table of contents 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 principally 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 Authority's basic financial statements. The accompanying supplementary information, as 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 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.

BKD, LLP

October 30, 2008

5000 Rogers Avenue, Suite 700
Fort Smith, AR 72903-2079
479.452.1040 Fax 479.452.5542

400 W. Capitol Avenue, Suite 2500
P.O. Box 3667
Little Rock, AR 72203-3667
501.372.1040 Fax 501.372.1250

200 E. 11th Avenue
P.O. Box 8306
Pine Bluff, AR 71611-8306
870.534.9172 Fax 870.534.2146

bkd.com

Beyond Your Numbers

Praxity MEMBER
GLOBAL ALLIANCE OF INDEPENDENT FIRMS

Arkansas Development Finance Authority,
A Component Unit of the State of Arkansas
Management Discussion and Analysis
June 30, 2008 and 2007

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, 2008 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 Combining Statements. Comparative totals as of and for the years ended June 30, 2007 and 2006, respectively, 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 years. 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 and Health Facilities Programs; Other Economic Development Programs; Tobacco Bonds Program and General Fund Programs. A description of each of these programs is included in *Note 1* of the "Notes to Financial Statements."

Condensed Statements of Net Assets

(In thousands)	2008	2007	2006
Capital assets	$ 281	$ 177	$ 172
Other assets	1,528,636	1,574,353	1,630,861
Total assets	1,528,917	1,574,530	1,631,033
Current liabilities	62,193	200,951	230,065
Noncurrent liabilities	1,315,386	1,243,899	1,277,533
Total liabilities	1,377,579	1,444,850	1,507,598
Net assets			
Restricted by bond resolution	61,843	47,537	46,478
Invested in capital assets	281	177	172
Unrestricted	89,214	81,966	76,785
Total net assets	$ 151,338	$ 129,680	$ 123,435

June 30, 2008 to June 30, 2007

At June 30, 2008, total assets were $1.53 billion compared to $1.57 billion at June 30, 2007, decreasing $45.6 million or 3%. Total assets consisted primarily of investments of $934.1 million, loans (net of allowance) of $307.1 million, cash of $120.0 million and restricted direct financing leases of $140.9 million at June 30, 2008.

Investments decreased $71.1 million or 7% since June 30, 2007. Investments of the Single Family Mortgage Purchase Program declined $57.1 million and corresponded to the related decrease in bonds payable associated with that program. Investments were liquidated to partially fund construction draws and debt service for the State and Health Facilities Programs, resulting in a $20.8 million decrease, and to fund construction draws for the Tobacco Bonds Program, resulting in a $17.1 million decrease. These declines were offset by an increase in general fund investment balances of $40.0 million, attributed to the warehousing of mortgage-backed securities for the General Fund Programs.

Loans, net of allowance, increased $3.1 million or 1% compared with June 30, 2007. The increase is primarily attributed to the draws on a loan for the Tobacco Bonds Program ($20.8 million) and fundings of interim loans for the General Fund Programs, offset by decreases in most of the agency's remaining programs.

Cash and cash equivalents decreased $8.9 million or 7% since June 30, 2007. The decrease reflects the decrease in cash and cash equivalents for the State and Health Facilities Program of $17.2 million, to partially fund construction draws and to disburse residual assets of a Department of Corrections bond issue upon its final maturity. This decrease was offset by a $7.6 million increase in cash and cash equivalents for Single Family Housing Programs, as more investments were liquidated at or before June 30, 2008 to pay July 1 bond redemptions than in prior year.

Restricted Direct Financing Leases increased $19.4 million, or 16% since June 30, 2007. The increase is primarily due to State and Health Facilities Program leases. Construction draws, primarily for the Department of Corrections Special Needs Unit, were $29.0 million, offset by lease repayments of $8.8 million.

In conjunction with a bond transaction, the Authority entered into an installment sales agreement with the Arkansas Game and Fish Commission during the current year in the amount of $13.2 million. This agreement is included in total assets of the Authority.

The Authority's current liabilities declined to $62.2 million from $201.0 million due to a notes payable maturing in the Single Family Notes Program. Most of the balance was transferred to another note, maturing in 2010.

ADFA's total liabilities of $1.4 billion, consisting primarily of net bonds and notes payable, decreased $67.3 million, or 5%, since June 30, 2007. This decrease is primarily related to the net activity (redemption greater than issuance) of bonds and notes payable in the Single Family ($66.6 million), Multi-Family ($14.5 million), Bond Guaranty ($7.6 million), State and Health Facilities ($4.6 million) and the Other Economic Development ($10.2 million) programs, offset by an increase in net bonds and notes payable for the General Fund Program ($40.7 million), for funding the warehousing of mortgage-backed securities.

June 30, 2007 to June 30, 2006

At June 30, 2007, total assets were $1.57 billion and consisted primarily of investments of $1.0 billion, loans (net of allowance) of $304.1 million, cash of $129.0 million and restricted direct financing leases of $121.5 million at June 30, 2007. Total assets were $1.63 billion at June 30, 2006.

The $46.9 million decrease in investments from June 30, 2006 to 2007, was primarily due to the decline in investments of $16.6 million for the General Fund Programs, as a result of less warehousing of mortgage-backed securities, as well as a decline in investments of the State and Health Facilities Program of $34.7 million, due to the funding of construction draws and bond debt service.

Loans, net of allowance, decreased $21.1 million, attributable to loan repayments received for the Multi-Family Program.

The decrease in cash at June 30, 2007 from June 30, 2006, of $3.9 million was attributed to the Single Family Housing Programs decrease of $16.4 million, (less cash on hand at year end for July 1, 2007 bond redemptions compared with July 1, 2006) offset by the State and Health Facilities Program increase of $13.2 million, due to maturing investments in excess of what was needed for debt service and funding of construction draws.

Restricted Direct Financing Leases increased $15.2 million from June 30, 2006 to June 30, 2007, due to the funding of construction draws exceeding lease repayments for the State and Health Facilities Program.

ADFA's total liabilities of $1.4 billion at June 30, 2007, consisted primarily of net bonds and notes payable and decreased $62.7 million from June 30, 2006. The decrease was primarily related to the net activity (redemption greater than issuance) of bonds and notes payable in Multi-Family ($26.1 million), State and Health Facilities ($16.2 million) and the General Fund Programs ($15.4 million).

Condensed Statements of Revenues, Expenses and Changes in Net Assets

(In thousands)	2008	2007	2006
Total investment income	$ 86,763	$ 77,586	$ 47,042
Other income	16	15	83
Total operating revenues	86,779	77,601	47,125
Total interest on bonds and notes	62,436	67,283	68,793
Total amortization	808	1,276	1,839
Administrative expenses	21,060	21,685	24,088
Total operating expenses	84,304	90,244	94,720
Operating income (loss)	2,475	(12,643)	(47,595)
Federal grants	14,183	13,888	17,511
Transfers in	5,000	5,000	5,000
Change in net assets	21,658	6,245	(25,084)
Net assets			
Beginning of year	129,680	123,435	148,519
End of year	$ 151,338	$ 129,680	$ 123,435

ADFA's net income, consisting of operating income plus federal grants, totaled $16.7 million for the year ending June 30, 2008, compared with a net income of $1.2 million for the year ending June 30, 2007, and net loss of $30.1 million for year ending June 30, 2006. The difference is primarily attributed to changes in the fair value of investments – a net increase for 2008 of $13.9 million, compared with a net increase of $96,000 in 2007 and a net decrease in 2006 of $30.3 million. The changes in the fair value of investments, due to lower interest rates seen in the market as of June 30, 2008 compared to June 30, 2007, primarily relate to the Authority's mortgage-backed securities and U.S. Treasury obligations, most of which provide for debt service on corresponding bonds and are held to maturity. In addition, the Authority's interest on bonds and notes declined $4.8 million in the current year and $1.5 million from 2006 to 2007. The decrease is primarily attributed to lower outstanding balances and lower interest cost on the Single Family Note Program.

Other Financial Highlights

Years ended June 30, 2008 to June 30, 2007

Loans and direct financing lease income was $22.8 million for fiscal year ending June 30, 2008, compared with $23.9 million for the prior year. The decrease was due to the interest rate charged on interim loans for the General Fund Programs declining during the year and the loan and lease balances declining in the Bond Guaranty Program. The related average interest yield decreased to 4.3%, from 4.4% at June 30, 2007.

Revenues from investment interest and dividends were $45.2 million for 2008 and $48.3 million for 2007. The decline is primarily attributable to lower outstanding balances and lower interest rates on the Single Family Note Program. Average return on cash, cash equivalents and investments was 4.3% for both years.

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 Programs, Economic Development Bond Guaranty Program and the Tobacco Bonds Program. The total interest deferred for these programs was $4.5 million for the current year and $7.1 million for 2007. The decrease is attributed to lower investment balances and lower money market mutual fund returns. The yield above does not include these deferred amounts.

The average interest expense on bonds and notes payable was 4.7%, compared with 4.9% at June 30, 2007. This decrease is attributed to the Single Family Note Program and less bonds outstanding for the GNMA/BMIR Bond Program.

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 ending June 30, 2008, reflected a $625,000 decrease in total administrative expenses. This was primarily attributed to a decrease in the provision of loan losses of $1.9 million (primarily due to a large provision last year for a lumber company), offset by increases in federal financial assistance programs of $490,000 (fluctuates based on how funds are used) and other expenses of $643,000 (represents foreclosure expenses on certain HOME Partnership Program and New BMIR Loan Program loans as well as a one-time swap termination payment of $336,000).

Years ended June 30, 2007 to June 30, 2006

Loan and direct financing lease income increased to $23.9 million for June 30, 2007 from $22.1 million for June 30, 2006. The increase was primarily attributed to a large loan payment received on a General Fund Program loan, which was on "non-accrual" status due to its repayment terms. The related average interest yield was 4.4% for June 30, 2007 and 4.3% for June 30, 2006.

Revenues from investment interest and dividends were $48.3 million and $48.9 million for June 30, 2007 and 2006, respectively. Average return on cash, cash equivalents and investments was 4.3% at June 30, 2007, and 4.4% at June 30, 2006.

Total interest deferred for certain programs discussed above was $7.1 million and $4.8 million for June 30, 2007 and 2006, respectively. The increase was due to higher interest rates on money market mutual funds for the fiscal year ending June 30, 2007.

The average interest expense on bonds and notes payable was 4.9% at June 30, 2007 and 2006.

Total administrative expenses decreased $2.4 million from June 30, 2006 to June 30, 2007. This was primarily attributed to a $5.5 million decrease in federal financial assistance programs, related to 2006 federal hurricane assistance, offset by a $3.3 million increase in the provision for loan losses for HOME Partnership Program loans.

Other Information

General Fund Programs – Warehousing. The Authority warehouses mortgage-backed securities created by its Single Family Housing Programs. The securities have been funded directly by unrestricted net assets or through the issuance of variable rate, tax-exempt draw-down bonds ("draw-down bonds"), which are secured by fixed-rate mortgage-backed securities and a back up pledge of the Authority's Issuer Credit Rating. The balance of mortgage-backed securities funded directly by the general fund at June 30, 2008, was $16.8 million, compared with $195,000 and $6.0 million at June 30, 2007 and 2006, respectively. The balance of mortgage-backed securities funded by the draw-down bonds was $47.9 million at June 30, 2008, compared with $8.5 million and $20.2 million at June 30, 2007 and 2006, respectively.

The Authority uses long-term bond proceeds to purchase the securities from the General Fund Programs and to refund the draw-down bonds. Of the $49.5 million outstanding at June 30, 2008, all but $294,000 of the draw-down bonds were refunded by the 2008 Single Family Series A and B bonds, issued in July 2008.

Tobacco Bonds Program. ADFA issued $60 million of revenue bonds 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 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 assets while interest expense is recorded as such on the statement of revenues, expenses and changes in net assets.

ADFA issued $36.9 million in non-callable capital accretion bonds for the Arkansas Cancer Research Center Project. These forty 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 ("University"), whereby the University agrees to provide for repayment of the bonds in the event the TSRs are not available. Therefore, as bond proceeds are disbursed, ADFA records a loan receivable for the corresponding amounts, as well as for any interest accretion on the bonds. The loan receivable was $26.6 million at June 30, 2008, compared with $5.8 million and $1.5 million at June 30, 2007 and 2006, respectively.

Credit Ratings

The Issuer Credit Rating ("ICR") of ADFA from Standard & Poor's is currently 'A+'. 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 & 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.

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 Assets
June 30, 2008 and 2007

(In thousands)	2008	2007
Current Assets		
Cash and cash equivalents	$ 120,049	$ 128,959
Accrued interest receivable		
Investments	3,973	5,013
Loans	1,809	2,195
Accounts receivable	1,217	1,004
Investments – current portion	2,504	1,614
Loans – current portion	1,215	1,665
Total current assets	130,767	140,450
Noncurrent Assets		
Deferred charges	5,219	5,873
Investments – unrestricted	30,056	17,128
Investments – restricted	901,533	986,413
Loans, net of allowance for loan losses of $34,319 and $29,622 at June 30, 2008 and 2007, respectively	305,919	302,385
Direct financing leases – restricted	140,901	121,519
Installment sale agreement	13,210	—
Real estate owned	1,031	585
Capitalized assets, net	281	177
Total noncurrent assets	1,398,150	1,434,080
Total assets	1,528,917	1,574,530
Current Liabilities		
Accounts payable	503	443
Accrued interest payable	18,101	18,699
Bonds and notes payable – current portion	43,589	181,809
Total current liabilities	62,193	200,951
Noncurrent Liabilities		
Deferred fees	7,095	6,951
Bonds and notes payable, net of unamortized premiums and discounts	1,250,025	1,175,260
Deposits against financing arrangements	54,685	59,133
Other liabilities	3,581	2,555
Total noncurrent liabilities	1,315,386	1,243,899
Total liabilities	1,377,579	1,444,850
Net Assets		
Restricted by bond resolution and programs	61,843	47,537
Invested in capital assets	281	177
Unrestricted	89,214	81,966
Total net assets	$ 151,338	$ 129,680

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, 2008 and 2007

(In thousands)	2008	2007
Operating Revenues		
Investment income		
Interest and dividends	$ 45,178	$ 48,287
Loans and direct financing leases	22,814	23,893
Amortization of discounts on loans	1,501	2,204
Financing fees	3,405	3,106
Net increase in the fair value of investments	13,865	96
Total investment income	86,763	77,586
Other	16	15
Total operating revenues	86,779	77,601
Operating Expenses		
Interest on bonds and notes		
Current	60,311	65,235
Accreted	2,125	2,048
Total interest on bonds and notes	62,436	67,283
Amortization		
Amortization of discounts and premiums on bonds and notes	(152)	183
Amortization of bond and note issuance costs	960	1,093
Total amortization	808	1,276
Administrative expenses		
Provision for loan losses	7,020	8,961
Federal financial assistance programs	6,280	5,790
Salaries and benefits	4,348	3,988
Operations and maintenance	1,367	1,385
BMIR program participant expense	75	234
Other	1,970	1,327
Total administrative expenses	21,060	21,685
Total operating expenses	84,304	90,244
Operating Income (Loss)	2,475	(12,643)
Nonoperating Revenue		
Federal grants	14,183	13,888
Income Before Transfers In	16,658	1,245
Transfers In	5,000	5,000
Change in Net Assets	21,658	6,245
Net Assets, Beginning of Year	129,680	123,435
Net Assets, End of Year	$ 151,338	$ 129,680

Arkansas Development Finance Authority,
A Component Unit of the State of Arkansas
Statements of Cash Flows
Years Ended June 30, 2008 and 2007

(In thousands)	2008	2007
Operating Activities		
Interest received on investments	$ 46,218	$ 48,594
Interest received on loans	21,256	22,104
Financing fee income received	3,549	3,459
Principal repayments on loans	36,785	46,473
Principal repayments on capital leases	9,900	9,192
Other cash (paid) received	(4,871)	4,217
Loan disbursements	(44,853)	(31,258)
Direct financing lease disbursements	(29,282)	(23,684)
Installment sale agreements disbursement	(13,210)	—
Cash paid for interest	(60,908)	(65,777)
Cash paid for program administration	(12,782)	(12,231)
Net cash (used in) provided by operating activities	(48,198)	1,089
Noncapital Financing Activities		
Proceeds from issuance of bonds and notes payable	234,063	394,386
Repayments of bonds and notes payable	(299,908)	(465,456)
Nonoperating grants received	14,183	13,888
Transfers in	5,000	5,000
Payments of debt issuance costs	(502)	(1,799)
Collection of financing fees	1,342	1,528
Net cash used in noncapital financing activities	(45,822)	(52,453)
Investing Activities		
Purchase of investments	(666,382)	(728,088)
Maturities of investments	751,309	775,090
Proceeds from sale of real estate owned	187	555
Purchase of capitalized assets	(4)	(65)
Net cash provided by investing activities	85,110	47,492
Decrease in Cash and Cash Equivalents	(8,910)	(3,872)
Cash and Cash Equivalents, Beginning of Year	128,959	132,831
Cash and Cash Equivalents, End of Year	$ 120,049	$ 128,959

Arkansas Development Finance Authority,
A Component Unit of the State of Arkansas
Statements of Cash Flows (Continued)
Years Ended June 30, 2008 and 2007

(In thousands)	2008	2007
Reconciliation of Operating Income (Loss) to Net Cash (Used in) Provided By Operating Activities		
Operating income (loss)	$ 2,475	$ (12,643)
Items not requiring (providing) operating activities cash flows		
Amortization of discounts on loans	(1,501)	(2,204)
Amortization of deferred financing fees	(1,237)	(1,175)
Accreted interest	181	197
Amortization of bond and note discounts	265	183
Amortization of bond and note issuance costs	1,133	1,093
Depreciation of capitalized assets	50	60
Provision for loan losses	7,020	8,961
Loss on sale of real estate owned	245	77
Net appreciation of investments	(13,865)	(96)
Changes in		
Accounts receivable	168	(416)
Accrued interest receivable	1,426	689
Loans receivable	(8,068)	15,215
Direct financing leases	(19,382)	(14,492)
Installment sale agreement	(13,210)	—
Other assets	22	198
Accounts payable	888	326
Accrued interest payable	(598)	(542)
Other liabilities	(4,210)	5,658
Net cash (used in) provided by operating activities	$ (48,198)	$ 1,089
Supplemental Cash Flows Information		
Real estate acquired in settlement of loans	$ 1,028	$ 940
Sale and financing of real estate owned	$ 150	$ 454

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.

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. 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 funds, 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 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.

(b) *Single Family Note Program* – Accounts for investments and notes payable related to a drawdown bond program utilized by ADFA to warehouse tax-exempt debt 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) *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.

(b) *Rural Housing and Economic Development Program*—Accounts for federal financial assistance received from the Department of Housing and Urban Development (HUD) for the purpose of capacity building and development of affordable housing in Arkansas Lower Mississippi Delta region.

(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* – Accounts for loans receivable 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, 2008 and 2007, the fund has cash and cash equivalents and investments totaling $24.2 million and $23.3 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; and 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 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 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, 2008 and 2007, cash equivalents of $120.0 million and $129.0 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, 2008, was in excess of the cost basis by $1.7 million and was lower than the cost basis by $8.4 million at June 30, 2007.

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 any charge-offs through the allowance for loan losses. 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.

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.

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.*

Installment Sale Agreement

The Authority issued revenue bonds to acquire certain real property and interests in real property for the State of Arkansas. This arrangement is accounted for in the State and Health Facilities Fund as a financing arrangement 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 using the interest method. Early retirement of bonds results in the acceleration of amortization of bond issuance costs.

Capitalized 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.

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 using the interest method, 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. At June 30, 2008 and 2007, the principal balance of these bonds totaled $260 million and $280 million, respectively.

Net Assets

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.

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.

Reclassifications

Certain reclassifications have been made to the 2007 financial statements to conform to the 2008 financial statement presentation. These reclassifications had no effect on net income.

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 equal to the amount of the deposits.

At June 30, 2008 and 2007, the carrying value of the Authority's deposits was $6.6 million and $11.7 million, respectively. The balances per the bank statements totaled $6.8 million and $12.2 million, respectively. Of those deposits, $6.6 million and $11.9 million, respectively, were exposed to custodial credit risk as follows:

(In thousands)	2008	2007
Uninsured and uncollateralized	$ 6,120	$ 3,849
Uninsured and collateral held by pledging financial institution's trust department or agent in other than the Authority's name	466	8,080
	$ 6,586	$ 11,929

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.

At June 30, 2008 and 2007, the Authority had the following investments and maturities:

(In thousands)	June 30, 2008				
		Maturities in Years			
Type	**Fair Value**	**Less than 1**	**1-5**	**6-10**	**More than 10**
Repurchase agreements	$ —	$ —	$ —	$ —	$ —
U.S. Treasury obligations	38,566	17,392	20,414	685	75
U.S. agencies obligations	35,595	12,444	15,538	7,613	—
Mortgage-backed securities	590,040	32	—	1,650	588,358
Money market mutual funds	113,489	113,489	—	—	—
Guaranteed investment contracts	268,479	16,800	207,707	13,194	30,778
Municipal bonds	453	—	453	—	—
Mutual bond funds	960	960	—	—	—
	$ 1,047,582	$ 161,117	$ 244,112	$ 23,142	$ 619,211

	June 30, 2007				
		Maturities in Years			
Type	Fair Value	Less than 1	1-5	6-10	More than 10
Repurchase agreements	$ 1,124	$ 1,124	$ —	$ —	$ —
U.S. Treasury obligations	87,731	54,972	31,331	1,319	109
U.S. agencies obligations	50,700	7,040	36,303	7,317	40
Mortgage-backed securities	528,480	—	48	18	528,414
Money market mutual funds	117,283	117,283	—	—	—
Guaranteed investment contracts	335,353	163,460	120,306	20,563	31,024
Municipal bonds	813	358	455	—	—
Mutual bond funds	955	955	—	—	—
	$ 1,122,439	$ 345,192	$ 188,443	$ 29,217	$ 559,587

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 money market mutual funds are presented as an investment with a maturity of less than one year because they are redeemable in full immediately.

The Authority invests in various asset and mortgage-backed securities. These securities are reported at fair value in the statement of net assets. 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's investments in U.S. agencies obligations and mortgage-backed securities not directly guaranteed by the U.S. government were rated "AAA" by Standard & Poor's and its investments in money market mutual funds were rated "AAAm" by Standard & Poor's and "Aaa" by Moody's Investors Service.

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. All of the underlying securities for the Authority's investments in repurchase agreements at June 30, 2008 and 2007, respectively, are held by the counterparties in other than the Authority's name. The Authority's investment policy does not address how securities underlying repurchase agreements are to be held.

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, 2008, are as follows (in thousands):

Issuer	Fair Value	Percentage
Natixis Funding	$ 227,089	22%

Summary of Carrying Values

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

(In thousands)	2008	2007
Carrying value		
Deposits	$ 6,560	$ 11,675
Investments	1,047,582	1,122,439
	$ 1,054,142	$ 1,134,114
Included in the following balance sheet captions:		
Current assets		
Cash and cash equivalents	$ 120,049	$ 128,959
Investments – current portion	2,504	1,614
Noncurrent assets		
Investments – unrestricted	30,056	17,128
Investments – restricted	901,533	986,413
	$ 1,054,142	$ 1,134,114

Note 3: Loans

Single Family Mortgage Purchase Program and Multi-Family Mortgage Purchase Program – All mortgage loans purchased under the single family and multi-family mortgage purchase programs are collateralized by first liens on real property. Mortgage loans purchased by the Authority under the Single Family Mortgage Purchase Program are typically FHA insured, guaranteed by USDA Rural Development, VA guaranteed or are insured up to an aggregate limit for each issue by supplemental mortgage insurance. Private mortgage insurance is required to the extent that individual conventional loans purchased under the 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 Bond 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 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, 2008 and 2007, respectively, the Authority reported in its statement of net assets $43.8 million and $51.7 million in loans and leases to private companies and one state commission as well as $56.0 million and $63.6 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 $6.9 million and $8.5 million, timing differences between loan collection and bond payment of $2.1 million and $2.2 million offset by loans with no associated bonds of $2.7 million and $3.2 million at June 30, 2008 and 2007, respectively. Differences also exist due to foreclosures and financing of real estate owned properties of $5.9 million and $3.4 million at June 30, 2008 and 2007, 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, 2008 and 2007, bonds outstanding of $18.5 million and $16.4 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, 2008 and 2007, the principal amount on these notes totaled $15.8 million outstanding with $10.8 guaranteed and $11.9 million outstanding with $7.7 million guaranteed, respectively.

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, 2008 and 2007, respectively, the Authority reported loans of $120.0 million and $125.5 million, direct financing leases of $145.6 million and $112.1 million, and bonds outstanding of $268.0 million and $272.6 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 $3.5 million and $33.7 million at June 30, 2008 and 2007, respectively.

Other Economic Development Programs – Includes financing activities with educational institutions and financing activities to private companies through various means. At June 30, 2008 and 2007, respectively, the Authority reported loans of $0.8 million and $6.3 million, and bonds and notes payable of $1.3 million and $11.6 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 at June 30, 2007, which was liquidated to redeem the 1985 Higher Education Capital Asset Program bond issue in May 2008.

The stated interest rates on the loans are as follows:

	Stated Interest Rate
Single Family Housing Programs Fund	4.00 to 10.78%
Multi-Family Programs Fund	0.00 to 6.50%
Bond Guaranty Program	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 8.20%

Impaired loans totaled $45.1 million and $43.5 million at June 30, 2008 and 2007, respectively, with related allowances for loan losses of $30.0 million and $25.5 million. Impaired loans includes loans made under the federally-funded HOME Partnership Program with repayment terms allowing deferment or repayment based on net income of the multifamily developments. These loans totaled $27.9 million and $23.8 million at June 30, 2008 and 2007, respectively, with related allowances for loan losses of $24.4 million and $17.9 million. Impaired loans also include loans assigned an internal reserve percentage of 20% or more. Impaired loans for the Bond Guaranty and the General Fund programs totaled $16.7 million and $18.9 million at June 30, 2008 and 2007, respectively, with related allowances for loan losses of $5.1 million and $7.0 million.

At June 30, 2008 and 2007, respectively, accruing loans delinquent 180 days or more totaled $0.5 million and $0.8 million. Non-accruing loans at June 30, 2008 and 2007, respectively, were $45.1 million and $37.5 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 2008 are as follows:

(In thousands)	Lease Payments
Year ending June 30,	
2009	$ 14,913
2010	14,671
2011	14,549
2012	12,356
2013	12,344
2014 – 2018	52,273
2019 – 2023	41,435
2024 – 2028	29,241
2029 – 2033	19,923
2034 – 2038	8,662
2039 – 2043	2,827
Total minimum lease payments receivable	223,194
Less amount representing interest	(79,713)
Less unfunded lease amount	(2,580)
Present value of minimum lease payments receivable	$ 140,901

Note 5: Capitalized Assets

Premises and equipment at June 30 are summarized as follows:

(In thousands)	2008	2007
Cost		
Premises and equipment	$ 771	$ 677
Less accumulated depreciation	(490)	(500)
Net	$ 281	$ 177

Depreciation expense for the years ending June 30, 2008 and 2007, respectively, was approximately $50,000 and $60,000.

Note 6: Bonds and Notes Payable

Bonds and notes payable at June 30 were as follows:

(In thousands)	2008	2007
Total Single Family Bonds and Note Payable, with interest rates ranging from 2.40 – 10.00% and final maturity at varying dates through 2038	$ 756,717	$ 823,463
Less unamortized discount/plus unamortized premium	3,539	3,383
Total Single Family Bonds Payable, net	760,256	826,846
Total Multi-Family Bonds Payable, with interest rates ranging from 3.75 – 9.75% and final maturity at varying dates through 2035	69,927	84,474
Less unamortized discount/plus unamortized premium	(532)	(616)
Total Multi-Family Bonds Payable, net	69,395	83,858
Total Economic Development Bonds Payable, Guaranteed by the Bond Guaranty Fund, with interest rates ranging from 2.7 – 7.45% and final maturity at varying dates through 2024	55,965	63,588
Total State and Health Facilities Bonds Payable, with interest rates ranging from 2.125 – 7.0% and final maturity at varying dates through 2040	268,010	272,580
Less unamortized discount/plus unamortized premium	—	(13)
Total State and Health Facilities Bonds Payable, net	268,010	272,567
Total Other Economic Development Bonds and Note Payable, with interest rates ranging from 1.00 – 5.7% and final maturity at varying dates through 2015	1,401	11,627
Less unamortized discount/plus unamortized premium	(56)	(68)
Total Other Economic Development Bonds Payable, net	1,345	11,559
Tobacco Bonds Payable, with interest rates ranging from 3.8 – 5.5% and final maturity at varying dates through 2046	89,112	89,808
Total General Fund Bond and Note Payable, with interest rates ranging from 2.33 – 4.51% and final maturity at varying dates through 2041	49,531	8,843
Total all programs bonds and notes payable, net	$ 1,293,614	$ 1,357,069

Activity in bonds and notes payable for 2008 was as follows:

(In thousands)	Beginning Balance	Additions Including Accretion	Reductions	Ending Balance	Amount Due within One Year
Bonds payable	$ 1,133,632	$ 101,608	$ (150,300)	$ 1,084,940	$ 43,512
Notes payable	220,751	134,579	(149,607)	205,723	77
	1,354,383	236,187	(299,907)	1,290,663	43,589
Unamortized premiums	2,686	417	(152)	2,951	—
Total	$ 1,357,069	$ 236,604	$ (300,059)	$ 1,293,614	$ 43,589

Activity in bonds and notes payable for 2007 was as follows:

(In thousands)	Beginning Balance	Additions Including Accretion	Reductions	Ending Balance	Amount Due within One Year
Bonds payable	$ 1,114,118	$ 194,322	$ (174,808)	$ 1,133,632	$ 46,169
Notes payable	312,307	199,092	(290,648)	220,751	135,640
	1,426,425	393,414	(465,456)	1,354,383	181,809
Unamortized premiums (discounts)	(517)	3,020	183	2,686	—
Total	$ 1,425,908	$ 396,434	$ (465,273)	$ 1,357,069	$ 181,809

Future amounts required to pay principal and interest on all bonds and notes payable at June 30, 2008, were as follows:

(In thousands)	Principal	Interest
Year Ending June 30,		
2009	$ 43,589	$ 55,110
2010	249,760	50,620
2011	43,676	45,113
2012	42,022	42,960
2013	39,436	40,911
2014 – 2018	190,038	177,249
2019 – 2023	184,902	133,048
2024 – 2028	196,045	89,403
2029 – 2033	175,670	47,660
2034 – 2038	117,611	15,640
2039 – 2043	80,845	4,147
2044 – 2048	19,968	—
Unamortized premiums and discounts	2,951	—
Accreted interest	(92,899)	92,899
Total	$ 1,293,614	$ 794,760

The Authority entered into an interest rate swap agreement to effectively convert $10 million of variable rate debt based on the three-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 three-month LIBOR rate is less than 7.418%. The interest rate swap agreement was set to expire January 2, 2014. However, on October 3, 2007, the Authority terminated the swap agreement with a termination payment of $336,000. The swap was terminated with the expectation of improving the future cash flows of the related bond issue.

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, 2008, the remaining principal amounts outstanding on defeased issues are as follows:

(In thousands) Issue	Date of Defeasance	Principal Outstanding
1979 Series A Single Family Conventional Bonds	September 1988	$ 26,795
1999 Series A State Agencies Facilities Revenue Bonds	June 2005	$ 26,980

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, 2008 and 2007, respectively, the bonds outstanding issued under these programs aggregated $227.2 million and $264.1 million.

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 12.54% of gross payroll. Required payroll contributions totaled approximately $358,000, $367,000 and $373,000 for the years ended June 30, 2008, 2007 and 2006, respectively. All contributions required of the Authority were made for the years ended June 30, 2008, 2007 and 2006. For the years ended June 30, 2008, 2007 and 2006, the Authority's covered payroll and total payroll for all employees amounted to $4.2 million, $4.0 million and $3.9 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 to June 30, 2005, in System-covered employment. Employees joining the System 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 System 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 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. The report may be obtained by writing to the plan at 124 West Capitol, Suite 400, Little Rock, Arkansas 72201 or by calling 501.682.7800.

Act 2084 of 2005 establishes a new contributory program for System members first hired on or after July 1, 2005, and those non-contributory members who elect to become contributory. Members participating in the contributory program will contribute 5% of their annual compensation, pre-tax. All active System members employed before July 1, 2005, had until December 31, 2005, to elect coverage under the contributory program.

Other Post-Employment Benefits

The Authority recorded a liability for the annual required contribution (ARC) of $198,000 as of June 30, 2008 as a result of implementing 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 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, 2008 and 2007, 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 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 $24.5 million and $75.4 million of amounts recorded as cash and investments in the statement of net assets that may be disbursed to borrowers under loan and lease agreements closed prior to June 30, 2008 and 2007, 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 30-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. The Authority warehoused mortgage-backed securities created with some of these loans, funded with either unrestricted net assets or draw-down bonds, and this also exposes the Authority to interest rate risk. At June 30, 2008 and 2007, the Authority had accepted loan reservations and/or warehoused mortgage-backed securities of approximately $130.3 million and $35.0 million, respectively, for which there were no corresponding long-term bond commitments. Subsequent to year end, the Authority's long-term bond issuance provided $84.5 million in funding for reserved loans and warehoused mortgage-backed securities.

The Internal Revenue Service limits the amount of interest rate spread that an issuer can earn on tax-exempt single family mortgage revenue bonds. Based on certain assumptions with regard to its variable rate demand obligations, the Authority could earn 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, 2008 and 2007, respectively, the present value of excess subsidy was approximately $13.4 million and $14.8 million. In the event the cost of long-term bonds exceeds the reserved or warehoused loan rates, the Authority utilizes this subsidy to limit losses.

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 Authority anticipates that as the funding for the AIF is made over time, there will be outstanding balances that will increase up to a $10 million exposure to the Bond Guaranty Fund. 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 $14.5 million as of June 30, 2008, and $8.7 million as of June 30, 2007. As of June 30, 2008, there were seven approved investments totaling $24.1 million, of which $13.9 million has yet to be funded that are anticipated to become part of the AIF.

In June 2006, the Authority issued $300 million in variable rate, tax-exempt draw-down bonds, which are secured by fixed-rate mortgage-backed securities and a back up pledge of the Authority's Issuer Credit Rating. In conjunction with this pledge, the Authority has agreed to maintain $8.6 million in federal agency securities while these bonds are outstanding. At June 30, 2008 and 2007, respectively, $49.5 million and $8.8 million in these bonds were outstanding. In the event the mortgage-backed securities cannot provide for the redemption of the bonds, the Authority is obligated for any shortfalls.

Note 10: Subsequent Events

In July 2008, the Authority executed a bond purchase agreement and agreed to sell $95 million in bonds as part of the Single Family Mortgage Revenue Bonds, Series 2008 A&B. In August 2008, the Authority executed a bond purchase agreement and agreed to sell $20 million in bonds as part of the Single Family Mortgage Revenue Bonds, Series 2008 C. In conjunction with the issuance of the 2008 Series A, B and C bonds, the Authority utilized all of its excess subsidy. These bonds provided $84.5 million in proceeds to fund loans in the pipeline and warehoused mortgage-backed securities.

In September 2008, the Authority redeemed $214 million of the Single Family Note Program from assets within the trust estate. The redemption of these notes included the liquidation of the guaranteed investment contract with Natixis, which had a balance of $204.9 million at June 30, 2008.

In October 2008, the Authority borrowed $12.2 million from Federal Home Loan Bank of Dallas to provide funds for warehousing single family mortgage-backed securities.

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 ADFA 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, ADFA will 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.

The Authority has been notified of various downgrades relative to providers of guaranteed investment contracts. Each contract has different provisions relative to downgrades, which can include collateralizing the deposit or terminating the contract. The Authority analyzes each contract and the options available to the Authority at the time of a downgrade. Certain contracts have been terminated since year end. The providers with terminated contracts are AIG Matched Funding Corporation and Depfa (Hypo Real Estate Group). The principal amount on deposit with each provider at June 30, 2008, was $5.3 million and $4.9 million, respectively. ADFA received all principal and interest on the contracts upon termination.

Supplementary Information

Arkansas Development Finance Authority,
A Component Unit of the State of Arkansas
Combining Statement of Net Assets
June 30, 2008

(In thousands)	Single Family Housing Programs	Federal Housing Programs	Multi-Family Programs	Economic Development Bond Guaranty Program
Current Assets				
Cash and cash equivalents	$ 56,306	$ 87	$ 5,679	$ 7,965
Accrued interest receivable	3,124	23	285	314
Accounts receivable	58	156	—	428
Investments – current portion	—	—	—	—
Loans – current portion	—	—	—	—
Total current assets	59,488	266	5,964	8,707
Noncurrent Assets				
Deferred charges	5,088	—	131	—
Investments – unrestricted	—	—	—	—
Investments – restricted	754,296	—	34,462	20,896
Loans, net	6,654	28,438	49,735	35,293
Direct financing leases – restricted	—	—	—	8,535
Installment sale agreements	—	—	—	—
Real estate owned	—	341	90	600
Capitalized assets, net	—	—	—	150
Total noncurrent assets	766,038	28,779	84,418	65,474
Total assets	825,526	29,045	90,382	74,181
Current Liabilities				
Accounts payable	213	136	2	30
Accrued interest payable	14,222	—	619	783
Bonds and notes payable – current portion	10,395	—	12,375	4,977
Total current liabilities	24,830	136	12,996	5,790
Noncurrent Liabilities				
Deferred fees	5,100	—	69	1,886
Bonds and notes payable, net of unamortized premiums and discounts	749,861	—	57,020	50,988
Deposits against financing arrangements	—	74	262	2,335
Other liabilities	1,093	—	1,963	—
Total noncurrent liabilities	756,054	74	59,314	55,209
Total liabilities	780,884	210	72,310	60,999
Net Assets (Deficit)				
Restricted by bond resolution and Programs	44,642	28,835	18,072	13,032
Invested in capital assets	—	—	—	150
Unrestricted	—	—	—	—
Total net assets (deficit)	$ 44,642	$ 28,835	$ 18,072	$ 13,182

State and Health Facilities Programs	Other Economic Development Programs	Tobacco Bonds Program	General Fund Programs	Eliminations	Total
$ 35,009	$ 2,774	$ 3,472	$ 8,757	$ —	$ 120,049
1,409	6	36	585	—	5,782
—	3	—	1,940	(1,368)	1,217
—	—	—	2,504	—	2,504
—	—	—	1,215	—	1,215
36,418	2,783	3,508	15,001	(1,368)	130,767
—	—	—	—	—	5,219
—	—	—	30,056	—	30,056
14,136	—	21,234	56,509	—	901,533
119,953	838	26,644	38,364	—	305,919
132,366	—	—	—	—	140,901
13,210	—	—	—	—	13,210
—	—	—	—	—	1,031
—	—	—	131	—	281
279,665	838	47,878	125,060	—	1,398,150
316,083	3,621	51,386	140,061	(1,368)	1,528,917
—	—	—	1,490	(1,368)	503
2,167	9	205	96	—	18,101
14,405	132	1,305	—	—	43,589
16,572	141	1,510	1,586	(1,368)	62,193
—	—	—	40	—	7,095
253,605	1,213	87,807	49,531	—	1,250,025
45,906	47	5,966	95	—	54,685
—	—	—	525	—	3,581
299,511	1,260	93,773	50,191	—	1,315,386
316,083	1,401	95,283	51,777	(1,368)	1,377,579
—	2,220	(43,897)	(1,061)	—	61,843
—	—	—	131	—	281
—	—	—	89,214	—	89,214
$ 0	$ 2,220	$ (43,897)	$ 88,284	$ 0	$ 151,338

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, 2008

(In thousands)	Single Family Housing Programs	Federal Housing Programs	Multi-Family Programs	Economic Development Bond Guaranty Program
Operating Revenues				
Investment income				
Interest and dividends	$ 39,791	$ 3	$ 589	$ 1,099
Loans and direct financing leases	667	199	2,685	2,695
Amortization of discounts on loans	—	—	1,501	—
Financing fees	691	—	41	732
Net increase (decrease) in the fair value of investments	11,748	—	2,298	403
Total investment income	52,897	202	7,114	4,929
Other	—	—	—	7
Total operating revenues	52,897	202	7,114	4,936

State and Health Facilities Programs	Other Economic Development Programs	Tobacco Bonds Program	General Fund Programs	Eliminations	Total
$ —	$ 343	$ —	$ 3,353	$ —	$ 45,178
12,149	221	1,944	2,254	—	22,814
—	—	—	—	—	1,501
—	12	—	3,206	(1,277)	3,405
9	—	—	(593)	—	13,865
12,158	576	1,944	8,220	(1,277)	86,763
—	3	—	6	—	16
12,158	579	1,944	8,226	(1,277)	86,779

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, 2008

	Single Family Housing Programs	Federal Housing Programs	Multi-Family Programs	Economic Development Bond Guaranty Program
Operating Expenses				
Interest on bonds and notes				
Current	$ 35,331	$ —	$ 6,270	$ 3,105
Accreted	181	—	—	—
Total interest on bonds and notes	35,512	—	6,270	3,105
Amortization				
Amortization of discounts and premiums on bonds and notes	(261)	—	84	—
Amortization of bond and note issuance costs	884	—	76	—
Total amortization	623	—	160	—
Administrative expenses				
Provision for loan losses	—	6,712	(399)	620
Federal financial assistance programs	—	6,280	—	—
Salaries and benefits	—	—	—	—
Operations and maintenance	—	890	—	—
BMIR program participant expense	—	—	75	—
Other	1,081	308	211	(15)
Total administrative expenses	1,081	14,190	(113)	605
Total operating expenses	37,216	14,190	6,317	3,710
Operating Income (Loss)	15,681	(13,988)	797	1,226
Nonoperating Revenue				
Federal grants	—	14,118	—	—
Income (Loss) Before Transfers In (Out)	15,681	130	797	1,226
Transfers In (Out)	(2,695)	3	—	—
Change in Net Assets (Deficit)	12,986	133	797	1,226
Net Assets (Deficit), Beginning of Year	31,656	28,702	17,275	11,956
Net Assets (Deficit), End of Year	$ 44,642	$ 28,835	$ 18,072	$ 13,182

State and Health Facilities Programs	Other Economic Development Programs	Tobacco Bonds Program	General Fund Programs	Eliminations	Total
$ 12,149	$ 414	$ 2,543	$ 499	$ —	$ 60,311
—	—	1,944	—	—	2,125
12,149	414	4,487	499	—	62,436
13	12	—	—	—	(152)
—	—	—	—	—	960
13	12	—	—	—	808
—	(4)	—	91	—	7,020
—	—	—	—	—	6,280
—	—	—	4,348	—	4,348
—	—	—	975	(498)	1,367
—	—	—	—	—	75
—	189	—	975	(779)	1,970
—	185	—	6,389	(1,277)	21,060
12,162	611	4,487	6,888	(1,277)	84,304
(4)	(32)	(2,543)	1,338	—	2,475
—	—	—	65	—	14,183
(4)	(32)	(2,543)	1,403	—	16,658
—	(1,954)	5,000	4,646	—	5,000
(4)	(1,986)	2,457	6,049	—	21,658
4	4,206	(46,354)	82,235	—	129,680
$ 0	$ 2,220	$ (43,897)	$ 88,284	$ 0	$ 151,338