ARKANSAS DEPARTMENT OF COMMERCE

ADFA

ARKANSAS DEVELOPMENT FINANCE AUTHORITY

ARKANSAS DEVELOPMENT FINANCE AUTHORITY, A COMPONENT UNIT OF THE STATE OF ARKANSAS

June 30, 2024

Combined Financial Statements
And
Supplementary Information

With

Independent Auditor's Report

FROST, PLLC
Certified Public Accountants

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FROST, PLLC
Certified Public Accountants

Independent Auditor's Report

Board of Directors
Arkansas Development Finance Authority,
A Component Unit of the State of Arkansas
Little Rock, Arkansas

Report on the Audit of the Combined Financial Statements

Opinions

We have audited the combined financial statements of the business-type activities and the aggregate discretely presented component unit of the Arkansas Development Finance Authority, a component unit of the State of Arkansas, as of and for the year ended June 30, 2024, and the related notes to the combined financial statements, which collectively comprise Arkansas Development Finance Authority's basic combined financial statements as listed in the table of contents.

In our opinion, the accompanying combined financial statements present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component unit of Arkansas Development Finance Authority, a component unit of the State of Arkansas, as of June 30, 2024, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Basis for Opinions

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

Responsibilities of Management for the Combined Financial Statements

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

In preparing the combined financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Arkansas Development Finance Authority's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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

Our objectives are to obtain reasonable assurance about whether the combined financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. We did not audit the financial statements of the Arkansas Institutional Fund, LLC, which represents 17%, 7%, and (25%) of the assets, net position, and total changes in net position, respectively, for the year ended June 30, 2024 of the aggregate financial statements of the Arkansas Venture Capital Investment Trust, which is an aggregate discretely presented component unit of the Arkansas Development Finance Authority. Those statements were audited by another auditor whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for such entities, is based solely on the reports of the other auditor. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *GAS* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the combined financial statements. The financial statements of Arkansas Institutional Fund, LLC, a blended component unit included in the financial statements of the aggregate discretely presented component unit, were not audited in accordance with *GAS*.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the combined financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the combined financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Arkansas Development Finance Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the combined financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Arkansas Development Finance Authority's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

GAAP requires that the management's discussion and analysis on pages 4 through 8, and other required supplementary information on pages 45 through 47 be presented to supplement the basic combined financial statements. Such information is the responsibility of management and, although not a part of the basic combined financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic combined financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic combined financial statements, and other knowledge we obtained during our audit of the basic combined financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the combined financial statements that collectively comprise Arkansas Development Finance Authority's basic combined financial statements. The schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* is presented for purposes of additional analysis and are not a required part of the basic combined 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic combined financial statements or to the basic combined financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the supplementary information and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic combined financial statements as a whole.

Other Reporting Required by *GAS*

In accordance with *GAS*, we have also issued our report dated November 5, 2024, on our consideration of Arkansas Development Finance Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Arkansas Development Finance Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *GAS* in considering Arkansas Development Finance Authority's internal control over financial reporting and compliance.

Frost, PLLC

Certified Public Accountants

Little Rock, Arkansas
November 5, 2024

Management's Discussion and Analysis

For the Year Ended June 30, 2024

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 combined financial statements and notes as a whole.

Understanding the Combined Financial Statements

The June 30, 2024 basic combined financial statements include three required statements: The combined statement of net position; the combined statement of revenues, expenses, and changes in net position; and the combined statement of cash flows. The combined statement of net position and the combined statement of revenues, expenses, and changes in net position are presented for all of ADFA's programs in the combining statements of the Authority. ADFA has nine programs presented as supplementary information following the notes to combined 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 Settlement Revenue Bonds Program, Student Loan Programs, and General Fund Program.

The Authority includes three other legally separate entities in its reporting entity – the Arkansas Venture Capital Investment Trust ("AVCIT") and its blended component units, the Arkansas Institutional Fund, LLC ("AIF") and the Arkansas Venture Development Fund, LLC ("AVDF"). Although legally separate, these component units are included because the Authority is financially and administratively accountable for them and excluding them would be misleading. Financial information for these component units is reported separately from the financial information presented for the Authority itself. Additional information about the relationships between the Authority and these component units can be found in Note 1.a. to the combined financial statements.

Condensed Combined Statements of Net Position

	Authority	
	2024	2023
(In thousands)		
Assets		
Current assets	$ 366,345	$ 324,627
Capital assets, net	2,121	2,167
Other noncurrent assets	639,729	638,475
Total assets	1,008,195	965,269
Deferred outflow of resources	1,641	1,742
Liabilities		
Current liabilities	34,586	37,864
Noncurrent liabilities	467,586	443,796
Total liabilities	502,172	481,660
Deferred inflow of resources	1,844	2,261
Net position		
Investment in capital assets	2,121	2,167
Restricted expendable by bond resolution and programs	344,907	329,240
Unrestricted	158,792	151,683
Net position	$ 505,820	$ 483,090

Combined Statement of Net Position

During fiscal year 2024, total assets increased approximately $42.9 million to approximately $1.01 billion primarily due to the increase in cash and cash equivalents and in loans receivable offset by decrease in investments as discussed below.

Cash and cash equivalents ("cash") increased $38.3 million, or 13%, primarily due to the issuance of the Single Family bond deal that closed in May 2024 for $50 million and investments maturing and the proceeds being reinvested in the State Treasurer Money Management Trust Fund. Investments decreased $27.3 million, or 38%, because as they matured the proceeds were reinvested to cash as described above. Loans receivable increased $31.8 million, or 7%, due to the continuously lending programs of the Authority, mainly with the Down Payment Assistance loans, a state facility loan, and several multi-family housing project loans funded by two federal housing programs (HOME Investment Partnerships ("HOME") program and National Housing Trust Fund ("NHTF") program).

Management's Discussion and Analysis (cont.)

For the Year Ended June 30, 2024

The Authority's liabilities increased by approximately $20.5 million, or 4%, due to an increase in bonds and notes payable, net of $25.8 million. The increase for bonds and notes payable is mainly attributable to the issuance of the Single-Family bond deal of $50 million net of scheduled redemptions of $24.8 million and optional bond calls of $3.3 million.

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

	Authority	
	2024	2023
(In thousands)		
Operating revenues		
Total investment income	$ 40,210	$ 29,661
Special allowance	-	532
Other income/gain on sale of loans	74	756
Total operating revenues	40,284	30,949
Operating expenses		
Interest and amortization on bonds and notes	14,638	19,490
Total administrative expenses	17,349	45,195
Total operating expenses	31,987	64,685
Operating income (loss)	8,297	(33,736)
Nonoperating revenues		
Federal grants	18,725	30,243
Income (loss) before transfers out, net	27,022	(3,493)
Transfers out, net	(4,292)	(2,381)
Changes in net position	22,730	(5,874)
Net position - beginning of year	483,090	488,964
Net position - end of year	$ 505,820	$ 483,090

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

ADFA's income before transfers out totaled $27.0 million for the year ended June 30, 2024, compared to a loss of $3.5 million for the year ended June 30, 2023.

The increase in the income (loss) before transfers out relates primarily to the increase in total investment income of $10.6 million offset mainly by decrease in federal grant revenue of $11.5 million and decrease in federal financial assistance programs expense ("federal expenses") of $31.9 million.

The increase in total investment income is due partly to the increase in investment income of $5.1 million, or 51%, due to higher interest yields for the entire year compared to last year. The increase is also due to the increase in net appreciation of investments of $8.0 million, or 129%, which is due to market conditions improving and having the market value to be closer to cost values of the mortgage-backed securities which comprise the majority of the Authority's portfolio.

The decreases associated with federal grants and federal expenses are mainly due to the Homeowner Assistance Fund Program. The program received the funds in prior years totaling $63.3 million and disbursed $6.7 million this year and $37.6 million in the past year. In the prior year, the Authority was awarded funds for the State Small Business Credit Initiative Program and received the first installment of $24.2 million. Both programs were awarded from the U.S. Department of the Treasury under the American Rescue Plan Act of 2021, and the Authority was authorized to administer the programs for the state. The HOME and NHTF housing programs had increased activity this year compared to the prior year also. The HOME and NHTF housing programs received $9.6 million and $8.7 million, respectively, during this fiscal year compared to $3.8 million and $2.0 million, respectively, in the prior year.

ADFA's overall financial position has improved. During the current fiscal year, the net position increased from the prior year by approximately $22.7 million, or 5%; however, this was mainly due to the timing of federal funds being received versus disbursed and market conditions due to higher interest rates.

Single Family: During the current fiscal year, the Authority reauthorized the use of the 1995 Single Family General Resolution to issue primarily tax-exempt bonds to fund first-time and other qualified homebuyers with below market interest rates. The Internal Revenue Service ("IRS") is the governmental entity that establishes the rules or code for issuing tax-exempt bonds that the Authority must follow including criteria for participants. For the last 10 years, the Authority did not issue bonds due to the market environment and utilized the to-be-announced (TBA) mortgage markets to aid Arkansas citizens to obtain homeownership. With higher interest rate conditions and an available volume cap, the Authority decided to issue mortgage revenue bonds. The 2024 Series A and B Bonds were issued for $50 million at interest rates ranging from 3.40% - 6.10% with a premium of $550,000 and a final maturity date of July 1, 2054. 2024 Series B Bonds are taxable bonds of $10 million. The mortgage interest rate for the homeowner was 5.875% for all except one borrower at 6.125% due to closing the loan the first week of opening the mortgage program. IRS code allows up to a 1.125% spread between the bond yield and the mortgage interest rate to cover ongoing administrative costs. All excess spread above the allowable amount must be repurposed into the mortgage program in the form of lower interest rates and rebated back to the IRS.

The Authority issued 2024 Series C Bonds on September 24, 2024 for $50 million at interest rates ranging from 3.2% - 5.0% with a premium of $919,000 and maturing on January 1, 2055. The mortgage interest rate offered was 5.875% but on September 16, 2024, the mortgage interest rate was decreased to 5.50% and a conventional mortgage interest rate was offered with the mortgage interest rate of 5.875%. 2024 Series C Bonds proceeds will fund the mortgage loans with these terms. The Authority plans on continuing to issue tax-exempt bonds as long as the bond market is advantageous to do so.

Credit Ratings

The Issuer Credit Rating of ADFA from Standard & Poor's ("S&P") Global Ratings is currently "AA/Stable". 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+/Stable" from S&P.

The Authority also administers the Bond Guaranty Fund created by Act 505. The fund is currently rated "A+/Stable" 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.

Contacting the Authority's Financial Management

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 Chief Financial Officer by telephoning 501.682.5900. The Authority's website is https://adfa.arkansas.gov.

ARKANSAS DEVELOPMENT FINANCE AUTHORITY,
A COMPONENT UNIT OF THE STATE OF ARKANSAS

Combined Statement of Net Position

June 30, 2024

(In Thousands)

Assets and Deferred Outflow of Resources	Authority	Component Unit
Current assets		
Cash and cash equivalents	$ 335,974	$ 1,345
Accrued interest receivable	3,070	-
Accounts receivable	4,080	41
Current portion of		
Investments	17,766	-
Loans	2,626	125
Loans to Component Unit	2,829	-
Total current assets	366,345	1,511
Noncurrent assets		
Investments		
Unrestricted	48,238	-
Restricted	78,931	24,110
Loans, net of allowance for loan losses of $80,265	511,118	-
Capital assets, net	2,121	-
Other assets	1,442	-
Total noncurrent assets	641,850	24,110
Total assets	1,008,195	25,621
Deferred outflow of resources		
Other postemployment benefits ("OPEB") difference in expected versus actual experience	115	-
Changes in OPEB actuarial assumptions and proportions	65	-
Pension contributions, net differences, and changes in share of	518	-
Pension differences in expected versus actual experience	234	-
Net differences between expected and actual investment earnings	515	-
Changes in pension actuarial assumptions and proportions	194	-
Total deferred outflow of resources	1,641	-
Total assets and deferred outflow of resources	$ 1,009,836	$ 25,621

The accompanying notes are an integral part of these combined financial statements.

ARKANSAS DEVELOPMENT FINANCE AUTHORITY,
A COMPONENT UNIT OF THE STATE OF ARKANSAS

Combined Statement of Net Position (cont.)

June 30, 2024

(In Thousands)

Liabilities, Deferred Inflow of Resources, and Net Position	Authority	Component Unit
Current liabilities		
Accounts payable	$ 3,451	$ 39
Accrued interest payable	1,885	2
Unearned fees	204	-
Contract obligations	5,746	-
Deferred gain on refinancing sale of asset	25	-
Current portion of bonds and notes payable	23,192	2,772
OPEB and pension liabilities	83	-
Total current liabilities	34,586	2,813
Noncurrent liabilities		
Unearned fees	523	-
Contract obligations	1,012	-
Bonds and notes payable, net of unamortized premiums and discounts, and current portion	410,323	-
Deposits against financing arrangements	49,127	-
Deferred gain on refinancing sale of asset	218	-
OPEB and pension liabilities	5,970	-
Other liabilities	413	-
Total noncurrent liabilities	467,586	-
Total liabilities	502,172	2,813
Deferred inflow of resources		
OPEB difference in expected versus actual experience	141	-
Changes in OPEB actuarial assumptions and proportions	833	-
Pension difference in expected versus actual experience	22	-
Changes in employer pension contribution and share of contributions	235	-
Lease obligations	613	-
Total deferred inflow of resources	1,844	-
Total liabilities and deferred inflow of resources	504,016	2,813
Net position		
Investment in capital assets	2,121	-
Restricted expendable by bond resolution and programs	344,907	22,278
Restricted, nonexpendable, and minority interest	-	530
Unrestricted	158,792	-
Total net position	505,820	22,808
Total liabilities, deferred inflow of resources, and net position	$ 1,009,836	$ 25,621

The accompanying notes are an integral part of these combined financial statements.

ARKANSAS DEVELOPMENT FINANCE AUTHORITY,
A COMPONENT UNIT OF THE STATE OF ARKANSAS

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

For the Year Ended June 30, 2024

(In Thousands)

	Authority	Component Unit
Operating revenues (losses)		
Investment income (loss)		
Interest and dividends	$ 15,145	$ 70
Impairment loss	-	(553)
Loans and direct financing leases	17,553	(3)
Amortization of discounts on loans	1	-
Financing fees	5,703	-
Net appreciation of investments	1,808	-
Total investment income (loss)	40,210	(486)
Other income	74	-
Total operating revenues (losses)	40,284	(486)
Operating expenses		
Interest and amortization on bonds and notes	14,638	88
Administrative expenses		
Provision for loan losses	2,607	-
Federal financial assistance programs	6,399	-
Loan servicing and other contractual services	132	-
Salaries and benefits	4,321	-
Operations and maintenance	1,463	-
Other	2,427	237
Total administrative expenses	17,349	237
Total operating expenses	31,987	325
Operating income (loss)	8,297	(811)
Nonoperating revenues		
Federal grants	18,725	-
Income (loss) before transfers (out) in, net	27,022	(811)
Transfers (out) in, net	(4,292)	3,810
Changes in net position	22,730	2,999
Net position - beginning of year	483,090	19,810
Distributions to member	-	(1)
Net position - end of year	$ 505,820	$ 22,808

The accompanying notes are an integral part of these combined financial statements.

ARKANSAS DEVELOPMENT FINANCE AUTHORITY,
A COMPONENT UNIT OF THE STATE OF ARKANSAS

Combined Statement of Cash Flows (Authority Only)

For the Year Ended June 30, 2024

(In Thousands)

Cash flows from operating activities	
Financing fee income received	$ 5,218
Other received	74
Cash paid to employees	(3,187)
Cash paid for program administration	(11,871)
Net cash used by operating activities	(9,766)
Cash flows from noncapital financing activities	
Proceeds from issuance of bonds and notes payable	50,550
Repayments of bonds and notes payable	(28,087)
Cash paid for interest	(11,124)
Nonoperating revenues received	18,725
Transfers out, net	(4,292)
Net cash provided by noncapital financing activities	25,772
Cash flows from investing activities	
Purchase of investments	(5,535)
Maturities of investments	34,428
Interest received on investments	14,949
Interest received on loans	13,945
Principal repayments on loans	36,019
Loan disbursements	(66,928)
Cash paid for financing arrangements	(4,521)
Purchase of capital assets	(37)
Net cash provided by investing activities	22,320
Net increase in cash and cash equivalents	38,326
Cash and cash equivalents - beginning of year	297,648
Cash and cash equivalents - end of year	$ 335,974

The accompanying notes are an integral part of these combined financial statements.

ARKANSAS DEVELOPMENT FINANCE AUTHORITY,
A COMPONENT UNIT OF THE STATE OF ARKANSAS

Combined Statement of Cash Flows (Authority Only) (cont.)

For the Year Ended June 30, 2024

(In Thousands)

Reconciliation of changes in net position to net cash used by operating activities	
Operating income	$ 8,297
Adjustments to reconcile operating income to net cash used by operating activities	
Amortization	(3)
Accreted deferred financing fees	(158)
Accreted interest on loans	(3,368)
Accreted interest on bonds	3,368
Depreciation of capital assets	83
Provision for loan losses	2,607
Net appreciation of investments	(1,808)
Interest income	(29,321)
Interest paid on bonds and notes	11,274
Changes in operating assets and liabilities	
Accounts receivable	(144)
Other assets	610
Accounts payable	(655)
Other liabilities	(548)
Net cash used by operating activities	$ (9,766)

The accompanying notes are an integral part of these combined financial statements.

1. **Nature of Operations and Summary of Significant Accounting Policies**

a. **Nature of operations and reporting entity** – The Arkansas Development Finance Authority ("ADFA" or the "Authority"), a component unit of the State of Arkansas, was created on 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. Pursuant to Act 1062 of 1985, 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. In 2019, the General Assembly approved Act 910 of 2019, the Transformation and Efficiencies Act of 2019. Ten former state agencies and several boards and commissions are now a part of the Department of Commerce, including the Authority. The mission of the Department of Commerce is to champion economic opportunities through strategic initiatives and an equitable regulatory environment that attracts and grows businesses, safeguards consumers, enhances workforce quality, and energizes our infrastructure, creating a better quality of life of all Arkansans.

Effective July 1, 2017, Arkansas Student Loan Authority ("ASLA") merged with the Authority. ASLA functions as a division of the Authority. ASLA was created to improve access to higher education funding for Arkansas students. As part of its mission, ASLA administers federal loans, provides loan servicing on behalf of the U.S. Department of Education, provides fee-based default management services to Arkansas colleges and universities, and provides free college planning services to college-bound high school students.

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 ("DFA"), 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 combined 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 is not obligated to pay the bonds and other debt instruments, and neither the faith and credit nor the taxing power of the State 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.

Component units are legally separate organizations for which the Authority's management is financially accountable or for which the nature and significance of their relationship with the Authority are such that exclusion would cause the Authority's combined financial statements to be misleading.

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

Three component units meet the criteria to be discretely presented in the combined financial statements. The financial information of the Arkansas Venture Capital Investment Trust ("AVCIT" or "Component Unit"), including its blended component units, the Arkansas Institutional Fund, LLC ("AIF") and the Arkansas Venture Development Fund, LLC ("AVDF"), is presented in a separate column in the agency-wide financial statements to emphasize that the AVCIT (including AIF and AVDF) is legally separate from the Authority.

The Authority is financially accountable for the AVCIT because the Authority's president is one of the three trustees, and the Authority is charged with daily operations and management of the programs within the trust.

The AVCIT, a public trust, was created in 2003 pursuant to the provisions of the laws of the State, including specifically Title 28, Chapter 72, Subchapter 2 of the Arkansas Code of 1987 Annotated. The General Assembly of the State adopted the Venture Capital Investment Act of 2001 ("VCI Act"), codified as Title 15, Chapter 5, Subchapter 14 of the Arkansas Code of 1987 Annotated, for the purpose of increasing the availability of equity and near-equity capital for emerging, expanding, relocating, and restructuring enterprises in the State. The trust is governed by three trustees: the President of the Authority, the Secretary of the DFA, and the Executive Director of the Arkansas Economic Development Commission ("AEDC").

The AIF was formed in 2003 by AVCIT, which owns 99.8% of the limited liability company. The purpose of the AIF is to invest in private equity, seed, and venture funds and to support the growth and development of the venture capital industry in the State. Although AVCIT is the fund manager of AIF, it has contracted with the Authority to perform those duties. The AIF's audited financial statements are accounted for on a calendar-year basis and reported under Financial Accounting Standards Board ("FASB") standards. As such, AIF's financial statement presentation was recast to be consistent with Governmental Accounting Standards Board ("GASB") presentation features. No other modifications have been made to the AIF's financial information in the Authority's financial reporting entity for differences of FASB and GASB standards. Subsequent to 2016, the purposes of this entity were carried out through the AVDF.

The AVDF was formed in 2016 by AVCIT, which is the sole owner of the limited liability company. The primary purposes of the AVDF are to assist the Authority and the AVCIT in advancing the goals and objectives of the Authority by strengthening the economic base and creating jobs within the State, including carrying out the purposes and goals of the VCI Act.

Separately issued audited financial statements are not available for the AVDF or the Arkansas Venture Capital Development Fund ("AVC"). Separately issued audited financial statements for AIF can be obtained by contacting:

Arkansas Development Finance Authority
1 Commerce Way, Suite 602
Post Office Box 8023
Little Rock, Arkansas 72202

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

b. **Measurement focus and basis of accounting** – 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 combined 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.

c. **Recently issued accounting pronouncements** – GASB Statement No. 100. "Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62." The primary objective of this statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this statement are effective for fiscal years beginning after June 15, 2023 with earlier adoption encouraged. During the year ended June 30, 2024, the Authority adopted this statement which did not have an impact on its combined financial statements.

GASB Statement No. 101, "Compensated Absences." The objective of this statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously requirement disclosures. The requirements of this statement are effective for fiscal years beginning after December 15, 2023 with earlier adoption encouraged. The Authority has not determined the impact, if any, that this statement could have on its combined financial statements.

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

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

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

d. **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:

Single Family Housing Programs

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 the State. Included within this program are the Authority's Single Family Mortgage Revenue Bond General Resolution, adopted on July 20, 1995 (1995 General Resolution) and the Authority's Home Ownership Revenue Bond General Resolution adopted on November 19, 2009 (2009 General Resolution).

Federal Housing Programs

HOME Investment Partnerships Program – Accounts for federal financial assistance received from the U.S. 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.

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 from HUD for TCAP funding.

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

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. The Authority 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 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.

Preservation Revolving Loan Fund Program – Accounts for federal financial assistance received from U.S. Department of Agriculture ("USDA") Rural Housing Service to loan funds to carry out a demonstration program that provides revolving loans for the preservation and revitalization of low-income multi-family housing.

National Housing Trust Fund Program – Accounts for federal financial assistance received from HUD for the purpose to expand and preserve the supply of affordable housing, particularly rental housing, for extremely low-income to very low income households.

Homeowner Assistance Fund ("HAF") Program – Accounts for federal financial assistance received from the U.S. Department of the Treasury as a grant under the American Rescue Plan Act of 2021 ("ARPA") for the purpose of preventing homeowner mortgage delinquencies, defaults, foreclosures, loss of utilities or home energy services, and displacements of homeowners experiencing financial hardship after January 21, 2020 through reimbursement of qualified expenses related to mortgages and housing.

Multi-Family Programs

Financing Adjustment Factor ("FAF")/New BMIR Loan Programs – Accounts for loans receivable funded by distributions the Authority received from an old multi-family bond issue, as well as from FAF distributions from the federally funded Section 8 Housing Assistance Payment Program.

Affordable Housing Assistance Program ("AHAP") – Accounts for loans receivable funded for the use of down payment assistance, rental assistance, low-interest financing, land acquisition, new construction, rehabilitation constructions, and reconstruction.

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

Economic Development Bond Guaranty Program

Economic Development 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 the Authority and guaranteed by the Bond Guaranty Fund, the debt service requirements of the bonds, and related loans and leases to private companies. The Bond Guaranty Fund was created by Act 505 of 1985, which authorized a grant of $6 million from the State treasurer (which was subsequently repaid by the Authority) for the purpose of enhancing and supporting the creditworthiness of bonds and other debt instruments guaranteed by the Authority. At June 30, 2024, the fund had cash and cash equivalents and investments totaling $17.0 million in the reserve account to collateralize Authority-guaranteed bonds and future issues under the bond guaranty program.

State Facilities and Amendment 82 Programs

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; and includes certain assets not owned and related obligations not owed by the Authority.

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

Other Economic Development Programs

State Small Business Credit Initiative Program – The ARPA reauthorized and amended the Small Business Jobs Act of 2010, codified at 12 U.S.C. § 5701 et seq., to provide $10 billion to fund the State Small Business Credit Initiative ("SSBCI") as a response to the economic effects of the COVID-19 pandemic. SSBCI is a federal program administered by the U.S. Department of the Treasury that was created to strengthen capital programs that support private financing to small businesses, including capital access programs and other credit support programs (loan guarantees, loan participations, and venture capital investment programs) of eligible jurisdictions (i.e., states, the District of Columbia, territories, Tribal governments, and eligible municipalities).

Arkansas was awarded a potential allocation of $81.6 million to support seven programs: Arkansas Capital Access Program, ADFA Bond Guaranty/Loan Participation Program, ADFA DBE MWOBE - Loan Mobilization Revolving Fund, ADFA Small Business Revolving Loan Guaranty Program, ADFA Bond Guaranty/CDFI Loan Participation Program, and two programs to be carried out by the AVCIT: AVDF and AVC. The first tranche in the amount of $24.0 million was received on December 16, 2022.

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

Other Economic Development Programs – Accounts for loan reserve programs, such as Capital Access and Disadvantaged Business Enterprise.

Tobacco Settlement Revenue Bonds Program

Tobacco Settlement Revenue Bonds Program – 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 85^{th} General Assembly.

Student Loan Programs

Student Loan Programs – To provide private student loans at below-market interest rates to students and families, provide fee-based default management services to Arkansas colleges and universities along with other financial aid office support services, and provide free financial literacy and college planning services to Arkansas students and families.

General Fund Program

General Fund Program – Accounts for direct obligations of the Authority; revenue earned 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.

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

f. **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, 2024, cash equivalents of $336.0 million consisted primarily of money market mutual funds with variable interest rates.

g. **Investments and investment income** – Investments are carried at fair value with the exception of equity investments held by AVCIT.

Equity investments held by the AVCIT are carried at cost. The net accumulated earnings of individual investments subsequent to the date of acquisition are recognized by AVCIT only to the extent distributed as dividends. A decrease in the carrying value of an investment is recognized when a series of operating losses of an individual investment or other factors indicate that an other than temporary decline in value below cost has occurred.

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

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 Authority's investments at June 30, 2024 was less than the cost basis by $8.3 million.

h. **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.

i. **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 expense. Actual 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. The general component covers non-classified 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

1. **<u>Nature of Operations and Summary of Significant Accounting Policies</u> (cont.)**

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.

j. **Income taxes** – As an essential government function of the State, the Authority is exempt from income taxes under Section 115 of the IRC and a similar provision of state law.

k. **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. The Authority defines capital assets as assets with an initial, individual cost of more than $5 thousand and life greater than one year.

l. **Pensions** – For purposes of measuring the net pension liability, deferred outflow of resources, and deferred inflow of resources related to pensions and pension expense, information about the fiduciary net position of the Arkansas Public Employees Retirement System ("APERS"), and additions to/deductions from APERS fiduciary net position 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.

m. **Postemployment benefits other than pensions** – For purposes of measuring the net other postemployment benefits ("OPEB") liability, deferred inflows of resources, and deferred outflows of resources related to OPEB and OPEB expense, information about the fiduciary net position of the benefit plan and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they were determined by a third-party actuarial report on the plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

n. **Deferred outflow/inflow of resources** – The Authority reports increases in net position that relate to future periods as deferred outflow of resources in a separate section of its combined statement of net position. The Authority reports decreases in net position that relate to future periods as deferred inflow of resources in a separate section of its combined statement of net position. These amounts will be amortized as pension and OPEB expense over future periods as shown in Notes 9 and 10.

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

o. **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.

p. **Contract obligations** – Contract obligations consist of payables on contracts the Authority entered into with the Arkansas Department of Corrections ("ADC"), a software subscription service agreement to administer the HAF program, and the remaining balance of the consulting service agreement for the HAF program.

q. **Unearned guaranty fee** – 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.

r. **Conduit debt obligations** – Conduit debt issued by the Authority is recorded on the Authority's combined 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 included in the State of Arkansas reporting entity on its combined statement of net position. At June 30, 2024, the principal balance of these bonds included on the Authority's combined statement of net position totaled $267.4 million.

s. **Net position** – Net position represents the difference between assets and deferred outflow of resources, and liabilities and deferred inflow of resources on the accompanying combined statement of net position. Net position is classified in four components:

Restricted expendable by bond resolution and programs – Represents those funds restricted within the respective bond resolution or by specific provisions of the programs.

Restricted, nonexpendable, and minority interest – Represents the equity interest of the Component Unit held by a minority participant.

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

Unrestricted – Represents those funds used at the discretion of the Authority's Board of Directors to complement 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 positions are available.

2. Deposits and Investments

Deposits

The Authority – 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, including the State Board of Finance's Management of Cash Funds Rule 2012-A, 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. Department of the 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, 2024, the carrying value of the Authority's deposits was $16.6 million. The balances, per the bank statements, totaled $16.7 million. Of those deposits, $76 thousand were exposed to custodial credit risk.

(In thousands)	
Uninsured and uncollateralized	$ 76

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

Investments

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

At June 30, 2024, the Authority had the following investments and maturities:

	Maturities in Years				
	Less than 1	1 - 5	6 - 10	More than 10	Total
(In thousands)					
U.S. agencies obligations	$ 18,758	$ 47,366	$ 864	$ -	$ 66,988
Mortgage-backed securities	32	3,223	14,576	56,951	74,782
Mutual bond funds	733	1,018	254	1,160	3,165
	$ 19,523	$ 51,607	$ 15,694	$ 58,111	$ 144,935

Component Unit – The mission of ACVIT is to increase the availability of equity and near-equity capital for emerging, expanding, relocation, and restructuring enterprises in the State, with the ultimate goal of strengthening the State's economic base and creation of jobs. ACVIT can legally invest in equity capital and near equity capital and was created to invest in such. There are no scheduled maturities for these investments, nor are they rated investments. There is no limit on the amount that

2. **Deposits and Investments (cont.)**

may be invested in any one company. There are only two investments that represented 5% or more of the total equity investments. These companies focus on (1) diagnostic health testing and (2) mentorship and development of companies and are 5.81% and 9.95%, respectively, of the total investments balance as of June 30, 2024. Total equity investments for ACVIT at June 30, 2024 were $24.1 million.

a. **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 combined 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.

b. **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 ("S&P's") and "Aaa" by Moody's Investors Service at June 30, 2024. The Authority's amounts in money market mutual funds, or investments of those funds, were primarily rated "AAAm" by S&P's and "Aaa" by Moody's Investors Service.

c. **Custodial credit risk** – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the 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 supported by securities in physical or book entry form.

d. **Concentration of credit** – 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 5% or more of total investments at June 30, 2024 are as follows:

Issuer	Fair Value	Percentage
(In thousands)		
FHLB	$ 42,240	29.10%

2. **Deposits and Investments (cont.)**

Summary of Carrying Values

The carrying values of deposits, money market mutual funds, the State Treasurer Money Management Trust Fund ("MMTF"), and investments are included on the accompanying combined statement of net position as follows:

(In thousands)	Authority	Component Unit
Carrying values		
Deposits	$ 16,577	$ 1,345
Money market mutual funds	234,409	-
State Treasurer MMTF	84,988	-
Investments	144,935	24,110
	$ 480,909	$ 25,455

Included in the following combined statement of net position captions:

(In thousands)	Authority	Component Unit
Current assets		
Cash and cash equivalents	$ 335,974	$ 1,345
Current portion of investments	17,766	-
Noncurrent assets		
Investments		
Unrestricted	48,238	-
Restricted	78,931	24,110
	$ 480,909	$ 25,455

The Authority's investments above are carried at their estimated fair market value. Unrealized gains and losses are included in investment income on the accompanying combined statement of revenues, expenses, and changes in net position and combined statement of cash flows. The Authority recorded unrealized gains of $1.8 million for fiscal year 2024. As discussed in Note 11 for federated treasury obligations, money market obligations, and cash management fund, the carrying value approximates fair value. The Component Unit investments are carried at historical cost less any impairments. During the year ended June 30, 2024, the Component Unit recorded impairments of approximately $553 thousand.

3. **Loans and Direct Financed Leases**

The following presents the breakdown of the Authority's portfolio of loans receivable:

The Authority

Type of Loan	Balance	Allowance	Loans Net of Allowance	Stated Interest Rate	Impairments
Federal Housing Programs	$ 172,213	$ 70,986	$ 101,227	0.00% to 6.25%	$ 75,385
Multi-Family Programs	6,262	2,917	3,345	0.00% to 4.00%	2,576
Economic Development Bond Guaranty Program	25,203	2,250	22,953	Rate on bonds	3,243
State Facilities and Amendment 82 Programs	258,732	-	258,732	Rate on bonds	-
Other Economic Development Programs	898	559	339	3.00%	809
Tobacco Settlement Revenue Bonds Program	69,782	-	69,782	4.87 % to 5.10%	-
General Fund Program	53,645	2,873	50,772	0.00% to 7.875%	362
Student Loan Programs	10,103	680	9,423	2.95% to 7.50%	-
Totals	$ 596,838	$ 80,265	$ 516,573		$ 82,375

a. **Federal Housing Programs** – Includes loans funded by federal agencies, mainly HUD, and are either for multi-family housing or single-family housing loan 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.

b. **Economic Development 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).

Additionally, the Bond Guaranty Fund guarantees principal and interest on revenue bonds issued by municipalities within the State for economic development purposes. At June 30, 2024, revenue bonds outstanding of $11.4 million were guaranteed by the Bond Guaranty Fund. Furthermore, the Bond Guaranty Fund guarantees bond anticipation notes. At June 30, 2024, the principal amount on these notes totaled $1.8 million outstanding, with $1.6 million guaranteed.

3. **Loans and Direct Financed Leases (cont.)**

c. **State Facilities Programs** – Includes financing activities with various state agencies.

d. **Tobacco Settlement Revenue Bonds Program** – Includes a loan agreement between the Authority and the University of Arkansas's Board of Trustees (the "University"), whereby the University agrees to provide for repayment in the event tobacco settlement revenues are not available.

e. **General Fund Program** – 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 Federal Housing Administration insured, guaranteed by USDA Rural Development, or U.S. Department of Veterans Affairs guaranteed. Included in general fund program is a $2.8 million loan to the component unit.

f. **Student Loan Programs** – Includes private student loans with below-market interest rates for Arkansas residents attending higher education institutions either in Arkansas or out-of-state. Non-Arkansas residents are eligible to receive private student loans from the Authority when attending an eligible Arkansas higher education institution.

g. **Delinquent loans** – At June 30, 2024, accruing loans delinquent 180 days or more where payment is anticipated due to current payment activity totaled approximately $66 thousand. At June 30, 2024, nonaccruing loans were $12.2 million.

Component Unit – AVCIT

At June 30, 2024, the Component Unit's nonaccruing loans were approximately $125 thousand.

h. **Direct financing leases** – The Authority is the lessor under various 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.

4. **Loan to Component Unit**

AVCIT

The Authority finances a line of credit to the AIF, a blended component unit of the AVCIT and the total is not to exceed to $24 million. The balance was $2.8 million for the year ended June 30, 2024 (see Note 7).

5. **Capital Assets**

Premises and equipment activity consists of the following:

(In thousands)	June 30, 2023	Additions	Transfers and Disposals	June 30, 2024
Premises and equipment	$ 4,015	$ 37	$ (5)	$ 4,047
Less accumulated depreciation	1,848	83	(5)	1,926
Capital assets, net	$ 2,167	$ (46)	$ -	$ 2,121

Depreciation expense was approximately $83 thousand for the year ended June 30, 2024.

6. **Noncurrent Liabilities**

Changes in noncurrent liabilities, other than bonds and notes payable discussed in Note 7, consist of the following:

The Authority

(In thousands)	June 30, 2023	Increases	Decreases	June 30, 2024	Amount Due Within One Year
Unearned fees	$ 887	$ -	$ 160	$ 727	$ 204
Contract obligations	8,792	7,000	9,034	6,758	5,746
Deposits against financing arrangements	51,614	29,105	31,592	49,127	-
Deferred gain on refinancing sale of asset	266	-	23	243	25
OPEB liability	2,091	-	176	1,915	83
Pension liability	3,784	354	-	4,138	-
Other liabilities	697	12	296	413	-
	$ 68,131	$ 36,471	$ 41,281	$ 63,321	$ 6,058

7. Bonds and Notes Payable

Bonds and notes payable consist of the following:

The Authority

(In thousands)	
Total Single Family bonds payable, with interest rates ranging from 3.4% - 6.1% and final maturity at varying dates through July 1, 2054.	$ 64,775
Less unamortized discount/plus unamortized premium	546
Total Single Family bonds payable, net	65,321
Total Federal Housing notes payable, with interest rates of 1.00% and final maturity at varying dates through July 29, 2045.	3,102
Total Economic Development bonds payable, guaranteed by the Bond Guaranty Fund, with interest rates ranging from 2.25% - 6.00% and final maturity at varying dates through January 1, 2040.	27,907
Total State Facilities bonds payable, with interest rates ranging from 0.95% - 5.00% and final maturity at varying dates through December 1, 2050.	267,403
Tobacco bonds payable, with interest rates ranging from 4.85% - 5.10% and final maturity at varying dates through July 1, 2046.	69,782
Total all bonds and notes payable, net	$ 433,515

Component Unit

(In thousands)	
Note payable to the Authority, with an interest rate of 3.50% and maturing in March 2025.	$ 2,772

Notes to Combined Financial Statements

June 30, 2024

7. **Bonds and Notes Payable (cont.)**

Activity in bonds and notes payable consist of the following:

The Authority

(In thousands)	Beginning Balance	Additions Including Accretion	Reductions	Ending Balance	Amount Due Within One Year
Bonds payable	$ 404,447	$ 53,368	$ (27,948)	$ 429,867	$ 23,050
Notes payable	3,241	-	(139)	3,102	142
	407,688	53,368	(28,087)	432,969	23,192
Unamortized discounts	-	550	(4)	546	-
Total	$ 407,688	$ 53,918	$ (28,091)	$ 433,515	$ 23,192

Component Unit

(In thousands)	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Note payable	$ 2,635	$ 172	$ (35)	$ 2,772	$ 2,772

The future amount of principal and interest due is undeterminable at this time because the balances will fluctuate with draws needed for capital calls and reductions for distributions by investee companies.

7. Bonds and Notes Payable (cont.)

The Authority

Future amounts required for principal and interest on all bonds and notes payable at June 30, 2024 were as follows:

(In thousands)	Principal	Interest
Fiscal Year Ending		
2025	$ 23,192	$ 11,928
2026	24,456	12,233
2027	24,110	11,589
2028	28,767	10,786
2029	21,717	10,019
2030 - 2034	120,667	41,208
2035 - 2039	102,702	25,966
2040 - 2044	73,260	14,906
2045 - 2049	40,810	7,048
2050 - 2054	17,060	2,407
2055 - 2059	1,030	26
Unamortized premiums and discounts	546	-
Accreted interest	(44,802)	44,802
Total	$ 433,515	$ 192,918

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. During fiscal 2024, $3.3 million of bonds were redeemed at par early.

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.

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. 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 combined financial statements. At June 30, 2024, the bonds outstanding issued under these programs aggregated $2.7 billion.

8. Concentration of Risk in Lending and Loan Receivable

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 forms of repayment assurance are subject to changes in economic value due to various factors beyond the control of the Authority, and such changes could be significant.

The Authority's private student loans are not collateralized; therefore, uncollectible student loans are expected to be covered with loan loss reserves.

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.

9. Retirement Plan

Plan Descriptions

The officials and employees of the Authority participate in a statewide, cost sharing, multiple employer, defined benefit pension plan administered by APERS. There is no legal obligation imposed upon the member agencies relative to the operation of APERS other than the payment of a percentage of the gross salaries of eligible employees participating in the Plan as an employer contribution. APERS consists of both a contributory plan and a noncontributory plan. 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. Employees joining APERS 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. APERS is audited separately, and included therein is financial data and trend information, which gives an indication of the extent to which APERS is accumulating sufficient assets to pay benefits when due.

Eligible employees of the Authority are provided with pensions through APERS, administered by APERS's 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 Avenue, Suite 400
Little Rock, Arkansas 72201-3704
(501) 682-7800
http://www.apers.org/publications

9. **Retirement Plan (cont.)**

Benefits Provided

APERS 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 re-determined amount is the amount of the benefit payable as of the immediately preceding July 1, 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 APERS's Board of Trustees and should be based on an independent actuary's determination of the rate required to fund APERS. The General Assembly and certain agencies employing individuals in public safety positions must also remit additional amounts. For the fiscal year ended June 30, 2023, the employer contribution rates, as a percentage of active member payrolls, ranged from 4.00% to 42.61%. Contributions to APERS from the Authority were approximately $492 thousand for the year ended June 30, 2024.

During a member's participation in APERS deferred retirement option plan, the employer continues to contribute and the employee ceases to contribute.

Net Pension Liability

The collective net pension liability of $2.9 billion was measured as of June 30, 2023 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Each employer's proportion of the net pension liability was based on the employers' share of contributions to the pension plan relative to the total contributions of all participating employees. At June 30, 2023, the Authority's proportion was 0.1420% for APERS. At June 30, 2024, the Authority reported liabilities of $4.1 million for its proportionate share of the net pension liability and has been recognized in the Authority's accompanying combined statement of net position.

Notes to Combined Financial Statements

June 30, 2024

9. **Retirement Plan (cont.)**

The net pension liability in the cost-sharing pension plan at June 30, 2024 using the 2023 measurement date is as follows:

(In thousands)	Total APERS Pension Liability	ADFA's Liability Portion
Total pension liability	$ 13,209,491	$ 18,756
Plan net position	10,295,304	14,618
Net pension liability	$ 2,914,187	$ 4,138
Plan net position as a % of total pension liability	77.94%	77.94%

Pension Liabilities, Pension Expense, Deferred Outflow of Resources, and Deferred Inflow of Resources to Pensions

For the year ended June 30, 2024, the Authority recognized pension expense of approximately $503 thousand. For the year ended June 30, 2024, the Authority reported deferred outflow of resources and deferred inflow of resources related to pensions as follows:

(In thousands)	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual experience	$ 234	$ 23
Changes of assumptions	194	-
Net differences between projected and actual earnings on pension plan investments	515	-
Changes in proportion and differences between the Authority's contributions and proportionate share of contributions	26	235
The Authority's contributions subsequent to the measurement date	492	-
Total	$ 1,461	$ 258

9. **Retirement Plan (cont.)**

At June 30, 2024, the Authority reported approximately $492 thousand as deferred outflow 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 fiscal year ended June 30, 2024. Other amounts reported as deferred outflow of resources and deferred inflow of resources related to pensions will be recognized in pension expense as follows:

(In thousands)

Fiscal Year Ending	
2025	$ 49
2026	63
2027	634
2028	(35)
	$ 711

Actuarial Assumptions

For fiscal 2024, the total pension liability in the actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, (a) an inflation rate of 3.25%, (b) salary increases in the range of 3.25% to 11.00%, including inflation, (c) an investment rate of return of 7.00%, and (d) the PubG-2010 Amount-Weighted Below-Median Income General Retiree Mortality tables, were used. The healthy retiree mortality tables, for postretirement mortality, used in evaluating allowances to be paid were 114% for males and 132% for females. The disabled retiree mortality tables, for postretirement disabled mortality, used in evaluating allowances to be paid were 114% and 132% of the PubNS-2010 Amount-Weighted Disabled Retiree Mortality tables for males and females, respectively. The preretirement mortality tables used were 75% of the PubG-2010 Amount-Weighted Below-Median General Employee Mortality tables for active mortality experience. Mortality rates for a particular calendar year are determined by applying the MP-2021 mortality improvement scale to the tables described above.

The actuarial assumptions used in the June 30, 2023 valuation were based on the period July 1, 2017 through June 30, 2022.

Long-Term Expected Return on Plan Assets

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 weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The best estimates of arithmetic real rates of return for the 10-year period from 2023 - 2032 were provided by the plan investment consultant.

9. **Retirement Plan (cont.)**

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

Asset Class	Target Allocation	Long-Term Expected Rate of Return
Broad domestic equity	37%	6.19%
International equity	24%	6.77%
Real assets	16%	3.34%
Absolute return	5%	3.36%
Domestic fixed	18%	1.79%
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 7.00% for the year ended June 30, 2024. 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 7.00%	$ 6,595	$ 4,138	$ 2,113

9. **Retirement Plan (cont.)**

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.

10. **Postemployment Benefits Other Than Pensions**

Plan Description

The Authority contributes to the single-employer defined benefit healthcare plan for eligible state employees, Arkansas State Employee Health Plan ("ASE") (administered by Department of Finance and Administration – Employee Benefits Division).

Benefits Provided

The plan provides medical and prescription drug benefits to plan members and beneficiaries as established by state law Arkansas Code § 21-5-401 to § 21-5-414.

ASE covers state employees that are members of APERS and are eligible to be in ASE on their last day of employment and their dependents. Retirees and their spouse are eligible to continue participation in ASE until the death of each covered individual. Retirees that are Medicare eligible will have their benefits coordinated with Medicare Part A and B with ASE being the secondary payer.

Employees Covered by Benefit Terms

The Authority had 42 active employees as of June 30, 2024. Inactive employees still receiving benefits are not maintained at each agency's level.

Annual OPEB Cost and Net OPEB Obligation

At June 30, 2024, the Authority reported the following liability as determined as of the date listed:

	Measurement Date	Total OPEB Liability
(In thousands)		
Authority	June 30, 2024	$ 1,915

Actuarial Assumptions and Other Inputs

The total OPEB liability was determined by an actuarial valuation as of the valuation date of June 30, 2024, calculated based on the discount rate and actuarial assumptions below. Any significant changes during the period have been reflected as prescribed by GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions." The actuarial valuations used are included in the State's report.

Notes to Combined Financial Statements

June 30, 2024

10. **Postemployment Benefits Other Than Pensions (cont.)**

The discount rate was 3.93% and was based on the Bond Buyer 20-Bond GO Index. The inflation rate was 2.30% and salary increases, including both wage growth in addition to promotion and longevity, ranged from 11.00% to 3.45% for ages ranging from 20 years to 65 years.

Mortality rates were based on the PUBG-2010 amount-weighted below-median income general, retiree, and disabled retiree mortality tables for males and females. Mortality rates are multiplied by 114% for males and 132% for females. The healthy annuitant tables are adjusted for fully generational mortality improvements using Scale MP-2021.

Long-Term Expected Rate of Return

Since there are no plan assets held in trust, the expected long-term rate of return is zero. Therefore, the required supplementary information associated with the schedule of contributions of investment returns is not included.

Changes in the Total OPEB Liability

The following table provides the changes in the total OPEB liability for the Authority:

(In thousands)	Total OPEB Liability
Balance - June 30, 2023	$ 2,091
Changes for the current fiscal year	
Service cost	82
Interest	76
Effect of plan changes	-
Effect of economic/demographic gains or losses	110
Changes in assumptions or other inputs	(310)
Changes in proportion	(52)
Benefit payments	(82)
Net changes	(176)
Balance - June 30, 2024	$ 1,915

10. **Postemployment Benefits Other Than Pensions (cont.)**

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following table presents the total OPEB liability of the Authority, as well as what the Authority's total OPEB liability would be if it were calculated using a discount rate that is one percentage-point lower or one percentage-point higher than the current discount rate for the plan:

	1% Decrease		Current Discount Rate		1% Increase	
	Rate	Total OPEB Liability	Rate	Total OPEB Liability	Rate	Total OPEB Liability
(In thousands)						
Authority	2.93%	$ 2,178	3.93%	$ 1,915	4.93%	$ 1,697

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following table presents the total OPEB liability of the Authority, as well as what the Authority's total OPEB liability would be if it were calculated using healthcare costs trend rates that are one percentage-point lower or one percentage-point higher than the current healthcare cost trend rates for the plan:

	1% Decrease	Current Health Care Cost Trend Rate	1% Increase
	Total OPEB Liability	Total OPEB Liability	Total OPEB Liability
(In thousands)			
Authority	$ 1,659	$ 1,915	$ 2,233

OPEB Expense and Deferred Outflow of Resources and Deferred Inflow of Resources Related to OPEB

For the year ended June 30, 2024, the Authority recognized OPEB expense for the plan as follows:

	Total OPEB Expense
(In thousands)	
Authority	$ (55)

10. **Postemployment Benefits Other Than Pensions (cont.)**

At June 30, 2024, the Authority reported deferred outflow of resources and deferred inflow of resources related to OPEB for the plan:

	Authority	
(In thousands)	Deferred Outflow of Resources	Deferred Inflow of Resources
Difference between expected and actual experience	$ 115	$ 141
Changes of assumptions and other inputs	65	833
Total	$ 180	$ 974

Amounts reported as deferred outflow of resources and deferred inflow of resources related to OPEB will be recognized in OPEB expense as follows:

(In thousands) Fiscal Year Ending	
2025	$ (408)
2026	(273)
2027	(72)
2028	(41)
Total	$ (794)

11. **Fair Value of Financial Instruments**

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

- **Level I** – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

- **Level II** – Quoted prices in markets that are not active or inputs, which are observable, either directly or indirectly, for substantially the full term of the asset or liability.

- **Level III** – Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

11. **Fair Value of Financial Instruments (cont.)**

Recurring Measurements

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

(In thousands)	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)
U.S. agencies obligations	$ 66,988	$ -	$ 66,988	$ -
Mortgage-backed securities	74,782	-	74,782	-
Mutual bond funds	3,165	-	3,165	-
	$ 144,935	$ -	$ 144,935	$ -

The following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized on the accompanying combined financial statements, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended June 30, 2024.

Investments

Where quoted market prices are available in an active market, securities are classified within Level I of the valuation hierarchy. The Authority did not have any Level I securities at June 30, 2024. Level II 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 II of the valuation hierarchy. In certain cases where Level I or Level II inputs are not available, securities are classified within Level III of the hierarchy. The Authority did not have any Level III securities at June 30, 2024.

12. Commitments and Contingencies

The Authority

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 the Authority has not complied with the rules and regulations governing the grants, refunds of any money received may be required, and the collectibility of any related receivable at June 30, 2024 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 on the accompanying combined financial statements for such contingencies.

The Authority has $21.1 million of amounts recorded as cash and investments on the accompanying combined statement of net position that may be disbursed to borrowers under loan and lease agreements closed prior to June 30, 2024.

Component Unit

Outstanding commitments to various funds/companies by the AVCIT were $4.7 million for the year ended June 30, 2024.

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 may 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. There have been no settlements exceeding insurance coverage in the past three years.

The IRC 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 AIF, an institutional fund of funds venture capital program created by the Arkansas General Assembly in 2001. The VCI Act 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 the Authority and draws occurring on an as-needed basis. The outstanding balance on the guaranteed line of credit was $2.8 million as of June 30, 2024.

The Bond Guaranty Fund guarantees a letter of credit with a financial institution for up to $3.75 million in the event of non-performance by the borrower. This guaranty is renewed annually.

12. **Commitments and Contingencies (cont.)**

Third-Party Servicers

The Authority has contracted with and utilizes the services of Aspire Resources Inc. ("Aspire") to originate and service private student loans. The third party, Aspire, performs virtually all student loan servicing activities on behalf of the Authority including maintenance of borrower files, payment processing, and processing loan applications. The Authority has contracted with EdFinancial Services, Inc. to perform a variety of administrative activities related to marketing the Authority's private student loan programs, providing fee-based support services to Arkansas financial aid offices, and certain other administrative functions on behalf of the Authority's Student Loan Programs.

13. **Subsequent Events**

On September 24, 2024, the Authority issued 2024 Series C Bonds for $50 million at rates ranging between 3.2% - 5.0% with a premium of $919,000 and maturing on January 1, 2055. The proceeds from these bonds will be used to fund loans with mortgage interest rates ranging from 5.50% - 5.875%.

The Authority evaluated the events and transactions subsequent to its June 30, 2024 combined statement of net position date and determined there were no additional significant events, other than disclosed above, to report through November 5, 2024, which is the date the Authority issued its combined financial statements.

ARKANSAS DEVELOPMENT FINANCE AUTHORITY, A COMPONENT UNIT OF THE STATE OF ARKANSAS

Schedule of the Authority's Proportionate Share of the Net Pension Liability – Arkansas Public Employees Retirement System

June 30, 2024 – June 30, 2015

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Authority's proportion of net pension liability	0.1420%	0.1403%	0.1525%	0.1700%	0.1785%	0.1790%	0.1996%	0.1880%	0.1941%	0.1898%
Authority's proportionate share of the net pension liability	$ 4,137,828	$ 3,783,369	$ 1,172,128	$ 4,868,576	$ 4,306,471	$ 3,947,934	$ 5,156,742	$ 4,496,128	$ 3,575,061	$ 2,692,466
Authority's covered payroll, cash basis	3,318,249	2,944,747	2,948,277	3,366,431	3,418,710	3,394,031	3,250,192	3,408,161	3,444,062	3,354,903
Authority's proportionate share of the net pension liability as a percentage of its covered-employee payroll	124.70%	128.48%	39.76%	144.62%	125.97%	116.32%	158.66%	131.92%	103.80%	80.25%
Plan fiduciary net position as a percentage of total pension liability	77.94%	78.31%	93.57%	75.38%	78.55%	79.59%	75.65%	75.50%	80.39%	84.15%

Information in this schedule has been determined as of the measurement date (June 30 of the year prior to the most recent fiscal year-end) of the Authority's net pension liability.

For 2024 through 2018, information for ASLA is included.

See independent auditor's report.

ARKANSAS DEVELOPMENT FINANCE AUTHORITY, A COMPONENT UNIT OF THE STATE OF ARKANSAS

Schedule of the Authority's Contributions – Arkansas Public Employees Retirement System

For the Years Ended June 30, 2024 – June 30, 2015

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Contractually required contribution	$ 492,223	$ 482,131	$ 449,326	$ 466,396	$ 508,214	$ 523,322	$ 494,459	$ 471,153	$ 493,947	$ 508,343
Contributions in relation to the contractually required contribution	492,223	482,131	449,326	466,396	508,214	523,322	494,459	471,153	493,947	508,343
Contribution deficiency	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Authority's covered employee payroll	$ 3,187,155	$ 3,318,249	$ 2,944,747	$ 2,948,277	$ 3,366,431	$ 3,418,710	$ 3,394,031	$ 3,250,192	$ 3,408,161	$ 3,444,062
Contributions as a percentage of covered employee payroll	15.44%	14.53%	15.26%	15.82%	15.32%	15.31%	14.57%	14.50%	14.49%	14.76%

Information in this schedule has been determined as of the Authority's most recent fiscal year-end.

For 2024 through 2018, information for ASLA is included.

See independent auditor's report.

ARKANSAS DEVELOPMENT FINANCE AUTHORITY, A COMPONENT UNIT OF THE STATE OF ARKANSAS

Schedule of Changes in Total Other Postemployment Benefits Liability

For the Years Ended June 30, 2024 – June 30, 2018

(In Thousands)

Plan

Measurement date	2024	2023	2022	2021	2020	2019	2018
Service cost	$ 82	$ 90	$ 214	$ 206	$ 114	$ 104	$ 132
Interest	76	77	95	93	112	122	137
Effect of plan changes	-	-	(1,089)	-	-	-	-
Effect of economic/demographic gains or losses	110	39	(354)	12	(108)	20	(55)
Changes in assumptions or other inputs	(310)	(158)	(946)	(177)	1,020	(305)	(144)
Changes in proportion	(52)	49	(33)	104	120	(661)	-
Benefit payments	(82)	(93)	(109)	(92)	(87)	(94)	(109)
Net changes	(176)	4	(2,222)	146	1,171	(814)	(39)
Total OPEB liability - beginning	2,091	2,087	4,309	4,163	2,992	3,806	3,845
Total OPEB liability - ending	$ 1,915	$ 2,091	$ 2,087	$ 4,309	$ 4,163	$ 2,992	$ 3,806
Covered employee payroll	$ 3,187	$ 3,318	$ 2,945	$ 2,948	$ 3,366	$ 3,419	$ 3,394
Total as a percentage of covered employee payroll	60.09%	63.02%	70.87%	146.17%	123.68%	87.51%	112.14%

The State implemented GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," in fiscal year 2018. Information for the schedule was not available prior to fiscal year 2018.

See independent auditor's report.

ARKANSAS DEVELOPMENT FINANCE AUTHORITY, A COMPONENT UNIT OF THE STATE OF ARKANSAS

Combining Statement of Net Position

June 30, 2024

(In Thousands)

Assets and Deferred Outflow of Resources	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 Settlement Revenue Bonds Program	General Fund Program	Student Loan Programs	Eliminations	Total
Current assets											
Cash and cash equivalents	$ 98,706	$ 30,905	$ 6,504	$ 13,745	$ 57,757	$ 24,151	$ 5,379	$ 49,632	$ 49,195	$ -	$ 335,974
Accrued interest receivable	645	157	29	121	924	96	22	823	253	-	3,070
Accounts receivable	-	3,358	-	111	4	2	-	1,294	54	(743)	4,080
Current portion of											
Investments	-	-	-	-	-	-	-	17,766	-	-	17,766
Loans	-	-	-	-	-	-	-	2,626	-	-	2,626
Loans to Component Unit	-	-	-	-	-	-	-	2,829	-	-	2,829
Total current assets	99,351	34,420	6,533	13,977	58,685	24,249	5,401	74,970	49,502	(743)	366,345
Noncurrent assets											
Investments											
Unrestricted	-	-	-	-	-	-	-	48,238	-	-	48,238
Restricted	65,286	-	-	10,480	-	-	-	-	3,165	-	78,931
Loans, net of allowance for loan losses of $80,265	-	101,227	3,345	22,953	258,732	339	69,782	45,317	9,423	-	511,118
Capital assets, net	-	-	-	-	-	-	-	54	2,067	-	2,121
Other assets	-	516	-	-	-	-	-	279	647	-	1,442
Total noncurrent assets	65,286	101,743	3,345	33,433	258,732	339	69,782	93,888	15,302	-	641,850
Total assets	164,637	136,163	9,878	47,410	317,417	24,588	75,183	168,858	64,804	(743)	1,008,195
Deferred outflow of resources											
OPEB difference in expected versus actual experience	-	-	-	-	-	-	-	115	-	-	115
Changes in OPEB actuarial assumptions and proportions	-	-	-	-	-	-	-	65	-	-	65
Pension contributions, net differences, and changes in share of	-	-	-	-	-	-	-	518	-	-	518
Pension differences in expected versus actual experience	-	-	-	-	-	-	-	234	-	-	234
Net differences between expected and actual investment earnings	-	-	-	-	-	-	-	515	-	-	515
Changes in pension actuarial assumptions and proportions	-	-	-	-	-	-	-	194	-	-	194
Total deferred outflow of resources	-	-	-	-	-	-	-	1,641	-	-	1,641
Total assets and deferred outflow of resources	$ 164,637	$ 136,163	$ 9,878	$ 47,410	$ 317,417	$ 24,588	$ 75,183	$ 170,499	$ 64,804	$ (743)	$ 1,009,836

See independent auditor's report.

ARKANSAS DEVELOPMENT FINANCE AUTHORITY, A COMPONENT UNIT OF THE STATE OF ARKANSAS

Combining Statement of Net Position (cont.)

June 30, 2024

(In Thousands)

Liabilities, Deferred Inflow of Resources, and Net Position	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 Settlement Revenue Bonds Program	General Fund Program	Student Loan Programs	Eliminations	Total
Current liabilities											
Accounts payable	$ -	$ 405	$ 1	$ -	$ -	$ 13	$ -	$ 3,679	$ 96	$ (743)	$ 3,451
Accrued interest payable	531	19	-	302	1,033	-	-	-	-	-	1,885
Unearned fees	-	-	-	136	-	-	-	68	-	-	204
Contract obligations	-	235	-	-	5,511	-	-	-	-	-	5,746
Deferred gain on refinancing sale of asset	-	-	-	-	-	11	-	14	-	-	25
Current portion of bonds and notes payable	600	142	-	2,598	14,887	-	4,965	-	-	-	23,192
OPEB and pension liabilities	-	-	-	-	-	-	-	83	-	-	83
Total current liabilities	1,131	801	1	3,036	21,431	24	4,965	3,844	96	(743)	34,586
Noncurrent liabilities											
Unearned fees	-	-	-	523	-	-	-	-	-	-	523
Contract obligations	-	-	-	-	1,012	-	-	-	-	-	1,012
Bonds and notes payable, net of unamortized premiums and discounts, and current portion	64,721	2,960	-	25,309	252,516	-	64,817	-	-	-	410,323
Deposits against financing arrangements	-	-	-	1,255	42,458	-	5,401	13	-	-	49,127
Deferred gain on refinancing sale of asset	-	-	-	-	-	36	-	182	-	-	218
OPEB and pension liabilities	-	-	-	-	-	-	-	5,970	-	-	5,970
Other liabilities	-	-	-	-	-	-	-	413	-	-	413
Total noncurrent liabilities	64,721	2,960	-	27,087	295,986	36	70,218	6,578	-	-	467,586
Total liabilities	65,852	3,761	1	30,123	317,417	60	75,183	10,422	96	(743)	502,172
Deferred inflow of resources											
OPEB difference in expected versus actual experience	-	-	-	-	-	-	-	141	-	-	141
Changes in OPEB actuarial assumptions and proportions	-	-	-	-	-	-	-	833	-	-	833
Pension difference in expected versus actual experience	-	-	-	-	-	-	-	22	-	-	22
Changes in employer pension contribution and share of contributions	-	-	-	-	-	-	-	235	-	-	235
Lease obligations	-	-	-	-	-	-	-	-	613	-	613
Total deferred inflow of resources	-	-	-	-	-	-	-	1,231	613	-	1,844
Total liabilities and deferred inflow of resources	65,852	3,761	1	30,123	317,417	60	75,183	11,653	709	(743)	504,016
Net position											
Investment in capital assets	-	-	-	-	-	-	-	54	2,067	-	2,121
Restricted expendable by bond resolution and programs	98,785	132,402	9,877	17,287	-	24,528	-	-	62,028	-	344,907
Unrestricted	-	-	-	-	-	-	-	158,792	-	-	158,792
Total net position	98,785	132,402	9,877	17,287	-	24,528	-	158,846	64,095	-	505,820
Total liabilities, deferred inflow of resources, and net position	$ 164,637	$ 136,163	$ 9,878	$ 47,410	$ 317,417	$ 24,588	$ 75,183	$ 170,499	$ 64,804	$ (743)	$ 1,009,836

See independent auditor's report.

ARKANSAS DEVELOPMENT FINANCE AUTHORITY, A COMPONENT UNIT OF THE STATE OF ARKANSAS

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

For the Year Ended June 30, 2024

(In Thousands)

	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 Settlement Revenue Bonds Program	General Fund Program	Student Loan Programs	Eliminations	Total
Operating revenues											
Investment income (loss)											
Interest and dividends	$ 5,541	$ 1,066	$ 311	$ 480	$ -	$ 1,270	$ -	$ 3,670	$ 2,807	$ -	$ 15,145
Loans and direct financing leases	-	1,354	65	1,149	9,139	31	3,368	2,032	415	-	17,553
Amortization of discounts on loans	-	-	-	-	-	-	-	1	-	-	1
Financing fees	-	-	-	369	-	166	-	6,608	-	(1,440)	5,703
Net appreciation (depreciation) of investments	(504)	-	-	320	-	-	-	1,931	61	-	1,808
Total investment income	5,037	2,420	376	2,318	9,139	1,467	3,368	14,242	3,283	(1,440)	40,210
Other income	-	-	-	-	-	-	-	11	63	-	74
Total operating revenues	5,037	2,420	376	2,318	9,139	1,467	3,368	14,253	3,346	(1,440)	40,284
Operating expenses											
Interest and amortization on bonds and notes	783	36	-	1,222	9,214	-	3,368	15	-	-	14,638
Administrative expenses											
Provision for (recovery of) loan losses	-	1,795	(37)	109	-	(28)	-	406	362	-	2,607
Federal financial assistance programs	-	6,399	-	-	-	-	-	-	-	-	6,399
Loan servicing and other contractual services	-	-	-	-	-	-	-	-	132	-	132
Salaries and benefits	-	-	-	-	-	-	-	3,908	413	-	4,321
Operations and maintenance	-	2,127	2	-	-	67	-	409	126	(1,268)	1,463
Other	739	217	22	86	-	473	-	619	443	(172)	2,427
Total administrative expenses	739	10,538	(13)	195	-	512	-	5,342	1,476	(1,440)	17,349
Total operating expenses	1,522	10,574	(13)	1,417	9,214	512	3,368	5,357	1,476	(1,440)	31,987
Operating income (loss)	3,515	(8,154)	389	901	(75)	955	-	8,896	1,870	-	8,297
Nonoperating revenues											
Federal grants	-	18,673	-	-	52	-	-	-	-	-	18,725
Income (loss) before transfers in (out), net	3,515	10,519	389	901	(23)	955	-	8,896	1,870	-	27,022
Transfers in (out), net	1,523	(65)	-	-	-	(3,987)	-	(1,763)	-	-	(4,292)
Changes in net position	5,038	10,454	389	901	(23)	(3,032)	-	7,133	1,870	-	22,730
Net position - beginning of year	93,747	121,948	9,488	16,386	23	27,560	-	151,713	62,225	-	483,090
Net position - end of year	$ 98,785	$ 132,402	$ 9,877	$ 17,287	$ -	$ 24,528	$ -	$ 158,846	$ 64,095	$ -	$ 505,820

See independent auditor's report.

FROST, PLLC
Certified Public Accountants

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

Board of Directors
Arkansas Development Finance Authority
A Component Unit of the State of Arkansas
Little Rock, Arkansas

We have audited, 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 ("GAS")* issued by the Comptroller General of the United States, the combined financial statements of the business-type activities and the aggregate discretely presented component unit of Arkansas Development Finance Authority as of and for the year ended June 30, 2024, and the related notes to the combined financial statements, which collectively comprise Arkansas Development Finance Authority's basic combined financial statements, and have issued our report thereon dated November 5, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the combined financial statements, we considered Arkansas Development Finance Authority's internal control over financial reporting ("internal control") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of Arkansas Development Finance Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Arkansas Development Finance Authority's internal control.

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

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

Report on Compliance and Other Matters

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

Purpose of this Report

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

Frost, PLLC

Certified Public Accountants

Little Rock, Arkansas
November 5, 2024

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

Board of Directors
Arkansas Development Finance Authority
A Component Unit of the State of Arkansas
Little Rock, Arkansas

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Arkansas Development Finance Authority's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of Arkansas Development Finance Authority's major federal programs for the year ended June 30, 2024. Arkansas Development Finance Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Arkansas Development Finance Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2024.

Basis for Opinion on Each Major Federal Program

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

We are required to be independent of Arkansas Development Finance Authority and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Arkansas Development Finance Authority's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Arkansas Development Finance Authority's federal programs.

Auditor's Responsibilities for the Audit of Compliance

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

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

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

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

Report on Internal Control Over Compliance

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

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

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

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

Frost, PLLC

Certified Public Accountants

Little Rock, Arkansas
November 5, 2024

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2024

Section I – Summary of Auditor's Results

Combined Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

• Material weakness(es) identified?	_____ Yes	__X__ No
• Significant deficiency(ies) identified?	_____ Yes	__X__ None Reported
Noncompliance material to combined financial statements noted?	_____ Yes	__X__ No

Federal Awards

Internal control over major programs:

• Material weakness(es) identified?	_____ Yes	__X__ No
• Significant deficiency(ies) identified?	_____ Yes	__X__ None Reported
Type of auditor's report issued on compliance for major federal programs.		Unmodified
Are any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	_____ Yes	__X__ No

Identification of major federal programs:

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

HOME Investment Partnerships Program	14.239
HOME Investment HOME-ARP Program	14.239
Housing Trust Fund	14.275

Dollar threshold used to distinguish between type A and type B programs:	$ 750,000	
Auditee qualified as a low-risk auditee?	__X__ Yes	_____ No

ARKANSAS DEVELOPMENT FINANCE AUTHORITY,
A COMPONENT UNIT OF THE STATE OF ARKANSAS

Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2024

Reference Number	Summary of Finding	Status

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

ARKANSAS DEVELOPMENT FINANCE AUTHORITY,
A COMPONENT UNIT OF THE STATE OF ARKANSAS

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2024

Federal Grantor/Pass-Through Grantor Program or Cluster Title	FAL Number	Pass-Through Entity Identifying Number	Pass-Through Through to Subrecipients	Total Federal Expenditures
U.S. Department of Agriculture Development/Preservation Revolving Loan Fund	10.415	N/A	$ -	$ 3,242,419
U.S. Department of Treasury/American Rescue Plan/Home Owner Assistance Fund	21.026	N/A	-	6,729,812
U.S. Department of Housing and Urban Development/Housing Trust Fund	14.275	N/A	-	8,661,824
U.S. Department of Housing and Urban Development/HOME Investment				
Partnerships Program	14.239	N/A	109,190	9,603,469
HOME-ARP Program	14.239	N/A	126,264	408,446
			$ 235,454	$ 28,645,970

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

Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2024

1. The accompanying schedule of expenditures of federal awards ("SEFA") includes the federal award activity of the Arkansas Development Finance Authority (the "Authority"), a component unit of the State of Arkansas, under programs of the federal government for the year ended June 30, 2024. The information in the SEFA is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the SEFA presents only a selected portion of the operations of the Authority, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Authority.

2. Expenditures reported on the SEFA are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, the cost principles in Office of Management and Budget A-110 or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Authority has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

3. Expenditures reflected in FAL 10.415, Preservation Revolving Loan Fund, include loans to contractors for development of multi-family housing. The funding sources for these loans are two $2,125,000 promissory notes executed between the Authority and U.S. Department of Agriculture Rural Development during fiscal year 2013 and fiscal year 2016. When received, the funds were used to make new loans for program activities. The outstanding loan receivable balance was $3,206,092 for the year ended June 30, 2024. There were no disbursements for loans made during the year ended June 30, 2024, as all funding commitments have been fully disbursed for this program in prior years.

4. Expenditures reflected in FAL 14.239, HOME Investment Partnerships Program, include loans to contractors and borrowers for development of single-family and multi-family housing. The funding source for these loans includes federal grant funds and revolving program funds. The funds are disbursed after expenses have been incurred as forgiveness of principal and repayable loans. The outstanding loan receivable balance was $113,766,007 for the year ended June 30, 2024. Total disbursements of federal funds for repayable loans totaled $9,266,940 during the year ended June 30, 2024.

5. The federal loan programs listed subsequently are administered directly by the Authority, and balances and transactions relating to the programs are included in the Authority's basic combined financial statements. Notes payable outstanding at the beginning of the year and federal expenditures during the year are included in the federal expenditures presented in the SEFA. The balance of the notes payable outstanding at June 30, 2024 consists of:

Reference Number	Program Name	Outstanding Balance at June 30, 2024
10.415	Preservation Revolving Loan Fund	$3,101,980

Notes to Schedule of Expenditures of Federal Awards (cont.)

For the Year Ended June 30, 2024

6. Expenditures reflected in FAL 14.275, Housing Trust Fund, include loans to contractors for development or redevelopment of affordable housing, particularly rental housing for extremely low income and very low income households. The funding source for these loans is federal grant funds. The funds are disbursed after expenses have been incurred as forgiveness of principal and repayable loans. The outstanding loan receivable balance was $14,206,548 for the year ended June 30, 2024. Total disbursements for repayable loans made were $8,239,172 during the year ended June 30, 2024.

7. Expenditures reflected in FAL 21.026, Homeowner Assistance Fund, include disbursements to prevent homeowner mortgage delinquencies, defaults, utilities delinquencies, and expenses for the administration of this program. The funding source for these expenses was federal grant funds.