Arkansas Development Finance Authority
Year Ended June 30, 2016

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Arkansas Development Finance Authority
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016

<table>
<thead>
<tr>
<th>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</th>
<th>Federal CFDA Number</th>
<th>Pass-Through Entity Identifying Number</th>
<th>Passed Through to Subrecipients</th>
<th>Total Federal Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Department of Agriculture Rural Development/ Preservation Revolving Loan Fund</td>
<td>10.415</td>
<td>N/A</td>
<td>$460,187</td>
<td>$2,480,000</td>
</tr>
<tr>
<td>U.S. Department of Agriculture/ State Mediation Grants</td>
<td>10.435</td>
<td>N/A</td>
<td>-</td>
<td>82,022</td>
</tr>
<tr>
<td>U.S. Department of Housing and Urban Development/ Federal Housing Counseling Grant Program</td>
<td>14.169</td>
<td>N/A</td>
<td>$35,587</td>
<td>$35,587</td>
</tr>
<tr>
<td>U.S. Department of Housing and Urban Development/ Arkansas Economic Development Council/ Community Development Block Grant</td>
<td>14.218</td>
<td>B-08-DI-05-0001</td>
<td>-</td>
<td>1,646</td>
</tr>
<tr>
<td>U.S. Department of Housing and Urban Development/ HOME Investment Partnerships Program</td>
<td>14.239</td>
<td>N/A</td>
<td>$6,236,179</td>
<td>$6,887,220</td>
</tr>
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<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$6,731,953</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$9,486,475</td>
</tr>
</tbody>
</table>

Notes to Schedule

1. The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the Arkansas Development Finance Authority (the Authority) under programs of the federal government for the year ended June 30, 2016. The accompanying notes are an integral part of this schedule. The information in this schedule 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 Schedule 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 Schedule are reported on the cash basis of accounting. Such expenditures are recognized following, as applicable, the cost principles in OMB 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-percent de minimis indirect cost rate allowed under the Uniform Guidance.
Arkansas Development Finance Authority
Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2016

3. Expenditures reflected in CFDA 10.415, Preservation Revolving Loan Fund, include loans to contractors for development of multifamily housing. The funding sources for these loans are two $2,125,000 promissory notes executed between Arkansas Development Finance Authority and USDA Rural Development during fiscal year 2013 and fiscal year 2016. When received, these funds will be used to make new loans for program activities. The outstanding loan receivable balance from subrecipients for the year ended June 30, 2016, was $2,337,274. Total disbursements for loans made to subrecipients during fiscal year 2016 totaled $460,187.

4. Expenditures reflected in CFDA 14.218, Community Development Block Grant, include loans to contractors for development or redevelopment of affordable rental housing. The funding source for these loans is federal grant funds. The funds are disbursed to the subrecipients after expenses have been incurred as forgiveness of principal and repayable loans. The outstanding loan receivable balance from subrecipients for the year ended June 30, 2016, was $7,700,000. No disbursements were made for new loans during the year ended June 30, 2016.

5. Expenditures reflected in CFDA 14.239, HOME Investment Partnerships Program, include loans to contractors and borrowers for development of single-family and multifamily housing. The funding source for these loans includes federal grant funds and revolving program funds. The funds are disbursed to the subrecipients after expenses have been incurred as forgiveness of principal and repayable loans. The outstanding loan receivable balance from subrecipients for the year ended June 30, 2016, was $108,057,731. Total disbursements of federal funds for loans made to subrecipients during fiscal year 2016 totaled $2,768,701.

6. 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 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 Schedule. The balance of the notes payable outstanding at June 30, 2016, consists of:

<table>
<thead>
<tr>
<th>CFDA Number</th>
<th>Program Name</th>
<th>Outstanding Balance at June 30, 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>10.415</td>
<td>Preservation Revolving Loan Fund</td>
<td>$2,410,328</td>
</tr>
</tbody>
</table>
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards

Board of Directors
Arkansas Development Finance Authority (ADFA)
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, issued by the Comptroller General of the United States, the basic financial statements of Arkansas Development Finance Authority (the Authority), which comprise the statement of net position as of June 30, 2016, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the basic financial statements, and have issued our report thereon dated October 28, 2016.

Internal Control Over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered the Authority’s internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority’s internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 Authority’s 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 may exist that have not been identified.
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority’s financial statements are free of 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 determination of financial statement amounts. 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 Government Auditing Standards.

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 the entity’s internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Authority’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Little Rock, Arkansas
October 28, 2016

BKD, LLP
Report on Compliance for Each Major Federal Program, on Internal Control Over Compliance and on Schedule of Expenditures of Federal Awards Required by Uniform Guidance

Board of Directors
Arkansas Development Finance Authority (ADFA)
Little Rock, Arkansas

Report on Compliance for Each Major Federal Program

We have audited the compliance of Arkansas Development Finance Authority (the Authority) with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016. The Authority’s major federal program is identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

Management is responsible for compliance with the federal statutes, regulations, contracts and the terms and conditions of its federal awards applicable to its federal programs.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for the Authority’s major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, 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). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for its major federal program. However, our audit does not provide a legal determination of the Authority’s compliance.
Opinion on Its Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's 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 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.
Report on Schedule of Expenditures of Federal Awards Required by Uniform Guidance

We have audited the basic financial statements of the Authority as of and for the year ended June 30, 2016, and have issued our report thereon dated October 28, 2016, which contained an unmodified opinion on those basic financial statements. Our audit was performed for the purpose of forming an opinion on the basic financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Uniform Guidance and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

BKD, LLP

Little Rock, Arkansas
October 28, 2016
Summary of Auditor’s Results

Financial Statements
1. The type of report the auditor issued on whether the financial statements audited were prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) was:
   - [x] Unmodified
   - [ ] Qualified
   - [ ] Adverse
   - [ ] Disclaimer

2. The independent auditor’s report on internal control over financial reporting disclosed:
   - Significant deficiency(ies)? [ ] Yes  [x] None reported
   - Material weakness( es)? [ ] Yes  [x] No

3. Noncompliance considered material to the financial statements was disclosed by the audit? [ ] Yes  [ ] No

Federal Awards
4. The independent auditor’s report on internal control over compliance for the major federal awards program disclosed:
   - Significant deficiency(ies)? [ ] Yes  [x] None reported
   - Material weakness( es)? [ ] Yes  [x] No

5. The opinion expressed in the independent auditor’s report on compliance for the major federal award was:
   - [x] Unmodified
   - [ ] Qualified
   - [ ] Adverse
   - [ ] Disclaimer

6. The audit disclosed findings required to be reported by 2 CFR 200.516(a)? [ ] Yes  [x] No
7. The Program’s major program was:

<table>
<thead>
<tr>
<th>Cluster/Program</th>
<th>CFDA Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>HOME Investment Partnerships Program</td>
<td>14.239</td>
</tr>
</tbody>
</table>

8. The threshold used to distinguish between Type A and Type B programs was $750,000.

9. The Program qualified as a low-risk auditee?

   □ Yes  □ No

**Findings Required to be Reported by Government Auditing Standards**

<table>
<thead>
<tr>
<th>Reference Number</th>
<th>Finding</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No matters are reportable.</td>
</tr>
</tbody>
</table>

**Findings Required to be Reported by Uniform Guidance**

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<tbody>
<tr>
<td></td>
<td>No matters are reportable.</td>
</tr>
</tbody>
</table>

Arkansas Development Finance Authority
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2016

<table>
<thead>
<tr>
<th>Reference Number</th>
<th>Summary of Finding</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No matters are reportable.</td>
<td></td>
</tr>
</tbody>
</table>