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

Accountants' Report and Financial Statements

June 30, 2010 and 2009

BKD LLP
CPAs & Advisors

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

Independent Accountants' Report on Financial Statements and Supplementary Information

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

We have audited the accompanying basic financial statements of the Arkansas Development Finance Authority (the Authority), a component unit of the State of Arkansas, as of and for the years ended June 30, 2010 and 2009, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2010 and 2009, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the Authority's basic financial statements. The accompanying supplementary information, as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

/s/ **BKD, LLP**

Little Rock, Arkansas
October 29, 2010

Arkansas Development Finance Authority,
A Component Unit of the State of Arkansas
Management's Discussion and Analysis
June 30, 2010 and 2009

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, 2010, basic financial statements include three required statements: the statement of net assets; the statement of revenues, expenses and changes in net assets; and the statement of cash flows. These statements are presented for all of ADFA's programs in the Combining Statements. Comparative totals as of and for the years ended June 30, 2010 and 2009 are also presented. Although not required, these comparative totals are intended to facilitate an enhanced understanding of the Authority's financial position and results of operations for the current fiscal year in comparison to the prior fiscal years. ADFA has eight programs presented as supplementary information following the Notes to Financial Statements: Single Family Housing Programs; Federal Housing Programs; Multi-Family Programs; Economic Development Bond Guaranty Program; State and Health Facilities Programs; Other Economic Development Programs; Tobacco Bonds Program and General Fund Programs. A description of each of these programs is included in *Note 1* of the "Notes to Financial Statements."

Condensed Statements of Net Assets

(In thousands)	2010	2009	2008
Capital assets	$ 180	$ 258	$ 281
Other assets	1,446,936	1,341,603	1,528,636
Total assets	1,447,116	1,341,861	1,528,917
Current liabilities	70,959	70,123	62,193
Noncurrent liabilities	1,150,745	1,083,229	1,315,386
Total liabilities	1,221,704	1,153,352	1,377,579
Net assets			
Restricted by bond resolution and programs	124,483	83,925	61,843
Invested in capital assets	180	258	281
Unrestricted	100,749	104,326	89,214
Total net assets	$ 225,412	$ 188,509	$ 151,338

June 30, 2010 to June 30, 2009

At June 30, 2010, total assets were $1.4 billion compared to $1.3 billion at June 30, 2009, increasing $105.3 million or 8%. Total assets consisted primarily of investments of $645.4 million, cash of $340.8 million, loans (net of allowance) of $292.9 million, and direct financing leases of $144.6 million at June 30, 2010.

Investments decreased $52.7 million or 8% since June 30, 2009. Investments of the Single Family Housing Programs and the Multi-Family Programs declined $72.7 million and $4.1 million, respectively, primarily due to the use of investments to redeem bonds. These declines were offset by a $25.4 million increase in the investments of the General Fund Programs, reflecting the increase in the warehousing of mortgage-backed securities compared with the prior year.

Cash and cash equivalents increased $157.1 million or 86% since June 30, 2009. The Single Family Housing Programs increased $188.1 million, primarily attributed to bond proceeds from the U.S. Department of Treasury's New Issue Bond Program (NIBP). This was offset by a decrease of $20.9 million in General Fund Programs, as liquidity was used to fund the warehousing of mortgage-backed securities. The increase in cash and cash equivalents was also offset by a decrease of $7.3 million in the State and Health Facilities Programs, attributed to the funding of contracts with the Department of Corrections from the Prison Construction Trust Fund.

Loans, net of allowance, decreased $10.5 million or 3% compared with June 30, 2009. This decrease is attributed to loan repayments (and no originations) in the State and Health Facilities Programs and the Multi-Family Programs and loan repayments exceeding originations in the General Fund Programs, offset by new loans in the Federal Housing Programs.

Direct financing leases increased $12.9 million, or 10% since June 30, 2009. This increase is attributed to a new lease related to the 900 West Capitol Building Project Build America Bonds (State and Health Facilities Programs) issued by ADFA during the year, offset by lease repayments.

The U.S. Department of the Treasury, together with the Department of Housing and Urban Development and the Federal Housing Finance Agency, developed the Housing Finance Initiative (HFA Initiative), which included the New Issue Bond Program. ADFA sold $193.1 million of single family bonds to Fannie Mae and Freddie Mac (the GSEs) in the current year, as escrow bonds. When rolled out of the escrow, the bonds sold to the GSEs will represent 60% of one or more long-term bond issues, and the remaining 40% is required to be contemporaneously issued in the marketplace. The interest rate on the GSE's portion of ADFA's long-term bonds is capped at 3.81% for conversions through December 31, 2010, and a new maximum interest rate for 2011 conversions will be set in December 2010. The deadline to draw funds from escrow is December 31, 2011.

The Authority's current liabilities increased slightly to $71.0 million from $70.1 million. Total liabilities increased $68.4 million, or 6%, since June 30, 2009, and consisted primarily of net bonds and notes payable. This increase is primarily related to the issuance of the NIBP escrow bonds, offset by redemptions of bonds for the Single Family Mortgage Purchase Program and the Multi-Family Programs. Additional information on the Authority's long-term debt can be found in Note 6 of the Notes to Financial Statements in this report.

June 30, 2009 to June 30, 2008

At June 30, 2009, total assets were $1.3 billion compared to $1.5 billion at June 30, 2008. Total assets consisted primarily of investments of $698.1 million, loans (net of allowance) of $303.4 million, cash of $183.7 million and direct financing leases of $131.7 million at June 30, 2009.

Investments decreased $236.0 million since June 30, 2008. Investments of the Single Family Housing Programs declined $157.4 million primarily due to the use of investments to redeem the notes payable in the Single Family Note Program. The General Fund Programs experienced a $39.3 million decrease in investments due to a decline in the warehousing of mortgage-backed securities compared with the prior year. The Tobacco Bonds Program disbursed funds for the Arkansas Cancer Research Project, resulting in a $16.8 decrease in investments. The investments of the Multi-Family Programs declined $11.7 million as maturing investments were used to pay debt service during the year.

Loans, net of allowance, decreased $3.8 million compared with June 30, 2008. The decrease was primarily attributed to the forgiveness of debt associated with whole loans in the Single Family Mortgage Purchase Program, as well as a lower level of new interim loans in the current year for the General Fund Programs.

Cash and cash equivalents increased $63.7 million since June 30, 2008. The Single Family Housing Programs increased $20.0 million, as funds were invested in money market mutual funds due to the termination of certain guaranteed investment contracts. The State and Health Facilities Programs increased $23.0 million, reflecting bond proceeds from a new bond issue for the Department of Corrections. Cash and cash equivalents of the General Fund Programs increased $17.9 million as the Authority maintained a higher liquidity position due to market conditions.

Direct financing leases decreased $9.2 million, since June 30, 2008, primarily due to repayments exceeding disbursements.

The Authority's current liabilities increased to $70.1 million from $62.2 million, attributed to new contracts payable between ADFA and Department of Corrections.

ADFA's total liabilities of $1.2 billion, consisting primarily of net bonds and notes payable, decreased $224.2 million since June 30, 2008. This decrease is primarily related to the full redemption of the notes payable in the Single Family Note Program, which had a balance of $204.9 million at June 30, 2008. In addition, bonds and notes payable for General Fund Programs for warehousing mortgage-backed securities declined $49.3 million, which was offset by an increase in bonds and notes payable for the Single Family Mortgage Purchase Program in the amount of $46.7 million.

Condensed Statements of Revenues, Expenses and Changes in Net Assets

(In thousands)	2010	2009	2008
Total investment income	$ 80,334	$ 93,513	$ 86,763
Other income	187	24	16
Total operating revenues	80,521	93,537	86,779
Total interest on bonds and notes	49,778	54,778	62,436
Total amortization	790	575	808
Administrative expenses	43,117	16,330	21,060
Total operating expenses	93,685	71,683	84,304
Operating (loss) income	(13,164)	21,854	2,475
Federal grants	45,067	10,317	14,183
Income before transfers in	31,903	32,171	16,658
Transfers in	5,000	5,000	5,000
Change in net assets	36,903	37,171	21,658
Net assets			
Beginning of year	188,509	151,338	129,680
End of year	$ 225,412	$ 188,509	$ 151,338

ADFA's income before transfers in totaled $31.9 million for the year ended June 30, 2010, compared with $32.2 million and $16.7 million for the years ended June 30, 2009 and 2008, respectively. The slight decrease from prior year relates primarily to the net decrease of net interest income (total investment income less total interest on bonds and notes) which includes the decrease of net appreciation of investments, offset by the net increase in Federal Housing Programs, mainly attributable to increased activity in the Neighborhood Stabilization Program.

Net interest income, excluding the change in fair value of investments, totaled $6.8 million for the year ended June 30, 2010, compared with $8.5 million and $10.5 million for the years ended June 30, 2009 and 2008, respectively. The decrease in the current year is attributed to investment rates declining disproportionately to ADFA's cost of funds. The net appreciation of investments was $23.7 million at June 30, 2010, compared with $30.2 million at June 30, 2009, decreasing $6.5 million, and compared with $13.9 million at June 30, 2008.

Other Financial Highlights

<u>Years ended June 30, 2010 to June 30, 2009</u>

Loans and direct financing lease income was $20.5 million for fiscal year ended June 30, 2010, compared with $21.2 million for the prior year. The related average interest yield decreased to 4.0% from 4.2% at June 30, 2009.

Revenues from investment interest and dividends were $31.8 million for 2010 and $37.4 million for 2009. The decline is primarily attributable to lower yields earned throughout ADFA's programs, most notably within the Single Family Housing Programs. Average return on cash, cash equivalents and investments was 3.6% at June 30, 2010 compared with 4.3% at June 30, 2009.

Federal grants increased $34.8 million during the year, to $45.1 million for the year ended June 30, 2010. The Neighborhood Stabilization Program, established by the Housing and Economic Recovery Act of 2009, began awarding and disbursing funds this year, resulting in federal grants to ADFA of $8.1 million. The Authority also administered two new programs this year from the American Recovery and Reinvestment Act of 2009. The programs include the Tax Credit Assistance Program, which resulted in federal grant revenue to ADFA of $5.3 million, and the Section 1602 Exchange Program, which resulted in federal grant revenue of $21.8 million.

The average interest expense on bonds and notes payable was 4.4%, compared with 4.9% at June 30, 2009.

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, 2010, reflected a $26.8 million increase in total administrative expenses. This was primarily attributed to increases in the federal financial assistance programs of $22.2 million and the provision for loan losses of $4.6 million. The increase in federal financial assistance programs primarily relates to the Section 1602 Exchange Program. The increase in the provision for loan losses is attributed to an $8.4 million increase for Federal Housing Programs (attributed to the Tax Credit Assistance Program and the Neighborhood Stabilization Program), offset by decreases in the provisions for the Bond Guaranty Program of $2.7 million and the Single Family Housing Programs of $1.8 million.

<u>Years ended June 30, 2009 to June 30, 2008</u>

Loans and direct financing lease income was $21.2 million for fiscal year ended June 30, 2009, compared with $22.8 million for the prior year. The decrease related to lower average loan and lease balances in the State and Health Facilities Programs and the Single Family Housing Programs. The related average interest yield decreased to 4.2%, from 4.3% at June 30, 2008.

Revenues from investment interest and dividends were $37.4 million for 2009 and $45.2 million for 2008. The decline was primarily attributable to the use of investments to redeem the notes payable in the Single Family Note Program in September 2008. Average return on cash, cash equivalents and investments was 4.3% for both years.

The average interest expense on bonds and notes payable was 4.9%, compared with 4.7% at June 30, 2008.

Fiscal year ended June 30, 2009, reflected a $4.7 million decrease in total administrative expenses. This was primarily attributed to decreases in the provision for loan losses of $2.6 million, federal financial assistance programs of $1.2 million and other expenses of $1.1 million.

Other Information

General Fund Programs – Warehousing. The Authority warehouses mortgage-backed securities created by its Single Family Housing Programs. The securities were funded in the current year either directly by unrestricted net assets or borrowings from the Federal Home Loan Bank of Dallas. In prior years, in addition to utilizing these funding sources, ADFA also issued variable-rate, tax-exempt draw-down bonds to fund the warehouse. The total amount of mortgage-backed securities warehoused at par at June 30, 2010 was $34.3 million, compared with $18.5 million at June 30, 2009. The associated borrowings or bonds issued in conjunction with these amounts was $4.2 million at June 30, 2010 and $231,000 at June 30, 2009.

Tobacco Bonds Program. ADFA issued $60 million of revenue bonds associated with the State of Arkansas' Tobacco Settlement Revenue (TSR) used by participating colleges to construct and equip three facilities outlined by the Arkansas Tobacco Settlement Funds Act of 2000. The bonds are repaid from the first $5 million of annual TSRs paid to the State. The financial statements for this program primarily reflect the debt service reserve account and bonds payable, but not the buildings as they reside on the financial statements of the respective colleges. Interest income is recorded as deposits against financing arrangements on the statement of net assets while interest expense is recorded as such on the statement of revenues, expenses and changes in net assets.

ADFA issued $36.9 million in non-callable capital appreciation bonds for the Arkansas Cancer Research Center Project. 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 $44.8 million at June 30, 2010, compared with $42.7 million and $26.6 million at June 30, 2009 and 2008, respectively.

Credit Ratings

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

The Authority also administers the Bond Guaranty Fund created by Act 505. The fund currently has a rating of 'A' from Standard & Poor's. The obligations of the Authority as guarantor are limited to available monies in the ADFA Guaranty Reserve Account, created and maintained pursuant to the authority conferred in the ADFA Guaranty Act.

Contacting ADFA

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

Arkansas Development Finance Authority,
A Component Unit of the State of Arkansas
Statements of Net Assets
June 30, 2010 and 2009

(In thousands)	2010	2009
Current Assets		
Cash and cash equivalents	$ 340,818	$ 183,705
Accrued interest receivable		
Investments	2,722	2,933
Loans	1,474	1,740
Accounts receivable	818	620
Investments – current portion	2,074	10,094
Loans – current portion	1,048	1,021
Total current assets	348,954	200,113
Noncurrent Assets		
Deferred charges	4,967	5,776
Investments – unrestricted	73,066	30,782
Investments – restricted	570,217	657,183
Loans, net of allowance for loan losses of $44,817 and $35,960 at June 30, 2010 and 2009, respectively	291,834	302,332
Direct financing leases – restricted	144,630	131,720
Installment sale agreement	12,340	12,795
Real estate owned	928	902
Capital assets, net	180	258
Total noncurrent assets	1,098,162	1,141,748
Total assets	1,447,116	1,341,861
Current Liabilities		
Accounts payable	859	563
Accrued interest payable	15,545	18,389
Contract obligations	8,457	6,984
Bonds and notes payable – current portion	46,098	44,187
Total current liabilities	70,959	70,123
Noncurrent Liabilities		
Deferred fees	5,852	6,776
Bonds and notes payable, net of unamortized premiums and discounts	1,113,570	1,038,716
Deposits against financing arrangements	28,430	34,614
Other liabilities	2,893	3,123
Total noncurrent liabilities	1,150,745	1,083,229
Total liabilities	1,221,704	1,153,352
Net Assets		
Restricted by bond resolution and programs	124,483	83,925
Invested in capital assets	180	258
Unrestricted	100,749	104,326
Total net assets	$ 225,412	$ 188,509

Arkansas Development Finance Authority,
A Component Unit of the State of Arkansas
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2010 and 2009

(In thousands)	2010	2009
Operating Revenues		
Investment income		
Interest and dividends	$ 31,770	$ 37,407
Loans and direct financing leases	20,538	21,234
Amortization of discounts on loans	634	1,419
Financing fees	3,653	3,210
Net appreciation of investments	23,739	30,243
Total investment income	80,334	93,513
Other	187	24
Total operating revenues	80,521	93,537
Operating Expenses		
Interest on bonds and notes		
Current	47,414	52,537
Accreted	2,364	2,241
Total interest on bonds and notes	49,778	54,778
Amortization		
Amortization of discounts and premiums on bonds and notes	(476)	(350)
Amortization of bond and note issuance costs	1,266	925
Total amortization	790	575
Administrative expenses		
Provision for loan losses	9,068	4,442
Federal financial assistance programs	27,251	5,101
Salaries and benefits	4,292	4,352
Operations and maintenance	1,518	1,513
BMIR program participant expense	48	25
Other	940	897
Total administrative expenses	43,117	16,330
Total operating expenses	93,685	71,683
Operating (Loss) Income	(13,164)	21,854
Nonoperating Revenue		
Federal grants	45,067	10,317
Income Before Transfers In	31,903	32,171
Transfers In	5,000	5,000
Change in Net Assets	36,903	37,171
Net Assets, Beginning of Year	188,509	151,338
Net Assets, End of Year	$ 225,412	$ 188,509

Arkansas Development Finance Authority,
A Component Unit of the State of Arkansas
Statements of Cash Flows
Years Ended June 30, 2010 and 2009

(In thousands)	2010	2009
Operating Activities		
Interest received on investments	$ 31,981	$ 38,447
Interest received on loans	18,659	19,261
Financing fee income received	1,589	2,384
Principal repayments on loans	28,890	41,662
Principal repayments on capital leases	9,540	11,762
Principal repayments on installment sales	455	415
Other received	187	13
Loan disbursements	(25,369)	(38,947)
Direct financing lease disbursements	(21,850)	(2,581)
Cash paid for financing arrangements	(4,229)	(13,071)
Cash paid for interest	(50,258)	(52,249)
Cash paid for program administration	(33,964)	(12,023)
Net cash used in operating activities	(44,369)	(4,927)
Noncapital Financing Activities		
Proceeds from issuance of bonds and notes payable	223,594	221,618
Repayments of bonds and notes payable	(148,717)	(434,220)
Nonoperating grants received	45,067	10,317
Transfers in	5,000	5,000
Payments of debt issuance costs	(481)	(1,482)
Collection of financing fees	514	954
Net cash provided by (used in) noncapital financing activities	124,977	(197,813)
Investing Activities		
Purchase of investments	(208,627)	(433,045)
Maturities of investments	285,068	699,322
Proceeds from sale of real estate owned	185	141
Purchase of capital assets	(121)	(22)
Net cash provided by investing activities	76,505	266,396
Increase in Cash and Cash Equivalents	157,113	63,656
Cash and Cash Equivalents, Beginning of Year	183,705	120,049
Cash and Cash Equivalents, End of Year	$ 340,818	$ 183,705

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

Statements of Cash Flows (Continued)

Years Ended June 30, 2010 and 2009

(In thousands)	2010	2009
Reconciliation of Operating Income to Net Cash Used in Operating Activities		
Operating (loss) income	$ (13,164)	$ 21,854
Items not requiring (providing) operating activities cash flows		
Amortization of discounts on loans	(634)	(1,419)
Amortization of deferred financing fees	(1,456)	(1,250)
Accreted interest on loans	(2,145)	(2,042)
Accreted interest on bonds	2,364	2,241
Amortization of bond and note discounts and premiums	(476)	(350)
Amortization of bond and note issuance costs	1,266	925
Depreciation of capital assets	49	45
Provision for loan losses	9,008	4,442
Loss on sale of real estate owned	60	73
Net appreciation of investments	(23,739)	(30,243)
Changes in		
Accounts receivable	(198)	597
Accrued interest receivable	477	1,109
Loans receivable	3,521	2,715
Direct financing leases	(12,310)	9,181
Installment sale agreement	455	415
Other assets	24	—
Accounts payable	296	60
Accrued interest payable	(2,844)	288
Contract obligations	1,473	6,984
Other liabilities	(6,396)	(20,552)
Net cash used in operating activities	$ (44,369)	$ (4,927)
Supplemental Cash Flows Information		
Real estate acquired in settlement of loans	$ 871	$ 190
Sale and financing of real estate owned	$ 600	$ 141

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 State Treasurer, Director of the Department of Finance and Administration and 11 public members appointed by the Governor. The State is financially accountable for the Authority because of the Governor's ability to appoint the majority 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 assets. 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.

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary*

Fund Accounting, the Authority has elected not to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989.

Fund Accounting

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

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

(i) Single Family Housing Programs

(a) *Single Family Mortgage Purchase Program* – Accounts for proceeds from single family mortgage revenue bonds, the debt service requirements of the bonds, and the related mortgage-backed securities or mortgage loans for single family owner-occupied housing in Arkansas.

(b) *Single Family Note Program* – Accounts for investments and notes payable related to a drawdown bond program utilized by ADFA to capture tax-exempt debt authority obtained through replacement refundings. The program utilized privately placed, tax-exempt bonds, with the bond interest rate determined by collateral earnings. As of September 2008, this program was no longer utilized by ADFA.

(c) *New Issue Bond Program* – Accounts for the issuance of single family bonds, as well as the related deferred charges and investment of bond proceeds. The U.S. Department of Treasury developed this program for housing finance agencies, whereby ADFA sold $193.1 million of bonds to Fannie Mae and Freddie Mac (the GSEs) in the current year, as escrow bonds. The bonds sold to the GSEs would represent sixty percent (60%) of the total long-term bond issue, and the other forty percent (40%) would be issued in the marketplace. The interest rate on the GSE's portion of ADFA's long-term bonds is capped at 3.81% for conversions through December 31, 2010, and a new maximum interest rate for 2011 conversions will be set in December 2010. The deadline to draw funds from escrow is December 31, 2011.

(ii) Federal Housing Programs

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

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

(c) *Tax Credit Assistance Program (TCAP)*—Accounts for federal financial assistance in the form of American Reinvestment and Recovery Act funds (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 are eligible for the sub-awards granted to the State of Arkansas from HUD for TCAP funding.

(d) *Section 1602 Exchange Program (Exchange)*—Accounts for federal financial assistance in the form of ARRA funds received from the U.S. Treasury as grants for the purpose of providing additional financing 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 IRC in federal fiscal years 2007, 2008 and 2009 are eligible for the sub-awards granted to the State of Arkansas from the U.S. Treasury for Exchange funding. Exchange funds are derived from ADFA exchanging tax credits in an amount up to $0.85 per tax credit.

(e) *Neighborhood Stabilization Program (NSP)*—Accounts for federal financial assistance received from HUD for the purpose of stabilizing neighborhoods that have suffered the most from foreclosures and abandonment. NSP was authorized by the Housing and Economic Recovery Act, which was signed into law on July 30, 2008. The Authority's NSP program 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.

(iii) Multi-Family Programs

(a) *Multi-Family Mortgage Purchase Program*—Accounts for the proceeds of the multi-family mortgage revenue bonds, the debt service requirements of the bonds, and the related mortgage loans for multi-family housing in Arkansas, most of which are HUD approved and insured.

(b) *GNMA/BMIR Bond Program*—Accounts for proceeds from the sale of GNMA Guaranteed Bonds, debt service requirements on the bonds, related Below Market Interest Rate (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.

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

(iv) Economic Development Bond Guaranty Program

(a) *Bond Guaranty Program*—Accounts for guaranty fees collected, interest earned on investments, and disbursements made in connection with bond guaranties provided by the Authority, as well as the proceeds from the sale of development revenue bonds issued by ADFA and guaranteed by the Bond Guaranty Fund; the debt service requirements of the bonds and related loans and leases to private companies and one state commission. The fund was created by Act 505 of 1985, which authorized a grant of $6 million from the State Treasurer (which was subsequently repaid by the Authority) for the purpose of enhancing and supporting the creditworthiness of bonds and other debt instruments guaranteed by the Authority. At June 30, 2010 and 2009, the fund had cash and cash equivalents and investments totaling $18.0 million and $19.1 million, respectively, in the reserve account to collateralize Authority-guaranteed bonds and future issues under the bond guaranty program.

(v) State and Health Facilities Programs

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

(vi) Other Economic Development Programs

(a) *Other Economic Development Programs*—Accounts for the proceeds from the sale of the Higher Education Capital Asset Program bonds and a note payable for the Intermediary Relending Program, which was paid in full in May 2009; and the related debt service requirements of the bonds and note and related loans to private businesses and public higher education institutions. Also, accounts for loan reserve programs, such as Capital Access, Business Life and Disadvantaged Business Enterprise.

(vii) Tobacco Bonds Program

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

(viii) General Fund Programs

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

Use of Estimates

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

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, valuation of real estate acquired in connection with foreclosures or in satisfaction of loans 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, 2010 and 2009, cash equivalents of $340.8 million and $183.7 million, respectively, consisted primarily of money market mutual funds with variable interest rates.

Investments and Investment Income

Investments are carried at fair value. Fair value is determined using quoted market prices, if available.

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

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

The fair value of the investments was in excess of the cost basis by $48.5 million and $28.3 million at June 30, 2010 and June 30, 2009, 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 or 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. 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 uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

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

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

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

Income Taxes

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

Direct Financing Leases

The Authority issues revenue bonds to provide financing of correction facilities, office space for the State of Arkansas and certain transactions for private companies. In all cases, the Authority does not maintain or operate the facilities. Arrangements of this type are accounted for in the various funds as financing arrangements in accordance with the provisions of Accounting Standards Codification (ASC) Topic 840, Leases (formerly, Financial Accounting Standards Board Statement No. 13, *Accounting for Leases).*

Installment Sale Agreement

The Authority issued revenue bonds to acquire certain real property and interests in real property for the State of Arkansas. This arrangement is accounted for in the State and Health Facilities Fund as a financing arrangement in accordance with the provisions of ASC Topic 840, Leases (formerly, Financial Accounting Standards Board Statement No. 13, *Accounting for Leases).*

Deferred Charges

Costs related to issuing bonds and underwriters' compensation on sale of bonds are capitalized and amortized over the term of the bonds using the interest method. Early retirement of bonds results in the acceleration of amortization of bond issuance costs.

Capital Assets

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

Deposits Against Financing Arrangements

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

Contract Obligations

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

Deferred Fees

The Authority receives commitment fees for earmarking funds and financing fees from borrowers. Deferred commitment fees, which are nonrefundable, are amortized into income ratably over the term of the respective programs using the effective interest method.

Conduit Debt Obligations

Conduit debt issued by the Authority is recorded on the Authority's statement of net assets if either (a) the Authority has a vested interest in the residual value of the bond issue after its retirement or (b) the Authority guarantees the debt through the Bond Guaranty Fund. Additionally, the Authority reports conduit debt obligations of entities that are included in the State of Arkansas reporting entity on its statement of net assets. At June 30, 2010 and 2009, the principal balance of these bonds included in the Authority’s statement of net assets totaled $273.9 million and $269.1 million, respectively.

Net Assets

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

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

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

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

Note 2: Deposits and Investments

Deposits

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

At June 30, 2010 and 2009, the carrying value of the Authority's deposits was $4.3 million and $19.0 million, respectively. The balances per the bank statements totaled $4.8 million and $19.6 million, respectively. Of those deposits, $3.7 million and $18.7 million, respectively, were exposed to custodial credit risk as follows:

(In thousands)	2010	2009
Uninsured and uncollateralized	$ 2,759	$ 17,279
Uninsured and collateral held by pledging financial institution's trust department or agent in other than the Authority's name	911	1,464
	$ 3,670	$ 18,743

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

Investments

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

At June 30, 2010 and 2009, the Authority had the following investments and maturities:

(In thousands)

	June 30, 2010				
		Maturities in Years			
Type	Fair Value	Less than 1	1-5	6-10	More than 10
U.S. Treasury obligations	$ 24,506	$ 10,828	$ 11,076	$ 2,602	$ —
U.S. agencies obligations	13,299	1,085	10,788	1,426	—
Mortgage-backed securities	583,782	—	—	4,881	578,901
Money market mutual funds	337,523	337,523	—	—	—
Guaranteed investment contracts	21,514	—	3,011	5,078	13,425
Municipal bonds	237	—	237	—	—
Mutual bond funds	989	989	—	—	—
	$ 981,850	$ 350,425	$ 25,112	$ 13,987	$ 592,326

	June 30, 2009				
		Maturities in Years			
Type	Fair Value	Less than 1	1-5	6-10	More than 10
U.S. Treasury obligations	$ 31,749	$ 10,144	$ 15,527	$ 6,040	$ 38
U.S. agencies obligations	22,304	9,127	11,760	1,417	—
Mortgage-backed securities	612,665	—	—	5,080	607,585
Money market mutual funds	166,075	166,075	—	—	—
Guaranteed investment contracts	28,628	—	3,209	7,781	17,638
Municipal bonds	340	—	340	—	—
Mutual bond funds	976	976	—	—	—
	$ 862,737	$ 186,322	$ 30,836	$ 20,318	$ 625,261

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 7 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 assets. The Authority invests in these securities to enhance yields on investments. Changes in market interest rates could affect the cash flows of these securities and may result in changes in fair value. The overall return or yield on these securities depends on the changes in the interest and principal payment pattern and the market value of the underlying assets.

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The Authority 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 rated "AAA" by Standard & Poor's and its investments in money market mutual funds or the investments of those funds were rated "AAAm" by Standard & Poor's and "Aaa" by Moody's Investors Service. The Authority's investments in guaranteed investment contracts were with providers having at least one rating, with no rating being lower than "A" as of June 30, 2010.

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, 2010, are as follows (in thousands):

Issuer	Fair Value	Percentage
Federal National Mortgage Association	$ 66,069	6.73%

Summary of Carrying Values

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

(In thousands)	2010	2009
Carrying value		
Deposits	$ 4,325	$ 19,027
Investments	981,850	862,737
	$ 986,175	$ 881,764
Included in the following balance sheet captions:		
Current assets		
Cash and cash equivalents	$ 340,818	$ 183,705
Investments – current portion	2,074	10,094
Noncurrent assets		
Investments – unrestricted	73,066	30,782
Investments – restricted	570,217	657,183
	$ 986,175	$ 881,764

Note 3: Loans

Federal Housing Programs – Includes loans funded by federal agencies, mainly HUD, and are either for multi-family housing developments or single-family housing 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, 2010 and 2009, respectively, the Authority reported loans of $23.7 million and $14.4 million as deferred loans, and $19.5 million and $14.2 million as surplus cash loans. These types of loans have related allowances of $30.0 million and $22.9 million at June 30, 2010 and 2009, respectively.

Multi-Family Mortgage Purchase Program – Includes a 2001 bond issue which refinanced mortgage loans on multi-family residential rental properties intended for occupancy by persons and families of low and moderate income. The loans are insured by the FHA under Section 223(a)(7) of the National Housing Act of 1937, as amended. All of the units of each housing development are rented to persons qualifying under the HUD Section 8 Housing Assistance Payment Program. Each of the loans, as refinanced, bears an interest rate of 6.5% and has a maturity and final payment date of October 1, 2035.

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, 2010 and 2009, respectively, the Authority reported in its statement of net assets $45.4 million and $48.3 million in loans and leases to private companies and one state commission as well as $52.6 million and $57.4 million in related bond issues, which are guaranteed by the Bond Guaranty Fund. Differences between the loan balance and the related bond balance are attributed primarily to the allowance for loan loss of $10.5 million and $10.0 million, timing differences between loan collection and bond payment of $0.5 million and $1.6 million, offset by loans with no associated bonds of $5.2 million and $5.1 million at June 30, 2010 and 2009, respectively. Differences also exist due to foreclosures and financing of real estate owned properties of $0.9 million and $1.9 million at June 30, 2010 and 2009, respectively. Additionally, the Bond Guaranty Fund guarantees principal and interest on revenue bonds issued by municipalities within the State of Arkansas for economic development purposes. At June 30, 2010 and 2009, bonds outstanding of $28.3 million and $23.4 million, respectively, were guaranteed by the Bond Guaranty Fund. Furthermore, the Bond Guaranty Fund guarantees principal and interest on bond anticipation notes. At June 30, 2010 and 2009, the principal amount on these notes totaled $7.5 million outstanding with $4.0 million guaranteed.

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

State and Health Facilities Programs – Includes financing activities with various state agencies and health facilities. At June 30, 2010 and 2009, respectively, the Authority reported loans of $103.0 million and $113.0 million, direct financing leases and installment sale of $150.6 million and $137.1 million, and bonds outstanding of $280.4 million and $277.3 million related to the financing arrangements with these institutions and agencies. Differences between the loan and lease balances and the related bond balances are attributed primarily to construction draw payable accounts of $25.8 million and $27.2 million at June 30, 2010 and 2009, 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 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.

The stated interest rates on the loans are as follows:

	Stated Interest Rate
Federal Housing and Multi-Family Programs	0.00 to 6.50%
Bond Guaranty Program	Rate on bonds
State and Health Facilities Programs	Rate on bonds
Tobacco Bonds Program	4.77 to 5.10%
General Fund Programs	1.00 to 9.50%

Impaired loans totaled $68.3 million and $54.2 million at June 30, 2010 and 2009, respectively, with related allowances for loan losses of $41.6 million and $32.5 million. Impaired loans include loans made under the Federal Housing Programs with repayment terms allowing deferment or repayment based on net income of the multi-family developments. These loans totaled $44.6 million and $29.3 million at June 30, 2010 and 2009, respectively, with related allowances for loan losses of $30.9 million and $23.6 million. Impaired loans also include loans with a reserve percentage of 20% or more. Impaired loans for the Bond Guaranty and the General Fund programs totaled $22.8 million and $24.9 million at June 30, 2010 and 2009, respectively, with related allowances for loan losses of $10.3 million and $8.9 million.

At June 30, 2010 and 2009, respectively, accruing loans delinquent 180 days or more totaled $0.7 million and $0.6 million. Non-accruing loans at June 30, 2010 and 2009, respectively, were $72.5 million and $53.6 million.

Note 4: Net Investment in Direct Financing Leases

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

Future minimum lease payments receivable under these leases at June 30, 2010, were as follows:

(In thousands)		Lease Payments
Year ending June 30,		
2011	$	14,041
2012		13,586
2013		13,577
2014		12,819
2015		11,457
2016 – 2020		58,665
2021 – 2025		42,505
2026 – 2030		29,509
2031 – 2035		17,124
2036 – 2040		5,841
2041 – 2045		488
Total minimum lease payments receivable		219,612
Less amount representing interest		(74,982)
Present value of minimum lease payments receivable	$	144,630

Note 5: Capital Assets

Premises and equipment at June 30 are summarized as follows:

(In thousands)		2010		2009
Cost				
Premises and equipment	$	504	$	792
Less accumulated depreciation		(324)		(534)
Net	$	180	$	258

Depreciation expense for the years ended June 30, 2010 and 2009, respectively, was approximately $49,000 and $45,000.

Note 6: Bonds and Notes Payable

Bonds and notes payable at June 30 were as follows:

(In thousands)	2010	2009
Total Single Family Bonds and Note Payable, with interest rates ranging from 0.25 – 9.878% and final maturity at varying dates through 2038	$ 688,100	$ 599,309
Less unamortized discount/plus unamortized premium	2,200	2,741
Total Single Family Bonds Payable, net	690,300	602,050
Total Multi-Family Bonds Payable, with interest rates ranging from 4.15 – 9.75% and final maturity at varying dates through 2035	44,410	57,551
Less unamortized discount/plus unamortized premium	(410)	(464)
Total Multi-Family Bonds Payable, net	44,000	57,087
Total Economic Development Bonds Payable, Guaranteed by the Bond Guaranty Fund, with interest rates ranging from 2.5 – 7.45% and final maturity at varying dates through 2034	52,642	57,400
Total State and Health Facilities Bonds Payable, with interest rates ranging from 1.4 – 7.0% and final maturity at varying dates through 2040	280,420	277,255
Total Other Economic Development Bonds and Note Payable, with interest rates ranging from 5.25 – 5.7% and final maturity at varying dates through 2015	495	551
Less unamortized discount/plus unamortized premium	(34)	(45)
Total Other Economic Development Bonds Payable, net	461	506

(In thousands)	2010	2009
Tobacco Bonds Payable, with interest rates ranging from 4.125 – 5.5% and final maturity at varying dates through 2045	$ 87,609	$ 88,374
Total General Fund Bond and Note Payable, with interest rates ranging from 0.21 – 0.35% and final maturity at varying dates through 2011	4,236	231
Total all programs bonds and notes payable, net	$ 1,159,668	$ 1,082,903

Activity in bonds and notes payable for fiscal year 2010 was as follows:

(In thousands)	Beginning Balance	Additions Including Accretion	Reductions	Ending Balance	Amount Due within One Year
Bonds payable	$ 1,080,671	$ 221,722	$ (148,717)	$ 1,153,676	$ 46,098
Notes payable	—	4,236	—	4,236	—
	1,080,671	225,958	(148,717)	1,157,912	46,098
Unamortized premiums	2,232	—	(476)	1,756	—
Total	$ 1,082,903	$ 225,958	$ (149,193)	$ 1,159,668	$ 46,098

Activity in bonds and notes payable for fiscal year 2009 was as follows:

(In thousands)	Beginning Balance	Additions Including Accretion	Reductions	Ending Balance	Amount Due within One Year
Bonds payable	$ 1,084,940	$ 187,241	$ (191,510)	$ 1,080,671	$ 44,187
Notes payable	205,723	36,987	(242,710)	—	—
	1,290,663	224,228	(434,220)	1,080,671	44,187
Unamortized premiums	2,951	(368)	(351)	2,232	—
Total	$ 1,293,614	$ 223,860	$ (434,571)	$ 1,082,903	$ 44,187

Future amounts required for principal and interest on all bonds and notes payable at June 30, 2010, were as follows:

(In thousands)	Principal	Interest
Year Ending June 30,		
2011	$ 46,098	$ 44,391
2012	235,053	42,306
2013	39,066	40,091
2014	36,753	38,332
2015	38,363	36,422
2016 – 2020	180,530	156,376
2021 – 2025	192,407	113,594
2026 – 2030	185,460	70,664
2031 – 2035	169,414	32,029
2036 – 2040	85,330	9,224
2041 – 2045	26,068	117
Unamortized premiums and discounts	1,756	—
Accreted interest	(76,630)	76,630
Total	$ 1,159,668	$ 660,176

Under the bond resolutions, the Authority has the option to redeem bonds at various premium rates. Generally, the redemption option cannot be exercised prior to the time the bonds have been outstanding for 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, 2010, the remaining principal amounts outstanding on defeased issues (which are excluded from the Authority's financial statements) are as follows:

(In thousands) Issue	Date of Defeasance	Principal Outstanding
1979 Series A Single Family Conventional Bonds	September 1988	$ 16,705
2003 Series A Correction Facilities Revenue Refunding Bonds	June 2009	$ 1,870
2001 Series C Multi-Family Mortgage Revenue Refunding Bonds (partial defeasance)	April 2010	$ 2,440

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, 2010 and 2009, respectively, the bonds outstanding issued under these programs aggregated $206.9 million and $234.3 million.

Note 7: Concentrations of Risk in Lending and Loan Receivable Insurance

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

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

Note 8: Retirement Plan

The officials and employees of the Authority participate in a state-wide, 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 percent 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 11% of gross payroll. Required payroll contributions totaled approximately $321,000, $322,000 and $358,000 for the years ended June 30, 2010, 2009 and 2008, respectively. All contributions required of the Authority were made for the years ended June 30, 2010, 2009 and 2008. For the years ended June 30, 2010, 2009 and 2008, the Authority's covered payroll and total payroll for all employees amounted to $4.3 million, $4.3 million and $4.2 million, respectively.

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. The report may be obtained by writing to the plan at 124 West Capitol, Suite 400, Little Rock, Arkansas 72201 or by calling 501.682.7800.

Act 2084 of 2005 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.

Other Post-Employment Benefits

During the fiscal years ended June 30, 2010, 2009 and 2008, the Authority recorded expenses of $234,000, 240,000 and $198,000, respectively, for the annual required contributions (ARC) and cumulative liabilities of $672,000, $438,000 and $198,000, respectively, included in other liabilities on the statements of net assets, 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: 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 collectibility of any related receivable at June 30, 2010 and 2009, 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 $26.3 million and $28.1 million of amounts recorded as cash and investments in the statement of net assets that may be disbursed to borrowers under loan and lease agreements closed prior to June 30, 2010 and 2009, respectively.

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

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

The Authority offers continuous lending in its HomeToOwn Single Family Program, which offers 30-year mortgage loans to first time homebuyers, subject to income and purchase price limitations. The Authority allows lenders to reserve funds at a specific interest rate via the Internet. The interest rate is determined by the Authority and can change at any time, based on program volume, conventional mortgage rates, and other factors. At the time of the reservation, the Authority may or may not have corresponding long-term bonds to fund the loans. This exposes the Authority to interest rate risk. The Authority warehoused mortgage-backed securities created with some of these loans, funded with either unrestricted net assets, borrowings from the Federal Home Loan Bank of Dallas or draw-down bonds, and this also exposes the Authority to interest rate risk. At June 30, 2010 and 2009, the Authority had accepted loan reservations and/or warehoused mortgage-backed securities of approximately $58.5 million and $18.8 million, respectively, for which there were no corresponding long-term bond commitments. However, the Authority is participating in the New Issue Bond Program, whereby the GSEs have committed to purchase up to $193.1 million in ADFA single family bonds, with those bonds comprising sixty percent (60%) of an entire bond issue and the remaining forty percent (40%) being sold in the market place. The interest rate on any GSE bonds purchased through December 31, 2010 is capped at 3.81%, and a new maximum interest rate will be set in December 2010 for bonds purchased by the GSEs in calendar year 2011. The commitment to purchase ADFA bonds expires December 31, 2011.

The Internal Revenue Code's recapture tax requires some mortgagors to pay the federal government a portion of the Authority's borrowers' gain on sale of single family homes, if the home was financed using a mortgage revenue bond. The tax will never exceed one-half of the gain on the sale of the home, or 6.25% of the original mortgage, whichever is less. In order to owe the tax, three conditions must apply with respect to the ADFA borrower. First, the borrower's household income must rise, in aggregate, approximately five percent or more per year. Second, the home must be sold within the first nine years of ownership, and third, there must be a gain on the sale of the home. For all reservations received on or after October 1, 2008, ADFA has committed to reimburse mortgagors for any recapture paid. The potential amount due to mortgagors under this program is not expected to be significant. This reimbursement program may be discontinued at any time at the Authority's discretion. No reimbursements have been paid to date relative to ADFA's commitment.

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 $21.5 million as of June 30, 2010, and $17.4 million as of June 30, 2009. As of June 30, 2010, there were seven approved investments totaling $24.1 million, of which $8.1 million has yet to be funded that are anticipated to become part of the AIF.

In June 2006, the Authority issued $300 million in variable rate, tax-exempt draw-down bonds, which are secured by fixed-rate mortgage-backed securities and a back up pledge of the Authority's Issuer Credit Rating. In conjunction with this pledge, the Authority agreed to maintain $8.6 million in federal agency securities while these bonds are outstanding. At June 30, 2009, $0.2 million in these bonds were outstanding. In the event the mortgage-backed securities could not provide for the redemption of the bonds, the Authority was obligated for any shortfalls. The bonds were fully redeemed May 1, 2010.

Supplementary Information

Arkansas Development Finance Authority,
A Component Unit of the State of Arkansas
Combining Statement of Net Assets
June 30, 2010

(In thousands)	Single Family Housing Programs	Federal Housing Programs	Multi-Family Programs	Economic Development Bond Guaranty Program
Current Assets				
Cash and cash equivalents	$ 264,398	$ 290	$ 6,197	$ 8,508
Accrued interest receivable	2,183	27	228	153
Accounts receivable	1	141	35	—
Investments – current portion	—	—	—	—
Loans – current portion	—	—	—	—
Total current assets	266,582	458	6,460	8,661
Noncurrent Assets				
Deferred charges	4,853	—	39	52
Investments – unrestricted	—	—	—	—
Investments – restricted	524,234	—	18,656	13,888
Loans, net	107	43,066	38,149	39,023
Direct financing leases – restricted	—	—	—	6,386
Installment sale agreement	—	—	—	—
Real estate owned	—	76	4	848
Capital assets, net	—	—	—	—
Total noncurrent assets	529,194	43,142	56,848	60,197
Total assets	795,776	43,600	63,308	68,858
Current Liabilities				
Accounts payable	236	425	—	8
Accrued interest payable	11,910	—	329	770
Contract obligations	—	—	—	—
Bonds and notes payable – current portion	10,955	—	8,389	4,743
Total current liabilities	23,101	425	8,718	5,521
Noncurrent Liabilities				
Deferred fees	4,026	—	54	1,748
Bonds and notes payable, net of unamortized premiums and discounts	679,345	—	35,611	47,899
Deposits against financing arrangements	—	4	247	2,007
Other liabilities	33	—	1,878	—
Total noncurrent liabilities	683,404	4	37,790	51,654
Total liabilities	706,505	429	46,508	57,175
Net Assets (Deficit)				
Restricted by bond resolution and programs	89,271	43,171	16,800	11,683
Invested in capital assets	—	—	—	—
Unrestricted	—	—	—	—
Total net assets (deficit)	$ 89,271	$ 43,171	$ 16,800	$ 11,683

State and Health Facilities Programs	Other Economic Development Programs	Tobacco Bonds Program	General Fund Programs	Eliminations	Total
$ 50,700	$ 2,164	$ 2,860	$ 5,701	$ —	$ 340,818
1,145	2	30	428	—	4,196
97	—	—	1,785	(1,241)	818
—	—	—	2,074	—	2,074
—	—	—	1,048	—	1,048
51,942	2,166	2,890	11,036	(1,241)	348,954
—	—	—	23	—	4,967
—	—	—	73,066	—	73,066
9,049	—	4,390	—	—	570,217
103,027	372	44,839	23,251	—	291,834
138,244	—	—	—	—	144,630
12,340	—	—	—	—	12,340
—	—	—	—	—	928
—	—	—	180	—	180
262,660	372	49,229	96,520	—	1,098,162
314,602	2,538	52,119	107,556	(1,241)	1,447,116
—	—	153	1,278	(1,241)	859
2,350	2	183	1	—	15,545
8,457	—	—	—	—	8,457
16,315	55	1,405	4,236	—	46,098
27,122	57	1,741	5,515	(1,241)	70,959
—	—	—	24	—	5,852
264,105	406	86,204	—	—	1,113,570
23,375	22	2,765	10	—	28,430
—	—	17	965	—	2,893
287,480	428	88,986	999	—	1,150,745
314,602	485	90,727	6,514	(1,241)	1,221,704
—	2,053	(38,608)	113	—	124,483
—	—	—	180	—	180
—	—	—	100,749	—	100,749
$ 0	$ 2,053	$ (38,608)	$ 101,042	$ 0	$ 225,412

Arkansas Development Finance Authority,
A Component Unit of the State of Arkansas
Combining Statement of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2010

(In thousands)	Single Family Housing Programs	Federal Housing Programs	Multi-Family Programs	Economic Development Bond Guaranty Program
Operating Revenues				
Investment income				
Interest and dividends	$ 28,252	$ —	$ 411	$ 529
Loans and direct financing leases	5	304	2,242	2,430
Amortization of discounts on loans	—	—	634	—
Financing fees	992	—	20	730
Net appreciation of investments	18,974	—	161	294
Total investment income	48,223	304	3,468	3,983
Other	—	—	162	13
Total operating revenues	48,223	304	3,630	3,996

State and Health Facilities Programs	Other Economic Development Programs	Tobacco Bonds Program	General Fund Programs	Eliminations	Total
$ —	$ 2	$ —	$ 2,576	$ —	$ 31,770
12,240	23	2,145	1,149	—	20,538
—	—	—	—	—	634
—	—	—	3,371	(1,460)	3,653
—	—	—	4,310	—	23,739
12,240	25	2,145	11,406	(1,460)	80,334
—	9	—	3	—	187
12,240	34	2,145	11,409	(1,460)	80,521

Arkansas Development Finance Authority,
A Component Unit of the State of Arkansas
Combining Statement of Revenues, Expenses and Changes in Net Assets (Continued)
Year Ended June 30, 2010

(In thousands)	Single Family Housing Programs	Federal Housing Programs	Multi-Family Programs	Economic Development Bond Guaranty Program
Operating Expenses				
Interest on bonds and notes				
Current	$ 26,064	$ —	$ 3,810	$ 2,880
Accreted	220	—	—	—
Total interest on bonds and notes	26,284	—	3,810	2,880
Amortization				
Amortization of discounts and premiums on bonds and notes	(540)	—	54	—
Amortization of bond and note issuance costs	1,229	—	37	—
Total amortization	689	—	91	—
Administrative expenses				
Provision for loan losses	—	7,516	18	430
Federal financial assistance programs	—	27,251	—	—
Salaries and benefits	—	—	—	—
Operations and maintenance	—	1,203	—	—
BMIR program participant expense	—	—	48	—
Other	1,118	24	69	216
Total administrative expenses	1,118	35,994	135	646
Total operating expenses	28,091	35,994	4,036	3,526
Operating Income (Loss)	20,132	(35,690)	(406)	470
Nonoperating Revenue				
Federal grants	—	44,898	—	—
Income (Loss) Before Transfers In (Out)	20,132	9,208	(406)	470
Transfers In (Out)	9,512	—	(757)	—
Change in Net Assets (Deficit)	29,644	9,208	(1,163)	470
Net Assets (Deficit), Beginning of Year	59,627	33,963	17,963	11,213
Net Assets (Deficit), End of Year	$ 89,271	$ 43,171	$ 16,800	$ 11,683

State and Health Facilities Programs	Other Economic Development Programs	Tobacco Bonds Program	General Fund Programs	Eliminations	Total
$ 12,337	$ 29	$ 2,291	$ 3	$ —	$ 47,414
—	—	2,144	—	—	2,364
12,337	29	4,435	3	—	49,778
—	10	—	—	—	(476)
—	—	—	—	—	1,266
—	10	—	—	—	790
—	—	—	1,104	—	9,068
—	—	—	—	—	27,251
—	—	—	4,292	—	4,292
—	—	—	1,000	(685)	1,518
—	—	—	—	—	48
—	42	—	246	(775)	940
—	42	—	6,642	(1,460)	43,117
12,337	81	4,435	6,645	(1,460)	93,685
(97)	(47)	(2,290)	4,764	—	(13,164)
97	—	—	72	—	45,067
—	(47)	(2,290)	4,836	—	31,903
—	—	5,000	(8,755)	—	5,000
—	(47)	2,710	(3,919)	—	36,903
—	2,100	(41,318)	104,961	—	188,509
$ 0	$ 2,053	$ (38,608)	$ 101,042	$ 0	$ 225,412