

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

Independent Auditor's Report and Financial Statements

June 30, 2016 and 2015



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

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## Independent Auditor's Report

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

### Report on the Financial Statements

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

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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

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

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

### ***Opinion***

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

### ***Other Matters***

#### ***Required Supplementary Information***

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

#### ***Supplementary Information***

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

**Other Reporting Required by *Government Auditing Standards***

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

*BKD, LLP*

Little Rock, Arkansas  
October 28, 2016

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

This discussion and analysis is designed to assist the reader in focusing on significant issues and activities and to identify any significant changes in the financial position of the Arkansas Development Finance Authority (“ADFA” or “the Authority”). Readers are encouraged to consider the information presented in conjunction with the financial statements and notes as a whole.

***Understanding the Financial Statements***

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

***Condensed Statements of Net Position***

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

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

June 30, 2016 to June 30, 2015

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

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

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

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

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

June 30, 2015 to June 30, 2014

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

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

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

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

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

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

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

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



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

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

***Other Financial Highlights***

Years ended June 30, 2016 to June 30, 2015

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

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

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

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

**Arkansas Development Finance Authority,  
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***Other Financial Highlights***

Years ended June 30, 2015 to June 30, 2014

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

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

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

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

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

***Other Information***

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

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

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

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

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

***Credit Ratings***

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

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

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

ADFA's overall financial position has improved.

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***Contacting ADFA***

This financial report is designed to provide bondholders, constituents and business partners with a general overview of the Authority's finances and to show the Authority's accountability for the funds it administers. Questions about this report and requests for additional financial information should be directed to the Vice President for Finance and Administration by telephoning 501.682.5900. The Authority's website is <http://adfa.arkansas.gov>.

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

## Statements of Net Position

June 30, 2016 and 2015

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

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

(In thousands)

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

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

## Statements of Cash Flows Years Ended June 30, 2016 and 2015

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

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

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



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

## **Notes to Financial Statements**

**June 30, 2016 and 2015**

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

#### ***Nature of Operations and Reporting Entity***

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

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

Bonds and other debt instruments issued by the Authority and included on the Authority's financial statements are usually special obligations of the Authority, payable solely from, and collateralized by, a first lien on the proceeds, monies, revenues, rights, interests and collections pledged therefore under the resolutions authorizing the particular issues. The Authority has issued bonds and other debt instruments, which are general obligations of the Authority, supported by the Authority's general fund assets and/or pledge of the Authority's issuer credit rating. The State of Arkansas is not obligated to pay the bonds and other debt instruments, and neither the faith and credit nor the taxing power of the State of Arkansas is pledged to the payment of the principal or redemption price of, or interest on, the bonds and other debt instruments. The Authority has no taxing power.

#### ***Measurement Focus, Basis of Accounting and Financial Statement Presentation***

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

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

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

## Notes to Financial Statements

June 30, 2016 and 2015

### ***Recently Issued Accounting Pronouncements***

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

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

- Employers that are responsible only for OPEB liabilities for their own employees and that provide OPEB through a defined benefit OPEB plan administered through a trust that meets specified criteria will report a net OPEB liability (the difference between the total OPEB liability and the assets accumulated in trust to make the benefit payments)
- Employers that participate in a cost-sharing OPEB plan that is administered through a trust that meets specified criteria will report a liability equal to the employer's proportionate share for the collective OPEB liability for all employers participating in the plan
- Employers that do not provide OPEB through a trust that meets specified criteria will report the total OPEB liability for their own employees

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

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

## Notes to Financial Statements

June 30, 2016 and 2015

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

### **Fund Accounting**

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

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

- (i) Single Family Housing Programs
  - (a) *Single Family Mortgage Purchase Program*—Accounts for proceeds from single family mortgage revenue bonds, the debt service requirements of the bonds and the related mortgage-backed securities or mortgage loans for single family owner-occupied housing in Arkansas. Included within this program is the Authority's Single Family Mortgage Revenue Bond General Resolution, adopted on July 20, 1995 (1995 General Resolution).
  - (b) *New Issue Bond Program*—Accounts for the issuance of single family bonds, as well as the related deferred charges and investment of bond proceeds, issued under a general resolution created specifically for this program. The U.S. Department of the Treasury developed this program for housing finance agencies, whereby ADFA sold \$193.1 million in bonds to Fannie Mae and Freddie Mac (the GSEs) in December 2009 as escrow bonds. The bonds sold to the GSEs initially would represent 60% of the total long-term bond issue, and the other 40% would be issued in the marketplace. The 40% marketplace requirement was eliminated when the program was extended to December 31, 2012, as of January 1, 2012. The GSEs will purchase 100% of a bond issue. The interest rate on the GSEs' portion of ADFA's long-term bonds also changed, whereby the interest rate is calculated and capped as outlined in the bond documents.
- (ii) Federal Housing Programs
  - (a) *HOME Partnership Program*—Accounts for federal financial assistance received from the Department of Housing and Urban Development (HUD) for the purpose of developing and supporting affordable housing through tenant based rental assistance, rental rehabilitation, new construction, or assistance to homebuyers and homeowners.

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

## Notes to Financial Statements

June 30, 2016 and 2015

- (b) *Tax Credit Assistance Program (TCAP)*—Accounts for federal financial assistance in the form of American Reinvestment and Recovery Act (ARRA) funds received from HUD for the purpose of providing additional financing in the form of loans to developers to ensure that developments have sufficient financing to provide quality affordable housing. Only developments that were awarded low-income housing tax credits under Section 42(h) of the Internal Revenue Code (IRC) in federal fiscal years 2007, 2008 and 2009 were eligible for the sub-awards granted to the State of Arkansas from HUD for TCAP funding.
  - (c) *Neighborhood Stabilization Programs (NSP)*—Accounts for federal financial assistance received from HUD for the purpose of stabilizing neighborhoods that have suffered the most from foreclosures and abandonment. ADFA participated in two of the three NSP offered by HUD. The first NSP was authorized by the Housing and Economic Recovery Act, which was signed into law on July 30, 2008. The third NSP was authorized by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) of 2010. NSP provides loans to purchase and rehabilitate foreclosed or abandoned homes for sale or rent in order to stabilize neighborhoods and stem the decline of house values in neighboring homes.
  - (d) *Community Development Block Grant–Disaster Funds Program (CDBG)*—Accounts for federal financial assistance received from HUD through the Arkansas Economic Development Commission (AEDC) for use in the development or redevelopment of affordable rental housing related to the five presidentially-declared disaster areas declared from February to October 2008. The Authority is administering \$10.1 million of a \$25.0 million disaster funds award reserved to the State of Arkansas for affordable rental housing to address the effects of these disasters through a Memorandum of Understanding between the Authority and AEDC.
  - (e) *Preservation Revolving Loan Fund Program (PRLF)* – Accounts for federal financial assistance received from United States Department of Agriculture Rural Housing Service (USDA) to loan funds to carry out a demonstration program that provides revolving loans for the preservation and revitalization of low-income Multi-Family Housing.
- (iii) Multi-Family Programs
- (a) *GNMA/BMIR Bond Program*—Accounts for proceeds from the sale of GNMA Guaranteed Bonds, debt service requirements on the bonds, related Below Market Interest Rate (BMIR) mortgages purchased with bond proceeds, disbursements to program participants of excess loan prepayments and the Authority’s fees and expenses in connection with the program.
  - (b) *FAF/New BMIR Loan Programs*—Accounts for loans receivable funded by distributions the Authority received from the GNMA/BMIR Bond Program as well as from Financing Adjustment Factor (FAF) distributions from the federally funded Section 8 Housing Assistance Payment Program.

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

## Notes to Financial Statements

June 30, 2016 and 2015

- (iv) Economic Development Bond Guaranty Program
  - (a) *Bond Guaranty Program*—Accounts for guaranty fees collected, interest earned on investments and disbursements made in connection with bond guaranties provided by the Authority, as well as the proceeds from the sale of development revenue bonds issued by ADFA and guaranteed by the Bond Guaranty Fund; the debt service requirements of the bonds and related loans and leases to private companies. The fund was created by Act 505 of 1985, which authorized a grant of \$6 million from the Arkansas State Treasurer (which was subsequently repaid by the Authority) for the purpose of enhancing and supporting the creditworthiness of bonds and other debt instruments guaranteed by the Authority. At June 30, 2016 and 2015, the fund had cash and cash equivalents and investments totaling \$18.2 million and \$17.4 million, respectively, in the reserve account to collateralize Authority-guaranteed bonds and future issues under the bond guaranty program.
- (v) State Facilities and Amendment 82 Programs
  - (a) *State Facilities Programs*—Accounts for the proceeds from the sale of development revenue bonds; the debt service requirements of the bonds and related loans and leases to public and government bodies within the State of Arkansas; and includes certain assets not owned and related obligations not owed by the Authority.
  - (b) *Amendment 82 Programs*—Accounts for the proceeds from the sale of general obligation bonds of the State of Arkansas as authorized under Amendment 82 of the Arkansas Constitution; related loans and leases to private institutions and government bodies within the State of Arkansas; and includes certain assets not owned and related obligations not owed by the Authority.
- (vi) Other Economic Development Programs
  - (a) *Other Economic Development Programs*—Accounts for the proceeds from the sale of the Higher Education Capital Asset Program bonds and the related debt service requirements of the bonds and related loans to public higher education institutions. Also, accounts for loan reserve programs, such as Capital Access, Business Life and Disadvantaged Business Enterprise.
  - (b) *State Small Business Credit Initiative Program (SSBCI)*—Accounts for federal financial assistance received from the U.S. Treasury as grants under the State Small Business Credit Initiative Act of 2010. The State of Arkansas was awarded and received approximately \$13.2 million to support six programs, three of which are included within these financial statements: Arkansas Capital Access Program, Bond Guaranty/Loan Participation Program and Disadvantaged Business Enterprise/Small Business Loan Guaranty Program. As of June 30, 2016, all of the awarded amount has been disbursed or obligated. The program is able to continue awarding projects with the use of program income.

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

(vii) Tobacco Bonds Program

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

(viii) General Fund Programs

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

***Use of Estimates***

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

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

***Cash and Cash Equivalents***

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

***Investments and Investment Income***

Investments are carried at fair value.

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

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

## **Notes to Financial Statements**

**June 30, 2016 and 2015**

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

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

### ***Loans***

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

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

### ***Allowance for Loan Losses***

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

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

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

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

## **Notes to Financial Statements**

**June 30, 2016 and 2015**

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

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

### ***Income Taxes***

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

### ***Direct Financing Leases***

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

### ***Capital Assets***

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



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

## Notes to Financial Statements

June 30, 2016 and 2015

### ***Deposits Against Financing Arrangements***

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

### ***Contract Obligations***

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

### ***Unearned Guaranty Fees***

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

### ***Conduit Debt Obligations***

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

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

### ***Cost-Sharing Defined Benefit Pension Plan***

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

### ***Net Position***

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

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

## Notes to Financial Statements June 30, 2016 and 2015

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

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

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

### **Reclassifications**

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

## **Note 2: Deposits and Investments**

### **Deposits**

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

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

| <i>(In thousands)</i>  | <b>2016</b> | <b>2015</b> |
|--|-------------|-------------|
| Uninsured and uncollateralized   | \$ 4,609    | \$ 3,155    |
| Uninsured and collateral held by pledging financial institution’s trust department or agent in other than the Authority’s name | 574         | 881         |
|  | \$ 5,183    | \$ 4,036    |

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

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

## Notes to Financial Statements June 30, 2016 and 2015

### **Investments**

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

At June 30, 2016 and 2015, the Authority had the following investments and maturities:

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

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

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

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

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

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

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

## Notes to Financial Statements June 30, 2016 and 2015

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

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

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

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

### Summary of Carrying Values

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

| <i>(In thousands)</i> | <u>2016</u>       | <u>2015</u>       |
|-----------------------|-------------------|-------------------|
| Carrying value        |                   |                   |
| Deposits              | \$ 6,107          | \$ 4,079          |
| Investments           | <u>476,500</u>    | <u>532,197</u>    |
|                       | <u>\$ 482,607</u> | <u>\$ 536,276</u> |

Included in the following balance sheet captions:

|                               |                   |                   |
|-------------------------------|-------------------|-------------------|
| Current assets                |                   |                   |
| Cash and cash equivalents     | \$ 106,437        | \$ 117,733        |
| Investments – current portion | 7,595             | 8,525             |
| Noncurrent assets             |                   |                   |
| Investments – unrestricted    | 54,559            | 50,797            |
| Investments – restricted      | <u>314,016</u>    | <u>359,221</u>    |
|                               | <u>\$ 482,607</u> | <u>\$ 536,276</u> |

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

## Notes to Financial Statements

June 30, 2016 and 2015

### Note 3: Loans and Direct Financed Leases

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

*Bond Guaranty Program*—Loans and leases to private companies for financing the acquisition or expansion of facilities are collateralized by liens on and security interests in collateral granted by the companies and by guaranty agreements between the Authority and one or more guarantors. To a limited extent, and only when specified by a specific trust indenture, the payment of principal and interest on the bonds is guaranteed by the Authority under the ADFA Bond Guaranty Act (Act 505 of 1985). At June 30, 2016 and 2015, respectively, the Authority reported in its statement of net position, \$51.5 million and \$49.2 million in loans and leases to private companies, as well as \$57.6 million and \$53.0 million in related bond issues, which are guaranteed by the Bond Guaranty Fund. Differences between the loan balance and the related bond balance are attributed primarily to construction draw payables of \$3.3 million and \$2.5 million, the allowance for loan loss of \$1.8 million and \$2.3 million, and timing differences between loan collection and bond payment of \$2.8 million and \$2.5 million. The above were offset by differences due to delinquencies and the financing of real estate owned properties of \$1.8 million for 2016 and \$3.5 million for 2015.

Additionally, the Bond Guaranty Fund guarantees principal and interest on revenue bonds issued by municipalities within the State of Arkansas for economic development purposes. At June 30, 2016 and 2015, revenue bonds outstanding of \$3.4 million and \$11.6 million, respectively, were guaranteed by the Bond Guaranty Fund. Furthermore, the Bond Guaranty Fund guarantees bond anticipation notes. At June 30, 2016 and 2015, respectively, the principal amount on these notes totaled \$2.7 million and \$6.1 million outstanding with \$2.2 million and \$5.3 million guaranteed.

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

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

## Notes to Financial Statements June 30, 2016 and 2015

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

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

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

The stated interest rates on the loans are as follows:

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

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

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

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

## Notes to Financial Statements June 30, 2016 and 2015

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

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

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

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

### Note 4: Capital Assets

Premises and equipment at June 30 are summarized as follows:

| <i>(In thousands)</i>         | <u>2016</u>  | <u>2015</u>  |
|-------------------------------|--------------|--------------|
| Cost                          |              |              |
| Premises and equipment        | \$ 555       | \$ 528       |
| Less accumulated depreciation | <u>(462)</u> | <u>(466)</u> |
| Net                           | <u>\$ 93</u> | <u>\$ 62</u> |



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

**Note 5: Bonds and Notes Payable**

Bonds and notes payable at June 30 were as follows:

*(In thousands)*

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

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

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

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

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

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

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

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

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

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

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

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

| <i>(In thousands)</i> | <b>Issue</b>   | <b>Date of<br/>Defeasance</b> | <b>Principal<br/>Outstanding</b> |
|-----------------------|--|-------------------------------|----------------------------------|
|                       | 2009 Series A ADFA Correctional Facilities Revenue<br>Bond | May 2016                      | \$ 25,585                        |

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During the normal course of business, the Authority issues economic development revenue bonds and multi-family housing revenue bonds on behalf of private companies within the State of Arkansas. The bonds are payable solely from, and secured by, a pledge of revenues from the private companies to which the bond proceeds were remitted and, accordingly, have been excluded from the Authority's financial statements. At June 30, 2016 and 2015, respectively, the bonds outstanding issued under these programs aggregated \$693.3 million and \$630.0 million. In March 2016, the 2009 Episcopal Collegiate School bond issue was defeased and \$16.6 million remains outstanding as of June 30, 2016.

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

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

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

### **Note 7: Retirement Plan**

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

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

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

### **Pensions**

#### **(a) General Information about the Pension Plans**

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

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

#### **Arkansas Public Employees Retirement System**

124 W. Capitol, Suite 400  
Little Rock, AR 72201-3704  
(501) 682-7800

<http://www.apers.org/annualreports/index.php>

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

The normal retirement benefit, paid on a monthly basis, is determined based on (1) the member's final average compensation (an average of the highest 36 months' earnings) and (2) the number of years of credited service. Retiree benefit increases are calculated each year on July 1 for the following 12 months. The redetermined amount is the amount of the benefit payable as of the 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 the APERS' Board of Trustees and should be based on an independent actuary's determination of the rate required to fund the plan. The General Assembly and certain agencies employing individuals in public safety positions must also remit additional amounts. For the fiscal year ended June 30, 2015, the employer contribution rates, as a percentage of active member payrolls, ranged from 4.00% to 26.76%. For the fiscal year ended June 30, 2014, the employer contribution rates, as a percentage of active member payrolls, ranged from 4.00% to 26.88%. Contributions to APERS from the Authority was approximately \$494,000 and \$508,000 for the years ended June 30, 2016 and 2015, respectively.

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

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

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

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

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

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

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

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

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

| <b>Year ended June 30</b> | <i>(In actual dollars)</i> |
|---------------------------|----------------------------|
| 2017                      | \$ 9,298                   |
| 2018                      | 9,298                      |
| 2019                      | (23,317)                   |
| 2020                      | <u>182,875</u>             |
| Total                     | <u>\$ 178,154</u>          |



**Arkansas Development Finance Authority,  
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**Notes to Financial Statements**  
**June 30, 2016 and 2015**

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

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

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

**Arkansas Development Finance Authority,  
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**Notes to Financial Statements**  
**June 30, 2016 and 2015**

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

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

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

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

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

|  | <b>1% Decrease</b>  | <b>Current<br/>Discount Rate</b> | <b>1% Increase</b>  |
|--|---------------------|----------------------------------|---------------------|
| APERS – Current<br>discount rate 7.50% | \$ <u>5,889,048</u> | \$ <u>3,575,061</u>              | \$ <u>1,650,638</u> |

**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.

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

## Notes to Financial Statements

June 30, 2016 and 2015

### Note 8: Other Post-Employment Benefits

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

### Note 9: Disclosures About Fair Value of Assets and Liabilities

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

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

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

## Notes to Financial Statements June 30, 2016 and 2015

### **Recurring Measurements**

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

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

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

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

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

**Investments**

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

**Nonrecurring Measurements**

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

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

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

## Notes to Financial Statements

June 30, 2016 and 2015

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

### ***Real Estate Owned***

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

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

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

### **Note 10: Commitments and Contingencies**

The Authority participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Authority has not complied with the rules and regulations governing the grants, refunds of any money received may be required, and the collectability of any related receivable at June 30, 2016 and 2015, may be impaired. In the opinion of the Authority, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

The Authority currently participates in an arrangement whereby a liability may be created through prepayments of debt associated with a loan portfolio recorded in the GNMA/BMIR Bond Program. A portion of the prepayments of loan principal in this portfolio is reinvested in investments to cover future debt service payments associated with this portfolio. Any excess amount is then disbursed to various housing agencies in other states based on a participation agreement.

The Authority has \$6.7 million and \$23.8 million of amounts recorded as cash and investments in the statement of net position that may be disbursed to borrowers under loan and lease agreements closed prior to June 30, 2016 and 2015, respectively.

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

## Notes to Financial Statements

June 30, 2016 and 2015

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

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

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

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

### **Note 11: Adoption of Accounting Standard**

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

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

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

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

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



## **Required Supplementary Information**

**Arkansas Development Finance Authority,  
A Component Unit of the State of Arkansas**  
Required Supplementary Information  
**Schedule of the Authority's Proportionate Share of the Net Pension Liability**  
**Arkansas Public Employees Retirement System**  
**Last 10 Fiscal Years\***

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

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

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

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

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

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

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

## **Supplementary Information**

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

## Combining Statement of Net Position

June 30, 2016

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

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

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

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

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



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

**Combining Statement of Revenues, Expenses and Changes in Net Position (Continued)  
Year Ended June 30, 2016**

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

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

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

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

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

**Single Family Housing Programs**

**Combining Statement of Revenues, Expenses and Changes in Net Position  
Year Ended June 30, 2016**

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