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

Independent Auditor's Report and Financial Statements

June 30, 2016 and 2015

BKD LLP
CPAs & Advisors

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A Component Unit of the State of Arkansas
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Contents

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying basic financial statements of Arkansas Development Finance Authority (the Authority), a component unit of the State of Arkansas, which are comprised of statements of net position as of June 30, 2016 and 2015, and the related statements of revenues, expenses and changes in net position and statements of cash flows for the years ended June 30, 2016 and 2015, and the related notes to the basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The supplementary information listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2016, on our consideration of the Authority’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

BKD, LLP

Little Rock, Arkansas
October 28, 2016

Arkansas Development Finance Authority,
A Component Unit of the State of Arkansas
Management's Discussion and Analysis
June 30, 2016 and 2015

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, 2016 basic financial statements include three required statements: the statement of net position; the statement of revenues, expenses and changes in net position; and the statement of cash flows. Comparative totals as of and for the years ended June 30, 2015 and 2014, are also presented. These comparative totals are intended to facilitate an enhanced understanding of the Authority's financial position and results of operations for the current fiscal year in comparison to the prior fiscal years. The statement of net position and the statement of revenues, expenses and changes in net position are presented for all of ADFA's programs in the Combining Statements. ADFA has eight programs presented as supplementary information following the Notes to Financial Statements: Single Family Housing Programs, Federal Housing Programs, Multi-Family Programs, Economic Development Bond Guaranty Program, State Facilities and Amendment 82 Programs, Other Economic Development Programs, Tobacco Bonds Program and General Fund Programs. In addition, there is further information provided on the Single Family Housing Programs to detail the Authority's Single Family Mortgage Revenue Bond Resolution, adopted on July 20, 1995, which is part of the Single Family Mortgage Purchase Program and the New Issue Bond Program (NIBP). A description of each of these programs is included in *Note 1* of the Notes to Financial Statements. In 2015, ADFA adopted a new accounting principle GASB No. 68, applicable to prior years that resulted in a restatement of net position. These changes are reflected as a cumulative restatement to beginning net position in 2015. The balances presented for 2014 have not been restated for this change. See *Note 11* to the financial statements.

Condensed Statements of Net Position

(In thousands)	2016	2015	2014
Capital assets	$ 93	$ 62	$ 72
Other assets	947,375	1,001,221	1,146,047
Total assets	947,468	1,001,283	1,146,119
Deferred outflows of resources	1,176	967	183
Current liabilities	39,021	45,597	49,591
Noncurrent liabilities	584,801	642,671	789,434
Total liabilities	623,822	688,268	839,025
Deferred inflows of resources	412	1,093	-
Net position			
Restricted by bond resolution and programs	235,403	223,611	216,666
Invested in capital assets	93	62	72
Unrestricted	88,914	89,216	90,539
Net position	$ 324,410	$ 312,889	$ 307,277

June 30, 2016 to June 30, 2015

At June 30, 2016, total assets were $947.5 million compared to $1.00 billion at June 30, 2015, decreasing $53 million, or 5%. Total assets consisted primarily of investments of $376.2 million, cash of $106.4 million, loans (net of allowance) of $344.3 million and direct financing leases of $116.5 million at June 30, 2016.

Investments decreased $42.3 million, or 10%, to $376.2 million at June 30, 2016, from $418.5 million at June 30, 2015. The decrease is attributed to the principal receipts on mortgage-backed security balances, which were used to redeem outstanding bonds, primarily in the Single Family Housing Programs.

The Authority's current assets decreased $16.2 million, or 12%, to $122.6 million at June 30, 2016, from $138.8 million at June 30, 2015. The decrease is mainly attributable to the decrease in cash and cash equivalents from the disbursement of approximately $12.0 million of the remaining bond proceeds received at the end of June 2014.

Direct financing leases decreased $10.2 million, or 8%, since June 30, 2015. This decrease is primarily attributed to repayments on outstanding leases.

The Authority's current liabilities decreased to $39.0 million from $45.6 million. This decrease is attributed to funding contract obligations. Total noncurrent liabilities decreased $57.9 million, or 9%, since June 30, 2015, and consisted primarily of net bonds and notes payable. This decrease is attributed to bond redemptions exceeding new issuances. The decrease in total liabilities was mainly due to scheduled bond and note redemptions of $29.5 million and special and optional bond and note redemptions of $77.3 million offset by new issuances of bonds and notes of $45.0 million. Additional information on the Authority's long-term debt can be found in *Note 5* of the Notes to Financial Statements.

June 30, 2015 to June 30, 2014

At June 30, 2015, total assets were $1.00 billion compared to $1.15 billion at June 30, 2014, decreasing $145 million, or 13%. Total assets consisted primarily of investments of $418.5 million, cash of $117.7 million, loans (net of allowance) of $335.4 million and direct financing leases of $126.7 million at June 30, 2015.

Investments decreased $39.1 million, or 9%, to $418.5 million at June 30, 2015, from $457.6 million at June 30, 2014. The decrease is attributed to the principal receipts on mortgage-backed security balances, which were used to redeem outstanding bonds, primarily in the Single Family Housing Programs.

The Authority's current assets decreased $106.5 million, or 43%, to $138.8 million at June 30, 2015, from $245.3 million at June 30, 2014. The decrease is mainly attributable to the decrease in cash and cash equivalents from the disbursement of approximately $113.0 million of $125 million bond proceeds received at the end of June 2014.

Direct financing leases decreased $5.5 million, or 4%, since June 30, 2014. This decrease is primarily attributed to repayments on outstanding leases.

The Authority's current liabilities decreased to $45.6 million from $49.6 million. This decrease is attributed to decreases in bond principal and interest due next fiscal year compared to last year. Total noncurrent liabilities decreased $146.8 million, or 19%, since June 30, 2014, and consisted primarily of net bonds and notes payable. This decrease is attributed to bond redemptions exceeding new issuances. The decrease in total liabilities was mainly due to scheduled bond and note redemptions of $31.7 million and special and optional bond and note redemptions of $151.4 million offset by new issuances of bonds and notes of $27.2 million.

Condensed Statements of Revenues, Expenses and Changes in Net Position

(In thousands)	2016	2015	2014
Total investment income	$ 29,731	$ 34,219	$ 41,899
Other income	6	11	11
Total operating revenues	29,737	34,230	41,910
Total interest on bonds and notes	20,682	23,154	28,222
Total amortization	(211)	(327)	(478)
Administrative expenses	10,261	15,530	13,009
Total operating expenses	30,732	38,357	40,753
Operating gain (loss)	(995)	(4,127)	1,157
Federal grants	7,663	7,267	10,724
State grants	550	-	-
Total nonoperating revenues	8,213	7,267	10,724
Income before transfers in	7,218	3,140	11,881
Transfers in	4,303	5,632	1,118
Change in net position	11,521	8,772	12,999
Net position			
Previously reported	-	307,277	294,278
Change in accounting principle	-	(3,160)	-
Restated beginning of year	312,889	304,117	294,278
End of year	$ 324,410	$ 312,889	$ 307,277

ADFA's income before transfers in totaled $7.2 million for the year ended June 30, 2016, compared with income of $3.1 million and $11.9 million for the years ended June 30, 2015 and 2014, respectively.

The increase from prior year relates primarily to the decrease in interest expense on bonds and notes of $2.5 million and provision for loan losses of $3.8 million. The decrease in interest expense is in correlation to the decrease in bonds and notes payable. The decrease in provision for loan losses is mainly due to reserves being lowered on loans that were reclassified from deferral status to repayment mode. The decrease from the year ended June 30, 2014 to June 30, 2016, primarily relates to decreases in interest and dividend income of $5.5 million, net appreciation of investments of $3.4 million and federal grant revenue of $3.1 million offset by decreases in interest expense on bonds and notes of $7.5 million.

Transfers in have historically represented the receipt of the annual tobacco settlement revenue pledged to the Tobacco Bonds Program of $5.0 million. Transfers in decreased $1.3 million from the prior year ended June 30, 2015 and increased $3.2 million from June 30, 2014 to June 30, 2016. The decrease from the prior year relates mainly to funds received for the Community Development Block Grant program being fully funded in fiscal year 2015 and for funds held as part of a loan guaranty. The increase from the year ended June 30, 2014 to June 30, 2016, primarily relates to State Small Business Credit Initiative program transferring funds out of $0.6 million to programs ADFA administers for other state entities compared to $3.9 million in fiscal year 2014.

Other Financial Highlights

<u>Years ended June 30, 2016 to June 30, 2015</u>

Loans and direct financing lease income was $13.3 million for fiscal year ended June 30, 2016, compared with $14.1 million for the prior year. The decrease relates primarily to declining balances of loans and leases in accrual status in the majority of all programs. The related average interest yield decreased to 2.63% for June 30, 2016, from 2.67% for June 30, 2015.

Revenues from investment interest and dividends were $15.0 million for fiscal year 2016 and $17.2 million for fiscal year 2015. The decrease is primarily attributable to the average cash and investment balance declining from $616.0 million to $474.9 million. The overall average return on cash, cash equivalents and investments was 3.2% for June 30, 2016, and 2.9% for June 30, 2015.

The average interest expense on bonds and notes payable was 3.7% at June 30, 2016, and 3.8% at June 30, 2015.

Total administrative expenses vary from year to year primarily due to changes in the provision for loan losses. Fiscal year ended June 30, 2016, reflected a $5.3 million decrease in total administrative expenses primarily due to a decrease in provision for loan losses of $3.8 million. This decrease is primarily due to lowering reserves in the Tax Credit Assistance Program (TCAP) and Neighborhood Stabilization Program. Both programs had loans that were previously reserved at higher percentages due to deferral of payments but were reduced since the loans are now in repayment mode. Also, the TCAP provision decreased due to more payments received on 100%-reserved loans in the current year than in the prior year.

Other Financial Highlights

Years ended June 30, 2015 to June 30, 2014

Loans and direct financing lease income was $14.1 million for fiscal year ended June 30, 2015, compared with $15.5 million for the prior year. The decrease relates primarily to declining balances of loans and leases in accrual status in the majority of all programs. The related average interest yield decreased to 2.67% for June 30, 2015, from 2.86% at June 30, 2014.

Revenues from investment interest and dividends were $17.2 million for fiscal year 2015 and $20.5 million for fiscal year 2014. The decrease is primarily attributable to the average cash and investment balance declining from $574.6 million to $499.7 million for all programs excluding the Amendment 82 Program. Amendment 82 bond issue closed June 30, 2014, and was not included in averages in the prior year. In the current year, the average cash and investment balance, including Amendment 82 Program, was $616.0 million. The majority of Amendment 82 bond proceeds were held in cash and the total yield was .04%. The overall average return on cash, cash equivalents and investments was 2.9% for June 30, 2015, and 3.6% for June 30, 2014.

Federal grants decreased $3.5 million during the year to $7.3 million for the year ended June 30, 2015. The decrease is primarily due to the HOME Partnership Program (HOME). This program has had significant budget cuts from Congress impacting this year's financial statements.

The average interest expense on bonds and notes payable was 3.8% at June 30, 2015 and 3.9% at June 30, 2014.

Total administrative expenses vary from year to year primarily due to changes in the provision for loan losses and federal financial assistance programs. Fiscal year ended June 30, 2015, reflected a $2.5 million increase in total administrative expenses. Provision for loan losses increased $2.6 million and federal financial assistance programs increased $0.6 million, offset by decreases in other expenses of $0.5 million. Forgivable loan activity is the cause of the fluctuations between federal financial assistance and other expenses. In the prior year, settlement funds were used instead of HOME funds for this activity and were recorded in other expenses. HOME funds were used in the current year and were recorded in federal financial assistance. Provision for loan losses increased primarily due to increased reserves in the HOME program and Neighborhood Stabilization Programs (NSP). The Tax Credit Assistance Program (TCAP) provision also increased from the prior year due to more payments received on 100%-reserved loans in the prior year than in the current year.

Other Information

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

ADFA issued $36.9 million in non-callable capital appreciation bonds for the Arkansas Cancer Research Center Project in 2006. These 40-year bonds utilize the revenue stream of the initial tobacco bonds when those bonds are fully redeemed, which is projected for 2021. This bond issue includes a loan agreement between ADFA and the University of Arkansas Board of Trustees (the University), whereby the University agreed to provide for repayment of the bonds in the event the TSRs are not available. Therefore, as bond proceeds were disbursed, ADFA recorded a loan receivable for the corresponding amounts, as well as for any interest accretion on the bonds. The loan receivable was $60.2 million at June 30, 2016, compared with $57.3 million and $54.6 million at June 30, 2015 and 2014, respectively.

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

During fiscal year 2015, the State decided it preferred that these particular bonds be reported on Arkansas Economic Development Commission's (AEDC) financial statements instead of ADFA's. The bonds are comprised of Series A in the amount of $75 million and Series B in the amount of $50 million. The Series B bonds are supported by a corresponding loan from ADFA to the steel mill. The financial statements for the years ended June 30, 2015 and 2016, primarily reflect the loan receivable from the steel mill fully offset by the note payable to AEDC, bond proceeds held to pay certain project costs and the corresponding payables. There is nothing reported on the statement of revenues, expenses, and changes in net position for this program.

In both fiscal year 2015 and 2016, the Amendment 82 Program has no effect on the fund balance of ADFA.

Credit Ratings

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

The 1995 General Resolution Single Family mortgage revenue bonds are currently rated "AA+" and "AA+/A-1+" from S&P.

The Authority also administers the Bond Guaranty Fund created by Act 505. The fund is currently rated "A+" from S&P. The obligations of the Authority as guarantor are limited to available monies in the ADFA Guaranty Reserve Account, created and maintained pursuant to the authority conferred in the ADFA Guaranty Act.

ADFA's overall financial position has improved.

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 http://adfa.arkansas.gov.

Arkansas Development Finance Authority,
A Component Unit of the State of Arkansas
Statements of Net Position
June 30, 2016 and 2015

(In thousands)	2016	2015
Current Assets		
Cash and cash equivalents	$ 106,437	$ 117,733
Accrued interest receivable		
Investments	1,295	1,425
Loans	443	711
Accounts receivable	658	632
Investments – current portion	7,595	8,525
Loans – current portion	6,129	9,745
Total current assets	122,557	138,771
Noncurrent Assets		
Investments – unrestricted	54,559	50,797
Investments – restricted	314,016	359,221
Loans, net of allowance for loan losses of $77,214 and $78,865 at June 30, 2016 and 2015, respectively	338,183	325,702
Direct financing leases – restricted	116,477	126,677
Real estate owned	1,583	53
Capital assets, net	93	62
Total noncurrent assets	824,911	862,512
Total assets	947,468	1,001,283
Deferred Outflows of Resources		
Deferred charge on refunding	92	140
Pension contributions	494	508
Changes in pension actuarial assumptions	590	319
Total deferred outflow of resources	1,176	967
Current Liabilities		
Accounts payable	2,187	2,374
Accrued interest payable	4,582	5,411
Contract obligations – current portion	2,600	8,068
Bonds and notes payable – current portion	29,652	29,744
Total current liabilities	39,021	45,597
Noncurrent Liabilities		
Unearned fees	2,156	2,153
Contract obligations	1,618	-
Bonds and notes payable, net of unamortized premiums	541,979	601,001
Deposits against financing arrangements	29,707	31,197
OPEB and pension liabilities	5,666	4,554
Other liabilities	3,675	3,766
Total noncurrent liabilities	584,801	642,671
Total liabilities	623,822	688,268
Deferred Inflows of Resources	412	1,093
Net Position		
Restricted by bond resolution and programs	235,403	223,611
Invested in capital assets	93	62
Unrestricted	88,914	89,216
Net position	$ 324,410	$ 312,889

Arkansas Development Finance Authority,
A Component Unit of the State of Arkansas
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2016 and 2015

(In thousands)	2016	2015
Operating Revenues		
Investment income		
Interest and dividends	$ 14,961	$ 17,168
Loans and direct financing leases	13,288	14,062
Amortization of discounts on loans	1	20
Financing fees	3,138	3,647
Net depreciation of investments	(1,657)	(678)
Total investment income	29,731	34,219
Other	6	11
Total operating revenues	29,737	34,230
Operating Expenses		
Interest on bonds and notes		
Current	17,804	20,405
Accreted	2,878	2,749
Total interest on bonds and notes	20,682	23,154
Amortization		
Amortization of premiums on bonds and notes	(211)	(327)
Total amortization	(211)	(327)
Administrative expenses		
Provision for loan losses	(1,265)	2,491
Federal financial assistance programs	4,432	5,057
Salaries and benefits	4,681	4,579
Operations and maintenance	1,326	1,250
BMIR program participant expense	-	195
Other	1,087	1,958
Total administrative expenses	10,261	15,530
Total operating expenses	30,732	38,357
Operating Loss	(995)	(4,127)
Nonoperating Revenue		
Federal grants	7,663	7,267
State grants	550	-
Total nonoperating revenue	8,213	7,267
Income Before Transfers In	7,218	3,140
Transfers In	4,303	5,632
Change in Net Position	11,521	8,772
Net Position, Previously Reported	-	307,277
Change in Accounting Principle (*Note 11*)	-	(3,160)
Net Position, Restated Beginning of Year	312,889	304,117
Net Position, End of Year	$ 324,410	$ 312,889

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

Statements of Cash Flows

Years Ended June 30, 2016 and 2015

(In thousands)	2016	2015
Operating Activities		
Financing fee income received	$ 2,828	$ 3,061
Other received	6	11
Cash paid for program administration	(12,017)	(9,194)
Net cash used in operating activities	(9,183)	(6,122)
Noncapital Financing Activities		
Proceeds from issuance of bonds and notes payable	44,980	27,226
Repayments of bonds and notes payable	(106,762)	(183,106)
Cash paid for interest	(18,633)	(21,633)
Nonoperating grants received	8,213	7,267
Transfers in	4,303	5,632
Collection of financing fees	293	459
Net cash used in noncapital financing activities	(67,606)	(164,155)
Investing Activities		
Purchase of investments	(57,585)	(53,193)
Maturities of investments	98,301	91,558
Interest received on investments	15,091	17,455
Interest received on loans	10,608	11,319
Principal repayments on loans	53,151	41,163
Principal repayments on capital leases	21,523	8,529
Principal repayments on installment sales	-	10,340
Loan disbursements	(58,937)	(76,661)
Direct financing lease disbursements	(11,323)	(1,496)
Cash (paid) or received for financing arrangements	(5,340)	3,130
Proceeds from sale of real estate owned	49	261
Purchase of capital assets	(45)	(18)
Net cash provided by investing activities	65,493	52,387
Decrease in Cash and Cash Equivalents	(11,296)	(117,890)
Cash and Cash Equivalents, Beginning of Year	117,733	235,623
Cash and Cash Equivalents, End of Year	$ 106,437	$ 117,733

Arkansas Development Finance Authority,
A Component Unit of the State of Arkansas
Statements of Cash Flows (Continued)
Years Ended June 30, 2016 and 2015

(In thousands)	2016	2015
Reconciliation of Operating Income to Net Cash Used in Operating Activities		
Operating loss	$ (995)	$ (4,127)
Items not requiring (providing) operating activities cash flows		
Amortization of discounts on loans	(567)	(20)
Amortization of deferred financing fees	(289)	(705)
Accreted interest on loans	(2,878)	(2,741)
Accreted interest on bonds	2,878	2,749
Amortization of bond and note premiums	(211)	(326)
Amortization of bond and note refunding discounts	48	42
Depreciation of capital assets	14	28
Provision for loan losses	(1,265)	2,491
Loss on sale of real estate owned	52	456
Net depreciation of investments	1,657	678
Interest on investments	(14,961)	(17,168)
Interest on loans	(10,340)	(11,089)
Interest paid on bonds and notes	17,804	20,405
Changes in		
Accounts receivable	(26)	54
Other assets	(257)	4,673
Accounts payable	(187)	(475)
Other liabilities	340	(1,047)
Net cash used in operating activities	$ (9,183)	$ (6,122)
Supplemental Cash Flows Information		
Real estate acquired in settlement of loans	$ 1,631	$ 52
Sale and financing of foreclosed assets	$ -	$ 1,500

Arkansas Development Finance Authority,
A Component Unit of the State of Arkansas
Notes to Financial Statements
June 30, 2016 and 2015

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

Nature of Operations and Reporting Entity

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

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

Bonds and other debt instruments issued by the Authority and included on the Authority's financial statements are usually special obligations of the Authority, payable solely from, and collateralized by, a first lien on the proceeds, monies, revenues, rights, interests and collections pledged therefore under the resolutions authorizing the particular issues. The Authority has issued bonds and other debt instruments, which are general obligations of the Authority, supported by the Authority's general fund assets and/or pledge of the Authority's issuer credit rating. 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.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

Recently Issued Accounting Pronouncements

GASB Statement No. 72, *Fair Value Measurement and Application* (GASB 72): GASB 72 addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GASB 72 provides guidance for determining a fair value measurement for financial reporting purposes that aligns with the Financial Accounting Standards Board's Topic 820. GASB 72 also provides that all assets meeting the definition of an investment in the Statement should be measured at fair value, unless the Statement provided otherwise. Certain disclosures related to all fair value measurements are required (*See Note 9*). GASB 72 enhances comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. GASB 72 also enhances fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. GASB 72 is effective for financial statements for fiscal years beginning after June 15, 2015 and any prior periods presented should be restated, including disclosures, if practical. See *Note 9* for disclosures required by GASB 72.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension* (GASB 75): GASB 75 replaces the requirements of GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. GASB 75 requires governments to report a liability on the face of the financial statements, in accordance with the following:

- Employers that are responsible only for OPEB liabilities for their own employees and that provide OPEB through a defined benefit OPEB plan administers through a trust that meets specified criteria will report a net OPEB liability (the difference between the total OPEB liability and the assets accumulated in trust to make the benefit payments)

- Employers that participate in a cost-sharing OPEB plan that is administered through a trust that meets specified criteria will report a liability equal to the employer's proportionate share for the collective OPEB liability for all employers participating in the plan

- Employers that do not provide OPEB through a trust that meets specified criteria will report the total OPEB liability for their own employees

GASB 75 requires more extensive note disclosures and required supplementary information (RSI) about the OPEB liabilities. GASB 75 is effective for fiscal years beginning after June 15, 2017, and requires restatement of any prior years presented, if practical.

While not effective in the short term, we recommend the Authority begin assessing the potential impact on the financial statements of both of these statements and begin the process of communicating this impact with those charged with governance and other stakeholders. Similar to the adoption of GASB 68, *Accounting and Financial Reporting for Pensions*, the adoption of GASB 75 will require advance coordination with plans and actuaries so that the required information is available.

Fund Accounting

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

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

(i) Single Family Housing Programs

(a) *Single Family Mortgage Purchase Program*—Accounts for proceeds from single family mortgage revenue bonds, the debt service requirements of the bonds and the related mortgage-backed securities or mortgage loans for single family owner-occupied housing in Arkansas. Included within this program is the Authority's Single Family Mortgage Revenue Bond General Resolution, adopted on July 20, 1995 (1995 General Resolution).

(b) *New Issue Bond Program*—Accounts for the issuance of single family bonds, as well as the related deferred charges and investment of bond proceeds, issued under a general resolution created specifically for this program. The U.S. Department of the Treasury developed this program for housing finance agencies, whereby ADFA sold $193.1 million in bonds to Fannie Mae and Freddie Mac (the GSEs) in December 2009 as escrow bonds. The bonds sold to the GSEs initially would represent 60% of the total long-term bond issue, and the other 40% would be issued in the marketplace. The 40% marketplace requirement was eliminated when the program was extended to December 31, 2012, as of January 1, 2012. The GSEs will purchase 100% of a bond issue. The interest rate on the GSEs' portion of ADFA's long-term bonds also changed, whereby the interest rate is calculated and capped as outlined in the bond documents.

(ii) Federal Housing Programs

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

(b) *Tax Credit Assistance Program (TCAP)*—Accounts for federal financial assistance in the form of American Reinvestment and Recovery Act (ARRA) funds received from HUD for the purpose of providing additional financing in the form of loans to developers to ensure that developments have sufficient financing to provide quality affordable housing. Only developments that were awarded low-income housing tax credits under Section 42(h) of the Internal Revenue Code (IRC) in federal fiscal years 2007, 2008 and 2009 were eligible for the sub-awards granted to the State of Arkansas from HUD for TCAP funding.

(c) *Neighborhood Stabilization Programs (NSP)*—Accounts for federal financial assistance received from HUD for the purpose of stabilizing neighborhoods that have suffered the most from foreclosures and abandonment. ADFA participated in two of the three NSP offered by HUD. The first NSP was authorized by the Housing and Economic Recovery Act, which was signed into law on July 30, 2008. The third NSP was authorized by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) of 2010. NSP provides loans to purchase and rehabilitate foreclosed or abandoned homes for sale or rent in order to stabilize neighborhoods and stem the decline of house values in neighboring homes.

(d) *Community Development Block Grant–Disaster Funds Program (CDBG)*—Accounts for federal financial assistance received from HUD through the Arkansas Economic Development Commission (AEDC) for use in the development or redevelopment of affordable rental housing related to the five presidentially-declared disaster areas declared from February to October 2008. The Authority is administering $10.1 million of a $25.0 million disaster funds award reserved to the State of Arkansas for affordable rental housing to address the effects of these disasters through a Memorandum of Understanding between the Authority and AEDC.

(e) *Preservation Revolving Loan Fund Program (PRLF)* – Accounts for federal financial assistance received from United States Department of Agriculture Rural Housing Service (USDA) to loan funds to carry out a demonstration program that provides revolving loans for the preservation and revitalization of low-income Multi-Family Housing.

(iii) Multi-Family Programs

(a) *GNMA/BMIR Bond Program*—Accounts for proceeds from the sale of GNMA Guaranteed Bonds, debt service requirements on the bonds, related Below Market Interest Rate (BMIR) mortgages purchased with bond proceeds, disbursements to program participants of excess loan prepayments and the Authority's fees and expenses in connection with the program.

(b) *FAF/New BMIR Loan Programs*—Accounts for loans receivable funded by distributions the Authority received from the GNMA/BMIR Bond Program as well as from Financing Adjustment Factor (FAF) distributions from the federally funded Section 8 Housing Assistance Payment Program.

(iv) Economic Development Bond Guaranty Program

(a) *Bond Guaranty Program*—Accounts for guaranty fees collected, interest earned on investments and disbursements made in connection with bond guaranties provided by the Authority, as well as the proceeds from the sale of development revenue bonds issued by ADFA and guaranteed by the Bond Guaranty Fund; the debt service requirements of the bonds and related loans and leases to private companies. The fund was created by Act 505 of 1985, which authorized a grant of $6 million from the Arkansas State Treasurer (which was subsequently repaid by the Authority) for the purpose of enhancing and supporting the creditworthiness of bonds and other debt instruments guaranteed by the Authority. At June 30, 2016 and 2015, the fund had cash and cash equivalents and investments totaling $18.2 million and $17.4 million, respectively, in the reserve account to collateralize Authority-guaranteed bonds and future issues under the bond guaranty program.

(v) State Facilities and Amendment 82 Programs

(a) *State Facilities Programs*-Accounts for the proceeds from the sale of development revenue bonds; the debt service requirements of the bonds and related loans and leases to public and government bodies within the State of Arkansas; and includes certain assets not owned and related obligations not owed by the Authority.

(b) *Amendment 82 Programs*—Accounts for the proceeds from the sale of general obligation bonds of the State of Arkansas as authorized under Amendment 82 of the Arkansas Constitution; related loans and leases to private institutions and government bodies within the State of Arkansas; and includes certain assets not owned and related obligations not owed by the Authority.

(vi) Other Economic Development Programs

(a) *Other Economic Development Programs*—Accounts for the proceeds from the sale of the Higher Education Capital Asset Program bonds and the related debt service requirements of the bonds and related loans to public higher education institutions. Also, accounts for loan reserve programs, such as Capital Access, Business Life and Disadvantaged Business Enterprise.

(b) *State Small Business Credit Initiative Program (SSBCI)*—Accounts for federal financial assistance received from the U.S. Treasury as grants under the State Small Business Credit Initiative Act of 2010. The State of Arkansas was awarded and received approximately $13.2 million to support six programs, three of which are included within these financial statements: Arkansas Capital Access Program, Bond Guaranty/Loan Participation Program and Disadvantaged Business Enterprise/Small Business Loan Guaranty Program. As of June 30, 2016, all of the awarded amount has been disbursed or obligated. The program is able to continue awarding projects with the use of program income.

(vii) Tobacco Bonds Program

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

(viii) General Fund Programs

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

Use of Estimates

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

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses and fair values of investments.

Cash and Cash Equivalents

The Authority considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2016 and 2015, cash equivalents of $106.4 million and $117.7 million, respectively, consisted primarily of money market mutual funds with variable interest rates.

Investments and Investment Income

Investments are carried at fair value.

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

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

The fair value of the investments at June 30, 2016 and 2015, was in excess of the cost basis by $28.9 million and $30.7 million, respectively.

Loans

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

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

Allowance for Loan Losses

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

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

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

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

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

Income Taxes

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

Direct Financing Leases

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

Capital Assets

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

Deposits Against Financing Arrangements

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

Contract Obligations

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

Unearned Guaranty Fees

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

Conduit Debt Obligations

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

Additionally, the Authority reports conduit debt obligations of entities that are included in the State of Arkansas reporting entity on its statement of net position. At June 30, 2016 and 2015, the principal balance of these bonds included in the Authority's statement of net position totaled $183.4 million and $206.7 million, respectively.

Cost-Sharing Defined Benefit Pension Plan

For purposes of measuring net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net positions of the Arkansas Public Employees Retirement System (APERS) and additions to and deductions from APERS fiduciary net positions have been determined on the same basis as they are reported by APERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Net Position

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

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

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

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

Reclassifications

Certain reclassifications have been made to the fiscal year 2015 financial statements to conform to the fiscal year 2016 financial statement presentation. These reclassifications had no effect on the change in net position.

Note 2: Deposits and Investments

Deposits

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

At June 30, 2016 and 2015, the carrying value of the Authority's deposits was $6.1 million and $4.1 million, respectively. The balances per the bank statements totaled $6.3 million and $4.9 million, respectively. Of those deposits, $5.2 million and $4.0 million, respectively, were exposed to custodial credit risk as follows:

(In thousands)	2016	2015
Uninsured and uncollateralized	$ 4,609	$ 3,155
Uninsured and collateral held by pledging financial institution's trust department or agent in other than the Authority's name	574	881
	$ 5,183	$ 4,036

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, 2016 and 2015, the Authority had the following investments and maturities:

(In thousands)	June 30, 2016				
		Maturities in Years			
Type	**Fair Value**	**Less than 1**	**1–5**	**6–10**	**More than 10**
U.S. Treasury obligations	$ 6,770	$ 5,765	$ 1,005	$ -	$ -
U.S. agencies obligations	45,070	7,672	37,114	284	-
Mortgage-backed securities	314,924	-	1,721	13,241	299,962
Money market mutual funds	100,582	100,582	-	-	-
Guaranteed investment contracts	6,448	-	1,454	-	4,994
Negotiable certificates of deposit	1,731	245	1,486	-	-
Mutual bond funds	975	975	-	-	-
	$ 476,500	$ 115,239	$ 42,780	$ 13,525	$ 304,956

(In thousands)

		June 30, 2015				
			Maturities in Years			
Type	**Fair Value**	**Less than 1**	**1-5**	**6-10**	**More than 10**
U.S. Treasury obligations	$ 7,336	$ 535	$ 6,801	$ -	$ -
U.S. agencies obligations	37,104	8,845	27,316	943	-
Mortgage-backed securities	366,526	-	1,248	12,847	352,431
Money market mutual funds	113,905	113,905	-	-	-
Guaranteed investment contracts	6,092	-	1,453	-	4,639
Negotiable certificates of deposit	250	250	-	-	-
Mutual bond funds	984	984	-	-	-
	$ 532,197	$ 124,519	$ 36,818	$ 13,790	$ 357,070

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

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

Credit Risk—Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The Authority complies with various trust indentures or internal investment policy whereby investments and debt securities are typically rated “A” or higher. The Authority's investments in U.S. agencies obligations and mortgage-backed securities not directly guaranteed by the U.S. government were primarily rated “AA+” by Standard & Poor's and “Aaa” by Moody's Investors Service at June 30, 2016. Investments in money market mutual funds or the investments of those funds were primarily rated “AAAm” by Standard & Poor's and “Aaa” by Moody's

Investors Service. The Authority's investments in guaranteed investment contracts were with providers having at least one rating, with all ratings being rated at least "A2" with the exception of one unrated by both Standard & Poor's and Moody's Investors Service as of June 30, 2016, totaling $4.1 million. The Authority has negotiable certificates of deposits in various banks as investments in the bond guaranty fund portfolio. The certificates of deposit are covered by FDIC insurance and pose no credit risk to the agency.

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

Concentration of Credit Risk—The Authority places no limit on the amount that may be invested in any one issuer. Investments of the Authority (not guaranteed by the U.S. government or considered a mutual fund) representing five percent or more of total investments at June 30, 2016, are as follows (in thousands):

Issuer	Fair Value	Percentage
Federal National Mortgage Association	$ 30,018	7.98%

Summary of Carrying Values

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

(In thousands)	2016	2015
Carrying value		
Deposits	$ 6,107	$ 4,079
Investments	476,500	532,197
	$ 482,607	$ 536,276
Included in the following balance sheet captions*:*		
Current assets		
Cash and cash equivalents	$ 106,437	$ 117,733
Investments – current portion	7,595	8,525
Noncurrent assets		
Investments – unrestricted	54,559	50,797
Investments – restricted	314,016	359,221
	$ 482,607	$ 536,276

Note 3: Loans and Direct Financed Leases

Federal Housing Programs—Includes loans funded by federal agencies, mainly HUD, and are either for multi-family housing or single-family housing lease assistance. The programs offer different types of loan structures, such as deferred loans and surplus cash loans, as well as loans with below market interest rates and standard amortization. As of June 30, 2016 and 2015, respectively, the Authority reported loans of $20.0 million and $38.4 million as deferred loans and $41.5 million and $42.3 million as surplus cash loans. These types of loans had related combined allowances of $54.4 million and $59.7 million at June 30, 2016 and 2015, respectively.

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, 2016 and 2015, respectively, the Authority reported in its statement of net position, $51.5 million and $49.2 million in loans and leases to private companies, as well as $57.6 million and $53.0 million in related bond issues, which are guaranteed by the Bond Guaranty Fund. Differences between the loan balance and the related bond balance are attributed primarily to construction draw payables of $3.3 million and $2.5 million, the allowance for loan loss of $1.8 million and $2.3 million, and timing differences between loan collection and bond payment of $2.8 million and $2.5 million. The above were offset by differences due to delinquencies and the financing of real estate owned properties of $1.8 million for 2016 and $3.5 million for 2015.

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, 2016 and 2015, revenue bonds outstanding of $3.4 million and $11.6 million, respectively, were guaranteed by the Bond Guaranty Fund. Furthermore, the Bond Guaranty Fund guarantees bond anticipation notes. At June 30, 2016 and 2015, respectively, the principal amount on these notes totaled $2.7 million and $6.1 million outstanding with $2.2 million and $5.3 million guaranteed.

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

State Facilities & Amendment 82 Programs—Includes financing activities with various state agencies and private borrowers. At June 30, 2016 and 2015, respectively, the Authority reported loans of $118.9 million and $117.2 million, direct financing leases of $114.9 million and $123.1 million and bonds and note outstanding of $233.4 million and $256.6 million related to the financing arrangements with these institutions and agencies. Differences between the loan and lease balances and the bond balances are attributed primarily to construction draw payable accounts of $3.3 million and $20.2 million and timing differences between loan/lease collection and bond payment of $2.4 million and $2.2 million. The above differences were offset by a loan to an agency from amounts held in trust without corresponding bonds of $6.1 million for 2016 and 2015, respectively.

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

General Fund Programs—Includes loans that are residual assets of the Single Family Mortgage Purchase Program, Multi-family Mortgage Purchase Program or funded by the general fund as special initiatives of the Authority. Mortgage loans purchased by the Authority under the Single Family Mortgage Purchase Program are typically FHA insured, guaranteed by USDA Rural Development or VA guaranteed. In June 2014, the 2001 C Multi-family bonds were redeemed in full, and the remaining loans of $7.9 million bearing interest of 6.5% were transferred to the General Fund.

The stated interest rates on the loans are as follows:

	Stated Interest Rate
Federal Housing and Multi-Family Programs	0.00 to 6.47%
Bond Guaranty Program	Rate on bonds
State Facilities and Amendment 82 Programs	Rate on bonds
Tobacco Bonds Program	4.77 to 5.10%
General Fund Programs	1.00 to 9.50%

Impaired loans totaled $73.7 million and $134.8 million at June 30, 2016 and 2015, respectively, with related allowances for loan losses of $63.9 million and $74.8 million. Impaired loans include loans with a reserve percentage of 20% or more. Impaired loans for the Bond Guaranty Fund and the general fund programs totaled $3.5 million and $5.8 million at June 30, 2016 and 2015, respectively, with related allowances for loan losses of $1.4 million and $1.6 million.

Impaired loans also include loans made under the Federal Housing programs with repayment terms allowing deferment or repayment based on net income of the multi-family developments. The Federal Housing impaired loans totaled $67.8 million and $124.4 million at June 30, 2016 and 2015, respectively, with related allowances for loan losses of $60.1 million and $70.9 million. Of the total amount of Federal Housing impaired loans, loans in true delinquency status were $5.5 million and $3.0 million at June 30, 2016 and 2015, respectively.

At June 30, 2016 and 2015, respectively, accruing loans delinquent 180 days or more where payment is anticipated due to current payment activity totaled approximately $5.0 million and $3.7 million. Non-accruing loans at June 30, 2016 and 2015, respectively, were $12.0 million and $4.5 million.

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

Future minimum lease payments receivable under these leases at June 30, 2016, were as follows:

(In thousands)	Lease Payments
Year ending June 30,	
2017	$ 12,466
2018	12,136
2019	11,849
2020	11,643
2021	9,757
2022–2026	46,959
2027–2031	27,626
2032–2036	15,624
2037–2041	6,156
Total minimum lease payments receivable	154,216
Less amount representing interest	(35,028)
Less unfunded lease amount	(2,711)
Present value of minimum lease payments receivable	$ 116,477

Note 4: Capital Assets

Premises and equipment at June 30 are summarized as follows:

(In thousands)	2016	2015
Cost		
Premises and equipment	$ 555	$ 528
Less accumulated depreciation	(462)	(466)
Net	$ 93	$ 62

Depreciation expense for the years ended June 30, 2016 and 2015, respectively, was approximately $14,000 and $28,000.

Note 5: Bonds and Notes Payable

Bonds and notes payable at June 30 were as follows:

(In thousands)	2016	2015
Total Single Family Bonds Payable, with interest rates ranging from 0.9 – 9.878% and final maturity at varying dates through 2043	$ 195,906	$ 235,633
Plus unamortized premium	104	315
Total Single Family Bonds Payable, net	196,010	235,948
Total Federal Housing Notes Payable and Multi-Family Bonds Payable, with interest rates ranging from 1.0 – 9.75% and final maturity at varying dates through 2045	2,410	2,000
Total Economic Development Bonds Payable, Guaranteed by the Bond Guaranty Fund, with interest rates ranging from 0.66 – 6.0% and final maturity at varying dates through 2040	57,615	52,950
Total State Facilities Bonds and Amendment 82 Note Payable, with interest rates ranging from 0.457 – 7.0% and final maturity at varying dates through 2040	233,425	256,630
Tobacco Bonds Payable, with interest rates ranging from 4.77 – 5.5% and final maturity at varying dates through 2046	82,171	83,217
Total all programs bonds and notes payable, net	$ 571,631	$ 630,745

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

Activity in bonds and notes payable for fiscal year 2016 was as follows:

(In thousands)	Beginning Balance	Additions Including Accretion	Reductions	Ending Balance	Amount Due within One Year
Bonds payable	$ 578,430	$ 47,379	$ (106,692)	$ 519,117	$ 29,582
Notes payable	52,000	480	(70)	52,410	70
	630,430	47,859	(106,762)	571,527	29,652
Unamortized premiums	315	-	(211)	104	-
Total	$ 630,745	$ 47,859	$ (106,973)	$ 571,631	$ 29,652

Activity in bonds and notes payable for fiscal year 2015 was as follows:

(In thousands)	Beginning Balance	Additions Including Accretion	Reductions	Ending Balance	Amount Due within One Year
Bonds payable	$ 782,091	$ 29,444	$ (233,105)	$ 578,430	$ 29,675
Notes payable	1,469	50,531	-	52,000	69
	783,560	79,975	(233,105)	630,430	29,744
Unamortized premiums	642	-	(327)	315	-
Total	$ 784,202	$ 79,975	$ (233,432)	$ 630,745	$ 29,744

Future amounts required for principal and interest on all bonds and notes payable at June 30, 2016, were as follows:

(In thousands)	Principal	Interest
Year Ending June 30,		
2017	$ 29,652	$ 18,124
2018	30,886	17,222
2019	26,868	16,179
2020	27,068	15,272
2021	25,673	14,362
2022–2026	139,380	58,258
2027–2031	114,831	38,392
2032–2036	115,189	19,831
2037–2041	68,181	8,479
2042–2046	60,627	2,230
2047–2051	4,995	-
Unamortized premiums	104	-
Accreted interest	(71,823)	71,823
Total	$ 571,631	$ 280,172

The Authority has a note payable with USDA that has $1.8 million still available to draw upon as of June 30, 2016. The note matures July 29, 2045.

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

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

As of June 30, 2016, the remaining principal amounts outstanding on defeased issues (which are excluded from the Authority's financial statements) are as follows:

(In thousands) Issue	Date of Defeasance	Principal Outstanding
2009 Series A ADFA Correctional Facilities Revenue Bond	May 2016	$ 25,585

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, 2016 and 2015, respectively, the bonds outstanding issued under these programs aggregated $693.3 million and $630.0 million. In March 2016, the 2009 Episcopal Collegiate School bond issue was defeased and $16.6 million remains outstanding as of June 30, 2016.

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

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

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

Note 7: Retirement Plan

The officials and employees of the Authority participate in a state-wide, cost-sharing, multiple-employer, defined benefit pension plan administered by the Arkansas Public Employees Retirement System (the Plan). There is no legal obligation imposed upon the member agencies relative to the operation of the Plan other than the payment of a percentage of the gross salaries of eligible employees participating in the Plan as an employer contribution. State law provides that Authority contributions for all covered state employees are to be based on 14.50% of gross payroll for the year ended June 30, 2016; 14.76% of gross payroll for the year ended June 30, 2015; and 14.88% of gross payroll for the year ended June 30, 2014. Required payroll contributions totaled approximately $494,000, $508,000 and $502,000 for the years ended June 30, 2016, 2015 and 2014, respectively. All contributions required of the Authority were made for the years ended June 30, 2016, 2015 and 2014. For the years ended June 30, 2016, 2015 and 2014, the Authority's covered payroll for all employees amounted to $3.4 million for each year.

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

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

Pensions

(a) General Information about the Pension Plans

Plan descriptions: Eligible employees of the Authority are provided with pensions through the Arkansas Public Employees Retirement System (APERS), administered by the Arkansas Public Employees Retirement System board of trustees. APERS is a cost-sharing multiple-employer defined benefit plan. Benefit provisions are established and amended by Arkansas Code Title 24.

The plan issues a publicly available financial report, which may be obtained by contacting:

Arkansas Public Employees Retirement System
124 W. Capitol, Suite 400
Little Rock, AR 72201-3704
(501) 682-7800
http://www.apers.org/annualreports/index.php

Benefits Provided: The plan provides retirement, disability and death benefits and annual adjustments to plan members and beneficiaries, as follows:

The normal retirement benefit, paid on a monthly basis, is determined based on (1) the member's final average compensation (an average of the highest 36 months' earnings) and (2) the number of years of credited service. Retiree benefit increases are calculated each year on July 1 for the following 12 months. The redetermined amount is the amount of the benefit payable as of the immdiately preceding July1, increased by 3%. Members are eligible for full retirement benefits (1) at any age with 28 years of credited service; (2) at age 65 with five years of actual service, except for members of the General Assembly who must have 10 years of actual service if the member only has service as a member of the General Assembly; or (3) at age 55 with 35 years of credited service as an elected official or public safety member. Members are eligible for reduced benefits (1) at any age with at least 25 years but less than 28 years of actual service; or (2) at age 55 with five years of actual service. Members who are defined as a public safety member are eligible for a reduced benefit with five years of actual service if the member is within 10 years of normal retirement age.

Contributions. Arkansas Code Title 24 establishes the contribution requirements of active members and participating employers. Contribution rates are as follows:

Contribution provisions applicable to the participating employers are established by the APERS' Board of Trustees and should be based on an independent actuary's determination of the rate required to fund the plan. The General Assembly and certain agencies employing individuals in public safety positions must also remit additional amounts. For the fiscal year ended June 30, 2015, the employer contribution rates, as a percentage of active member payrolls, ranged from 4.00% to 26.76%. For the fiscal year ended June 30, 2014, the employer contribution rates, as a percentage of active member payrolls, ranged from 4.00% to 26.88%. Contributions to APERS from the Authority was approximately $494,000 and $508,000 for the years ended June 30, 2016 and 2015, respectively.

APERS consists of both a contributory plan and a noncontributory plan. The contributory plan has been in effect since the beginning of the plan and is available to all persons who became members prior to January 1, 1978. The noncontributory plan was created by Act 793 of 1977 and was effective January 1, 1978. It automatically applied to all members hired from January 1, 1978, to June 30, 2005. Act 2084 of 2005 requires that, beginning July 1, 2005, all new hires become contributory members and are required to contribute 5% of their earnings to APERS. All other noncontributory members were given the opportunity to become contributory if they so elected by December 31, 2005.

During a member's participation in the APERS deferred retirement option plan (DROP), the employer continues to make contributions and the employee ceases to make contributions.

(b) Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016 and 2015, ADFA reported liabilities of $3.6 million and $2.7 million, respectively, for its proportionate share of the net pension liabilities. The net pension liabilities were measured as of June 30, 2015 and June 30, 2014, respectively, and the total pension liability used to calculate the net pension liability for each plan was determined by an actuarial valuation as of those dates. The Authority's proportion of the net pension liability was based on current contributions of all participating employers. At June 30, 2015, and June 30, 2014, the Authority's proportion was 0.1941% and 0.1898%, respectively, for APERS.

For the years ended June 30, 2016 and 2015, the Authority recognized pension expense of $441,415 and $308,648, respectively. For the year ended June 30, 2016, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions as follows:

(In actual dollars)	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 234,375
Changes of assumptions	527,603	-
Net differences between projected and actual earnings on pension plan investments	-	177,376
Changes in proportion and differences between the Authority contributions and proportionate share of contributions	62,302	-
The Authority's contributions subsequent to the measurement date	493,947	-
Total	$ 1,083,852	$ 411,751

For the year ended June 30, 2015, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions as follows:

(In actual dollars)	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 34,207
Changes of assumptions	318,932	-
Net differences between projected and actual earnings on pension plan investments	-	1,058,918
Changes in proportion and differences between the Authority contributions and proportionate share of contributions	-	-
The Authority's contributions subsequent to the measurement date	508,343	-
Total	$ 827,275	$ 1,093,125

At June 30, 2016 and June 30, 2015, the Authority reported $493,947 and $508,343, respectively, as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30	*(In actual dollars)*
2017	$ 9,298
2018	9,298
2019	(23,317)
2020	182,875
Total	$ 178,154

Actuarial assumptions. The total pension liability in the actuarial valuation (as of the date noted below) was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	APERS
Date of actuarial valuation	June 30, 2015
Inflation rate	2.50%
Salary increases	3.95% - 9.85%, including inflation
Investment rate of return	7.50%
Mortality rates	RP-2000 Combined Healthy mortality table, projected to 2020 using projection scale BB, set forward 2 years for males and 1 year for females.
Actuarial experience study dates	July 1, 2007, through June 30, 2012

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for the 10-year period from 2015-2024 were provided by the plan investment consultant.

For each major asset class that is included in the pension plans' target asset allocation as of June 30, 2015, these best estimates are summarized in the following table:

APERS

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Broad domestic equity	42%	6.82%
International equity	25%	6.88%
Real assets	12%	3.07%
Absolute return	5%	3.35%
Domestic fixed	16%	0.83%
Total	100%	

Discount rate. The discount rate for the plan was determined as follows:

The discount rate used to measure the total pension liability was 7.50% and 7.75% for the years ended June 30, 2016 and 2015, respectively. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Authority's proportionate share of the net pension liability to changes in the discount rate. The following presents the Authority's proportionate share of the net pension liability for the plan calculated using the discount rate stated above, as well as what the Authority's proportionate share of net pension liability would be if it were calculated using a single discount rate that is 1% lower or 1% higher than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
APERS – Current discount rate 7.50%	$ 5,889,048	$ 3,575,061	$ 1,650,638

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued financial report of the plan.

Note 8: Other Post-Employment Benefits

During the fiscal years ended June 30, 2016, 2015 and 2014, the Authority recorded expenses of $230,000, $188,000 and $268,000, respectively, for the annual required contributions (ARC) and cumulative liabilities of $2,091,000, $1,861,000 and $1,673,000, respectively, included in other liabilities on the statements of net position, in accordance with the parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions.* The complete disclosures required by GASB 45 are included in the State of Arkansas Comprehensive Annual Financial Report (CAFR).

Note 9: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2016 and 2015:

(In thousands)	Fair Value	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2016				
U.S. Treasury obligations	$ 6,596	$ -	$ 6,596	$ -
U.S. agencies obligations	45,070	-	45,070	-
Mortgage-backed securities	314,924	-	314,924	-
Negotiable certificates of deposit	1,731	-	1,731	-
Mutual bond funds	975	-	975	-
	$ 369,296	$ -	$ 369,296	$ -
June 30, 2015				
U.S. Treasury obligations	$ 7,132	$ -	$ 7,132	$ -
U.S. agencies obligations	37,104	-	37,104	-
Mortgage-backed securities	366,526	-	366,526	-
Negotiable certificates of deposit	250	-	250	-
Mutual bond funds	984	-	984	-
	$ 411,996	$ -	$ 411,996	$ -

The fair value amounts in the previous table do not reflect all investments included in the amounts presented in the statement of financial position. GASB 72 provides certain exceptions including guaranteed investment contracts, money market mutual funds and state and local government agencies (or certain U.S. Treasury Obligations).

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying financial statements, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the years ended June 30, 2016 or 2015.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. The Authority did not have any Level 1 securities at June 30, 2016 or 2015. Level 2 securities include U.S. Government and federal agencies, mortgage-backed securities, negotiable certificates of deposit and mutual bond fund. If quoted market prices are not available, then fair values are estimated by an independent third-party pricing service using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. For these investments, the inputs used by the pricing service to determine fair value may include one, or a combination of observable inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data market research publications and are classified within Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. The Authority did not have any Level 3 securities at June 30, 2016 or 2015.

Nonrecurring Measurements

The following table presents the fair value measurement of assets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2016 and 2015:

		Fair Value Measurements Using		
(In thousands)	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2016				
Real estate owned	$ 1,583	$ -	$ -	$ 1,583
June 30, 2015				
Real estate owned	$ 25	$ -	$ -	$ 25

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a nonrecurring basis and recognized in the accompanying financial statements, as well as the general classification of such assets pursuant to the valuation hierarchy.

Real Estate Owned

Real estate owned are carried at the lower of fair value at acquisition date or current estimated fair value, less estimated cost to sell when the real estate is acquired. Estimated fair value of real estate owned is based on estimates or evaluations. Real estate owned is classified within Level 3 of the fair value hierarchy.

The largest real estate owned asset was leased to another party in fiscal year 2015 which ended in April 2016. The asset is being carried at the remaining leased value which is estimated to be approximately fair market value.

For the HOME real estate owned, up to three realtors in the locale of the property are contacted to give the Authority an estimate of a selling price for the property. The re-payable portion of the HOME loan is normally the minimum goal for a list price. The Authority carries the property at the lessor of the foreclosed loan balance or the realtor's list price less holding and selling costs.

Note 10: Commitments and Contingencies

The Authority participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Authority has not complied with the rules and regulations governing the grants, refunds of any money received may be required, and the collectability of any related receivable at June 30, 2016 and 2015, 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 $6.7 million and $23.8 million of amounts recorded as cash and investments in the statement of net position that may be disbursed to borrowers under loan and lease agreements closed prior to June 30, 2016 and 2015, respectively.

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

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

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

In 2003, the Authority initiated the funding for the Arkansas Institutional Fund (AIF), an institutional fund of funds venture capital program created by the Arkansas General Assembly in 2001. The Venture Capital Investment Act of 2001 authorizes the Authority to assist in increasing the availability of equity and near-equity capital for emerging, expanding, relocating and restructuring enterprises in the state through the creation of an institutional partnership fund. The Bond Guaranty Fund is subject to the first $10 million of losses incurred by the AIF. The funding is structured as a guaranteed line of credit with a financial institution with draws occurring on an as-needed basis. The outstanding balances were $25.0 million as of June 30, 2016, and $27.4 million as of June 30, 2015. As of June 30, 2016, there were 11 approved investments totaling $37.2 million, of which $7.7 million has yet to be funded, that are anticipated to become part of the AIF.

Note 11: Adoption of Accounting Standard

Effective July 1, 2014, the Authority implemented GASB Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27, as amended by GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68. The objectives of GASB No. 68 are to establish standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflow of resources, and expenses for pensions that are provided to the employees of state and local governmental employers through pension plans administered through trusts.

The Authority has not restated its financial statements as of and for the year ended June 30, 2014, because actuarial information was not readily available for that period, thus making restatement of the 2014 financial statements impractical.

In conjunction with the adoption of GASB No. 68, the Authority restated beginning net position as of July 1, 2014, to recognize $3.7 million of net pension liability and deferred outflow of resources for contributions of $0.5 million.

Effective July 1, 2015, the Authority implemented GASB Statement No. 72, *Fair Value Measurement and Application* (GASB 72). GASB 72 addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GASB 72 provides guidance for determining a fair value measurement for financial reporting purposes that aligns with the Financial Accounting Standards Board's Topic 820. GASB 72 also provides that all assets meeting the definition of an investment in the Statement should be measured at fair value, unless the Statement provided otherwise.

Required Supplementary Information

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

Required Supplementary Information

Schedule of the Authority’s Proportionate Share of the Net Pension Liability

Arkansas Public Employees Retirement System

Last 10 Fiscal Years*

	2016	2015
Authority’s proportion of the net pension liability (asset)	.1941%	.1898%
Authority’s proportionate share of the net pension liability (asset)	$ 3,575,061	$ 2,692,466
Authority’s covered-employee payroll, cash basis	$ 3,444,062	$ 3,354,903
Authority’s proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	103.80%	80.25%
Plan fiduciary net position as a percentage of the total pension liability	80.39%	84.15%

*The amounts presented for each fiscal year were determined as of June 30 of the previous year.

Note: A full 10 year schedule will be completed as information is available.

Arkansas Development Finance Authority,
A Component Unit of the State of Arkansas
Required Supplementary Information
Schedule of the Authority's Contributions
Arkansas Public Employees Retirement System
Last 10 Fiscal Years*

	2016	2015
Contractually required contribution	$ 493,947	$ 508,343
Contributions in relation to the contractually required contribution	493,947	508,343
Contribution deficiency (excess)	$ -	$ -
Authority's covered-employee payroll, cash basis	$ 3,408,161	$ 3,444,062
Contributions as a percentage of covered-employee payroll	14.50%	14.76%

*The amounts presented for each fiscal year were determined as of June 30.

Note: A full 10 year schedule will be completed as information is available.

Supplementary Information

Arkansas Development Finance Authority,
A Component Unit of the State of Arkansas
Combining Statement of Net Position
June 30, 2016

(In thousands)	Single Family Housing Programs	Federal Housing Programs	Multi-Family Programs	Economic Development Bond Guaranty Program
Current Assets				
Cash and cash equivalents	$ 48,729	$ 3,186	$ 3,991	$ 8,340
Accrued interest receivable	1,002	69	16	104
Accounts receivable	-	575	-	12
Investments – current portion	-	-	-	-
Loans – current portion	-	-	-	-
Total current assets	49,731	3,830	4,007	8,456
Noncurrent Assets				
Investments – unrestricted	-	-	-	-
Investments – restricted	284,998	-	2	17,766
Loans, net	-	86,278	4,494	49,933
Direct financing leases – restricted	-	-	-	1,551
Real estate owned	-	114	-	1,469
Capital assets, net	-	-	-	-
Total noncurrent assets	284,998	86,392	4,496	70,719
Total assets	334,729	90,222	8,503	79,175
Deferred Outflow of Resources				
Deferred charge on refunding	92	-	-	-
Pension contributions	-	-	-	-
Changes in pension actuarial assumptions	-	-	-	-
Total deferred outflow resources	92	-	-	-
Current Liabilities				
Accounts payable	6	225	1,942	12
Accrued interest payable	3,018	5	-	485
Contract obligations – current portion	-	-	-	-
Bonds and notes payable – current portion	6,640	70	-	3,697
Total current liabilities	9,664	300	1,942	4,194
Noncurrent Liabilities				
Unearned fees	-	-	-	2,156
Contract obligations – noncurrent portion	-	-	-	-
Bonds and notes payable, net of unamortized premiums	189,370	2,340	-	53,918
Deposits against financing arrangements	-	-	-	1,636
OPEB and pension liabilities	-	-	-	-
Other liabilities	-	-	-	-
Total noncurrent liabilities	189,370	2,340	-	57,710
Total liabilities	199,034	2,640	1,942	61,904
Deferred Inflows of Resources	-	-	-	-
Net Position (Deficit)				
Restricted by bond resolution and programs	135,787	87,582	6,561	17,271
Invested in capital assets	-	-	-	-
Unrestricted	-	-	-	-
Net position (deficit)	$ 135,787	$ 87,582	$ 6,561	$ 17,271

State Facilities and Amendment 82 Programs	Other Economic Development Programs	Tobacco Bonds Program	General Fund Programs	Eliminations	Total
$ 25,050	$ 4,162	$ 2,655	$ 10,324	$ -	$ 106,437
270	5	25	247	-	1,738
73	-	-	634	(636)	658
-	-	-	7,595	-	7,595
-	-	-	6,129	-	6,129
25,393	4,167	2,680	24,929	(636)	122,557
-	-	-	54,559	-	54,559
7,020	-	4,230	-	-	314,016
118,915	3,083	60,171	15,309	-	338,183
114,926	-	-	-	-	116,477
-	-	-	-	-	1,583
-	-	-	93	-	93
240,861	3,083	64,401	69,961	-	824,911
266,254	7,250	67,081	94,890	(636)	947,468
-	-	-	-	-	92
-	-	-	494	-	494
-	-	-	590	-	590
-	-	-	1,084	-	1,176
-	5	-	633	(636)	2,187
979	-	95	-	-	4,582
2,600	-	-	-	-	2,600
17,370	-	1,875	-	-	29,652
20,949	5	1,970	633	(636)	39,021
-	-	-	-	-	2,156
1,618	-	-	-	-	1,618
216,055	-	80,296	-	-	541,979
24,160	23	3,881	7	-	29,707
-	-	-	5,666	-	5,666
3,426	-	-	249	-	3,675
245,259	23	84,177	5,922	-	584,801
266,208	28	86,147	6,555	(636)	623,822
-	-	-	412	-	412
46	7,222	(19,066)	-	-	235,403
-	-	-	93	-	93
-	-	-	88,914	-	88,914
$ 46	$ 7,222	$ (19,066)	$ 89,007	$ -	$ 324,410

Arkansas Development Finance Authority,
A Component Unit of the State of Arkansas
Combining Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2016

(In thousands)	Single Family Housing Programs	Federal Housing Programs	Multi-Family Programs	Economic Development Bond Guaranty Program
Operating Revenues				
Investment income				
Interest and dividends	$ 12,701	$ 3	$ 2	$ 265
Loans and direct financing leases	-	752	62	2,276
Amortization of discounts on loans	-	-	-	-
Financing fees	-	-	-	340
Net (depreciation) appreciation of investments	(1,126)	-	-	86
Total investment income	11,575	755	64	2,967
Other	-	-	-	-
Total operating revenues	11,575	755	64	2,967

State Facilities and Amendment 82 Programs	Other Economic Development Programs	Tobacco Bonds Program	General Fund Programs	Eliminations	Total
$ -	$ 4	$ -	$ 1,986	$ -	$ 14,961
6,430	78	2,879	811	-	13,288
-	-	-	1	-	1
-	84	-	3,721	(1,007)	3,138
(2)	-	-	(615)	-	(1,657)
6,428	166	2,879	5,904	(1,007)	29,731
-	-	-	6	-	6
6,428	166	2,879	5,910	(1,007)	29,737

Arkansas Development Finance Authority,
A Component Unit of the State of Arkansas
Combining Statement of Revenues, Expenses and Changes in Net Position (Continued)
Year Ended June 30, 2016

(In thousands)	Single Family Housing Programs	Federal Housing Programs	Multi-Family Programs	Economic Development Bond Guaranty Program
Operating Expenses				
Interest on bonds and notes				
Current	$ 7,532	$ 21	$ -	$ 2,188
Accreted	-	-	-	-
Total interest on bonds and notes	7,532	21	-	2,188
Amortization				
Amortization of discounts and premiums on bonds and notes	(211)	-	-	-
Total amortization	(211)	-	-	-
Administrative expenses				
Provision for loan losses	-	(2,023)	444	(354)
Federal financial assistance programs	-	4,141	-	291
Salaries and benefits	-	-	-	-
Operations and maintenance	-	893	-	-
Other	668	111	-	86
Total administrative expenses	668	3,122	444	23
Total operating expenses	7,989	3,143	444	2,211
Operating Income (Loss)	3,586	(2,388)	(380)	756
Nonoperating Revenue				
Federal grants	-	6,923	-	291
State grants	-	-	-	-
Total nonoperating revenue	-	6,923	-	291
Income (Loss) Before Transfers In (Out)	3,586	4,535	(380)	1,047
Transfers In (Out)	31	6	-	-
Change in Net Position (Deficit)	3,617	4,541	(380)	1,047
Net Position (Deficit), Beginning of Year	132,170	83,041	6,941	16,224
Net Position (Deficit), End of Year	$ 135,787	$ 87,582	$ 6,561	$ 17,271

State Facilities and Amendment 82 Programs	Other Economic Development Programs	Tobacco Bonds Program	General Fund Programs	Eliminations	Total
$ 6,776	$ -	$ 1,287	$ -	$ -	$ 17,804
-	-	2,878	-	-	2,878
6,776	-	4,165	-	-	20,682
-	-	-	-	-	(211)
-	-	-	-	-	(211)
-	292	-	376	-	(1,265)
-	-	-	-	-	4,432
-	-	-	4,681	-	4,681
-	-	-	970	(537)	1,326
-	84	-	608	(470)	1,087
-	376	-	6,635	(1,007)	10,261
6,776	376	4,165	6,635	(1,007)	30,732
(348)	(210)	(1,286)	(725)	-	(995)
367	-	-	82	-	7,663
-	-	-	550	-	550
367	-	-	632	-	8,213
19	(210)	(1,286)	(93)	-	7,218
-	(556)	5,000	(178)	-	4,303
19	(766)	3,714	(271)	-	11,521
27	7,988	(22,780)	89,278	-	312,889
$ 46	$ 7,222	$ (19,066)	$ 89,007	$ -	$ 324,410

Arkansas Development Finance Authority,
A Component Unit of the State of Arkansas
Single Family Housing Programs
Combining Statement of Net Position
June 30, 2016

(In thousands)	1995 General Resolution	Single Family New Issue Bond Program	Single Family Housing Programs (Total)
Current Assets			
Cash and cash equivalents	$ 45,346	$ 3,383	$ 48,729
Accrued interest receivable	819	183	1,002
Total current assets	46,165	3,566	49,731
Noncurrent Assets			
Investments – restricted	221,353	63,645	284,998
Total noncurrent assets	221,353	63,645	284,998
Total assets	267,518	67,211	334,729
Deferred Outflow of Resources			
Deferred charge on refunding	92	-	92
Current Liabilities			
Accounts payable	6	-	6
Accrued interest payable	2,098	920	3,018
Bonds and notes payable – current portion	4,710	1,930	6,640
Total current liabilities	6,814	2,850	9,664
Noncurrent Liabilities			
Bonds and notes payable, net of unamortized premiums	131,675	57,695	189,370
Total noncurrent liabilities	131,675	57,695	189,370
Total liabilities	138,489	60,545	199,034
Net Position			
Restricted by bond resolution and programs	129,121	6,666	135,787
Net position	$ 129,121	$ 6,666	$ 135,787

Arkansas Development Finance Authority,
A Component Unit of the State of Arkansas
Single Family Housing Programs
Combining Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2016

(In thousands)	1995 General Resolution	Single Family New Issue Bond Program	Single Family Housing Programs (Total)
Operating Revenues			
Investment income			
Interest and dividends	$ 10,371	$ 2,330	$ 12,701
Net depreciation of investments	(2,211)	1,085	(1,126)
Total investment income	8,160	3,415	11,575
Total operating revenues	8,160	3,415	11,575
Operating Expenses			
Interest on bonds and notes			
Current	5,566	1,966	7,532
Total interest on bonds and notes	5,566	1,966	7,532
Amortization			
Amortization of discounts and premiums on bonds and notes	(211)	-	(211)
Administrative expenses			
Other	594	74	668
Total administrative expenses	594	74	668
Total operating expenses	5,949	2,040	7,989
Operating Income	2,211	1,375	3,586
Transfers In	31	-	31
Change in Net Position	2,242	1,375	3,617
Net Position, Beginning of Year	126,879	5,291	132,170
Net Position, End of Year	$ 129,121	$ 6,666	$ 135,787