

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

*Combined Financial Statements and Additional
Information for the Year Ended June 30, 2001,
and Independent Auditors' Report*

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

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INDEPENDENT AUDITORS' REPORT

The Board of Directors of
Arkansas Development Finance Authority:

We have audited the accompanying combined balance sheet of Arkansas Development Finance Authority, a Component Unit of the State of Arkansas (the "Authority"), as of June 30, 2001, and the related combined statements of revenues, expenses, and changes in retained earnings and of cash flows for the year then ended. These combined financial statements are the responsibility of the management of the Authority. Our responsibility is to express an opinion on these combined financial statements based on our audit.

We conducted our audit 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 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 audit provides a reasonable basis for our opinion.

In our opinion, such combined financial statements present fairly, in all material respects, the financial position of the Authority as of June 30, 2001, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the combined financial statements taken as a whole. The combining financial statements listed in the foregoing table of contents are presented for the purpose of additional analysis and are not a required part of the combined financial statements of the Authority. These financial statements are also the responsibility of the management of the Authority. Such additional information has been subjected to the auditing procedures applied in our audit of the combined financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the combined financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 14, 2001, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

September 14, 2001

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

COMBINED BALANCE SHEET

JUNE 30, 2001

(EXPRESSED IN THOUSANDS)

ASSETS

Cash and cash equivalents	\$ 118,419
Accounts receivable	1,505
Accrued interest receivable	8,799
Accrued rent receivable	690
Investments, at fair value	1,149,138
Loans receivable, net of allowance \$10,533	394,333
Deferred charges	10,668
Direct financing leases	64,104
Real estate owned	1,625
Capitalized assets, net	<u>487</u>
TOTAL ASSETS	<u><u>\$1,749,768</u></u>

LIABILITIES AND RETAINED EARNINGS

Accounts payable	\$ 6,302
Accrued interest payable	28,866
Bonds and notes payable, net of unamortized discounts and premiums	1,510,217
Deposits against financing arrangements	43,727
Deferred fees	<u>9,415</u>
Total liabilities	1,598,527

COMMITMENTS AND CONTINGENCIES

RETAINED EARNINGS:

Reserved for programs	107,337
Unreserved	<u>43,904</u>
Total retained earnings	<u>151,241</u>

TOTAL LIABILITIES AND RETAINED EARNINGS **\$1,749,768**

See notes to combined financial statements.

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

**COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED
EARNINGS**

**YEAR ENDED JUNE 30, 2001
(EXPRESSED IN THOUSANDS)**

REVENUES:

Investment income:	
Loans and direct financing lease income	\$ 29,351
Interest and dividends	60,409
Amortization of discounts on loans	11,696
Financing fee income	2,351
Net appreciation in the fair value of investments	<u>38,631</u>
Total investment income	142,438
Federal financial assistance	13,339
Other income	<u>22</u>
Total revenues	155,799

EXPENSES:

Interest on bonds and notes:	
Current interest	87,171
Accreted interest	<u>912</u>
Total interest on bonds and notes	88,083
Amortization:	
Amortization of discounts and premiums on bonds and notes	(212)
Amortization of bond and note issuance costs	<u>1,557</u>
Total amortization	1,345
Administrative expenses:	
Provision for loan losses	5,200
Federal financial assistance programs	9,352
Salaries and benefits	3,255
Operations and maintenance	752
BMIR program participant expense	3,093
Other	<u>2,676</u>
Total administrative expenses	<u>24,328</u>
Total expenses	<u>113,756</u>

NET INCOME 42,043

RETAINED EARNINGS:

Beginning of year	<u>109,198</u>
End of year	<u><u>\$ 151,241</u></u>

See notes to combined financial statements.

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

**COMBINED STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2001
(EXPRESSED IN THOUSANDS)**

OPERATING ACTIVITIES:

Net income	\$ 42,043
Adjustments to reconcile net income to net cash used in operating activities:	
Amortization of discounts on loans	(11,696)
Amortization of deferred financing fees	(1,275)
Accreted interest	912
Amortization of bond and note discounts	(212)
Amortization of bond and note issuance costs	1,557
Depreciation of capitalized assets	69
Provision for loan losses	5,200
Net appreciation of investments	(38,631)
Changes in operating assets and liabilities:	
Accounts receivable	773
Accrued interest receivable	2,290
Accrued rent receivable	76
Other assets	290
Accounts payable	(3,586)
Accrued interest payable	905
Other liabilities	<u>(3,119)</u>
Net cash used in operating activities	(4,404)

INVESTING ACTIVITIES:

Purchase of investments	(1,182,847)
Maturities of investments	1,070,027
Purchase of capitalized assets	(196)
Loan disbursements	(37,702)
Principal repayments on loans	71,740
Direct financing lease disbursements	(304)
Principal repayments on capital leases	<u>7,856</u>
Net cash used in investing activities	(71,426)

(Continued)

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

**COMBINED STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2001
(EXPRESSED IN THOUSANDS)**

NONCAPITAL FINANCING ACTIVITIES:

Proceeds from issuance of bonds and notes payable	\$ 211,829
Repayments of bonds and notes payable	(178,261)
Payments of debt issuance cost	(806)
Collection of financing fees	<u>1,076</u>

Net cash provided by noncapital
financing activities 33,838

NET DECREASE IN CASH AND
CASH EQUIVALENTS (41,992)

CASH AND CASH EQUIVALENTS:

Beginning of year 160,411

End of year \$ 118,419

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION -

Interest paid \$ 87,178

SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES -

Real estate acquired in settlement of loans \$ 670

See notes to combined financial statements.

(Concluded)

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

**NOTES TO COMBINED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2001**

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Arkansas Development Finance Authority (the "Authority") 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.

Bonds and other debt instruments issued by the Authority and included on the Authority's combined financial statements are 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 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.

The major accounting principles and practices followed by the Authority are presented below:

Basis of Accounting - The Authority uses the accrual method of accounting whereby expenses are recognized when the liability is incurred and revenues are recognized when earned. The Authority has adopted the provisions of GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Funds that Use Proprietary Fund Accounting*. As permitted by the statement, the Authority has elected not to adopt Financial Accounting Standards Board ("FASB") Statements issued after November 30, 1989, unless the GASB specifically adopts such FASB Statements or Interpretations.

Fund Accounting - The Authority's accounts are organized as funds, each of which includes accounts for the assets, liabilities, retained earnings, revenues, and expenses of the Authority's programs and general fund.

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

- (i) Single Family Housing Program Fund
 - (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 loans for single family owner-occupied housing in Arkansas.

- (ii) Multi-Family Housing Program Fund
 - (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) *Section 8 Housing Assistance Payment Program* - Accounts for Section 8 housing assistance funds received in advance, housing assistance payment disbursements, and Authority fees and expenses related to the Section 8 Housing Assistance Payment Program.
 - (c) *GNMA/BMIR Loan Purchase Program* - Accounts for proceeds from the sale of GNMA Guaranteed Bonds, debt service requirements on the bonds, related Below Market Interest Rate 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.
 - (d) *HOME Partnership Program* - Accounts for federal financial assistance received from the Department of Housing and Urban Development for the purpose of developing and supporting affordable housing through tenant based rental assistance, rental rehabilitation, new construction, or assistance to homebuyers and homeowners.
- (iii) Economic Development Program Fund
 - (a) *Development Finance Program* - Accounts for the proceeds from the sale of development revenue bonds and notes; the debt service requirements of the bonds and notes and related loans to developers, 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. To a limited extent and only when specified by a specific trust indenture, the payment of principal and interest on the obligations not directly owed by the Authority is guaranteed by the Authority (see Note 3).
 - (b) *Bond Guaranty Program* - Accounts for guaranty fees collected, interest earned on investments, and disbursements made in connection with bond guaranties provided by the Authority. 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, 2001, the funds had cash and cash equivalents and investments totaling \$24.6 million in the reserve account to collateralize Authority-guaranteed bonds and future issues under the bond guaranty program.
- (iv) Other Programs and General Fund
 - (a) *ADFA General Fund* - Accounts for 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; and money or residual assets, such as mortgages, transferred from other funds to the extent such transfers are permitted by the resolutions.

Cash and Cash Equivalents - Cash and cash equivalents include all cash balances and highly liquid investments with a maturity at acquisition of three months or less.

Investments - The Authority accounts for investments in accordance with Governmental Accounting Standards Board Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* ("GASB 31"). GASB 31 requires that certain investments be reported at fair value and that changes in the fair value of investments be reported as a component of investment income. The fair value of the investments at June 30, 2001, was in excess of the cost-basis by approximately \$1.2 million.

The Authority utilizes various investment instruments. Those investments are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of those investments will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position. Significant fluctuations in fair values could occur from year to year and the amounts the Authority will ultimately realize could differ materially.

Loans Receivable - Loans are recorded at cost, adjusted for any discount or premium prorated to maturity and an allowance for losses. The loans are not valued at the lower of cost or market because it is the Authority's intention to hold the loans to maturity. However, the borrower may prepay the loan or foreclosure may become necessary.

Direct Financing Leases - The Authority issues revenue bonds to provide financing of correction facilities and office space for the State of Arkansas but 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 Financial Accounting Standards Board Statement No. 13, *Accounting for Leases*.

Deferred Charges - Costs related to issuing bonds and notes and discount on sale of bonds and notes are capitalized and are amortized over the term of the bonds and notes based on the balance of bonds and notes outstanding. Early retirement of bonds results in proportionate amounts of amortization of bond issuance costs and discounts.

Capitalized Assets - Buildings and furniture, fixtures, 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.

Deferred Fees - The Authority receives commitment fees from lenders 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 based on the balance of bonds outstanding, which approximates the mortgage loans outstanding.

Provision for Losses - Provision for losses on loans and property acquired by foreclosure has been established by management based on amounts outstanding and historical experience. Provision for losses includes charges to reduce the recorded balance of loans and property to their estimated net

realizable value. Such provisions are based on management’s estimate of the net realizable value of the collateral or property, as applicable, considering current and anticipated future operating or sales information which may be affected by changing economic and/or operating conditions beyond the Authority’s control, thereby causing these estimates to be particularly susceptible to changes that could result in a future adjustment increasing the provision for losses and, consequently, decreasing retained earnings. Improvements in these factors and unforeseen recoveries may reduce the estimated allowance level and recover some of the previously provided allowance.

Conduit Debt Obligations - Conduit debt issued by the Authority is recorded on the Authority’s balance sheet 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 balance sheet.

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.

2. DEPOSITS AND INVESTMENTS

(a) Deposits - At year end the carrying amount of the Authority’s deposits was approximately \$3.8 million and the bank balance was \$4.7 million. Of the bank balance, \$1.2 million was insured by federal depository insurance and \$3.5 million was collateralized by collateral held in a Federal Reserve pledge account.

The following schedule reconciles the reported amount of deposits as disclosed above to the combined balance sheet (expressed in thousands):

Reported amount of deposits	\$ 3,837
Investments disclosed as cash equivalents for GASB 3	(915)
Cash equivalents disclosed as investments for GASB 3	<u>115,497</u>
Cash and cash equivalents as reported on the combined balance sheet	<u>\$118,419</u>

(b) Investments - In accordance with Governmental Accounting Standards Board Statement No. 3, *Accounting and Financial Reporting for Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements*, the Authority’s investments are categorized to give an indication of the level of credit risk assumed. Category 1 includes investments that are insured, collateralized or registered, or for which the securities are held by the Authority or its agent in the Authority’s name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty’s trust department or agent in the Authority’s name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty’s trust department or agent but not in the Authority’s name.

Investments at June 30, 2001, by security type and level of credit risk (expressed in thousands):

Security Type	Category			Fair Value
	1	2	3	
Categorized:				
U.S. Government and agency securities	\$ 861,280			\$ 861,280
Commercial paper	<u>253</u>			<u>253</u>
Total investments categorized by investment type	<u>\$861,533</u>			<u>861,533</u>
Uncategorized:				
Investment agreements				285,728
Money market mutual funds				<u>116,459</u>
Total uncategorized				<u>402,187</u>
TOTAL INVESTMENTS				<u>\$1,263,720</u>

Under the investment agreements noted above, monies held by the trustees of the respective issues are invested at guaranteed rates for predetermined periods of time. The investments are backed by noncollateralized promissory notes of the lending institutions, most of which are rated A or better; therefore, the collectibility of such investments is dependent in part on the ability of the institutions to repay the promissory notes. As discussed in Notes 1 and 6, bonds issued by the Authority are payable solely from and collateralized by a lien on the proceeds, monies, revenues, rights, interest, and collections pledged under the resolutions authorizing the particular issues; consequently, any loss from investments impacts the particular related bond fund.

The following schedule reconciles the carrying amount of investments as disclosed above to the combined balance sheet (expressed in thousands):

Reported amount of investments	\$1,263,720
Investments disclosed as cash equivalents for GASB 3	915
Cash equivalents disclosed as investments for GASB 3	<u>(115,497)</u>
Investments as reported on the combined balance sheet	<u>\$1,149,138</u>

The Authority invests in various asset and mortgage-backed securities. These securities are reported at fair value in the combined balance sheet. They are also included in the totals of U.S. Government and agency securities in the disclosure of custodial credit risk. 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.

The Authority has entered into an interest rate swap agreement to effectively convert \$10 million of variable rate debt based on the 3-month LIBOR to fixed rate debt with an effective rate of 7.698%. The Authority is exposed to interest rate risk under the swap agreement if the 3-month LIBOR rate is less than 7.418%. The interest rate swap agreement is set to expire January 2, 2014.

3. LOANS RECEIVABLE

Single Family Mortgage Purchase Programs and Multi-Family Mortgage Purchase Programs - All mortgage loans purchased under the single family and multi-family mortgage purchase programs are collateralized by first liens on real property. All mortgage loans purchased by the Authority under the FHA/VA Single Family Mortgage Purchase Programs are FHA insured or VA guaranteed mortgage loans. Loans purchased under the Conventional Single Family Mortgage Purchase Program are insured up to an aggregate limit for each issue by supplemental mortgage insurance. Private mortgage insurance is required to the extent that individual loans purchased under the Conventional Single Family Mortgage Purchase Program exceed 80% of the lesser of the appraised value of the property or sales price.

Each loan purchased under the GNMA/BMIR Loan Purchase Program was made pursuant to the FHA program for below market interest rate mortgage loans and is insured by the FHA pursuant to Section 212(d)(3) of Title II of the National Housing Act.

Development Finance Programs - Loans 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, 2001, the Authority reported in its combined balance sheet \$49.0 million in loans to private companies and \$63.6 million in related bond issues which are guaranteed by the Authority. Differences between the loan balance and the related bond balance are attributed primarily to the allowance for loan loss of \$5.7 million, construction draw accounts of \$4.1 million, and timing differences between loan collection and bond payment of \$4.8 million. 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, 2001, bonds outstanding of \$9.4 million were guaranteed by the Bond Guaranty Fund.

Also included in the Development Finance Program are financing activities with educational institutions, health facilities, and other various state agencies. At June 30, 2001, the Authority reported loans of \$115.1 million, direct financing leases of \$64.1 million, and bonds outstanding of \$233.6 million related to the financing arrangements with these institutions and agencies. Differences between the loan and lease balances and the related bond balance are attributed primarily to construction draw accounts of \$45.1 million, investment account balances of \$6.5 million and timing differences between loan/lease collection and bond payment of \$2.8 million. Additionally, the Bond Guaranty Fund guarantees principal and interest on one lease with an Agency of the State of Arkansas for state facility purposes. At June 30, 2001, leases of \$1.2 million were guaranteed by the Bond Guaranty Fund.

Loans to educational institutions for financing the cost of equipment and other capital improvements have been approved by the bond insurer, Federal Guaranty Insurance Company, which has issued a bond insurance policy to insure payment of the principal and interest on the bonds when due.

The stated interest rates on the loans are as follows:

	Stated Interest Rate
Single Family Housing Program Fund	5.95 to 10.25%
Multi-Family Housing Program Fund	0.00 to 8.79%
Economic Development Program Fund:	
Bond Programs	Rate on bonds
Other Programs	3%
Other Programs and General Fund	0.00 to 10.00%

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. 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 which begin expiring in 2007 are as follows (expressed in thousands):

Year ending June 30:	Lease Payments
2002	\$ 8,437
2003	8,434
2004	8,426
2005	8,416
2006	8,417
Thereafter	<u>44,158</u>
Total minimum lease payments receivable	86,288
Less amount representing interest	<u>22,184</u>
PRESENT VALUE OF MINIMUM LEASE PAYMENTS RECEIVABLE	<u>\$ 64,104</u>

5. CAPITALIZED ASSETS

Premises and equipment at June 30, 2001, are summarized as follows (expressed in thousands):

Cost -	
Furniture, fixtures, and equipment	\$ 713
Less accumulated depreciation	<u>(226)</u>
TOTAL	<u>\$ 487</u>

6. BONDS AND NOTES PAYABLE

Bonds and notes payable at June 30, 2001, were as follows (expressed in thousands):

Total Single Family Bonds Payable, with interest rates ranging from 3.5-10% and final maturity at varying dates through 2032	\$ 1,014,962
Plus unamortized premium	<u>993</u>
Total Single Family Bonds Payable, net	<u>1,015,955</u>
Total Multi-Family Bonds Payable, with interest rates ranging from 3.5-9.75% and final maturity at varying dates through 2027	185,640
Less unamortized discount	<u>(754)</u>
Total Multi-Family Bonds, net	<u>184,886</u>
Total Economic Development Bonds Payable, with interest rates ranging from 3.25-10% and final maturity at varying dates through 2029	300,309
Less unamortized discount	<u>(633)</u>
Total Economic Development Bonds Payable, net	<u>299,676</u>
Total General Fund Note Payable, with interest rates ranging from 3.57 - 3.98% and final maturity at varying rates through 2001	<u>9,700</u>
TOTAL ALL PROGRAMS BONDS AND NOTES PAYABLE, Net	<u>\$ 1,510,217</u>

Future amounts required to pay principal and interest on all bonds and notes payable at June 30, 2001, were as follows (expressed in thousands). The principal amount shown differs from the amount on the balance sheet due to unamortized premiums and discounts of \$394 thousand:

	Principal	Interest	Total
Year Ending June 30:			
2002	\$ 165,550	\$ 84,260	\$ 249,810
2003	45,445	81,367	126,812
2004	51,072	78,363	129,435
2005	51,224	75,072	126,296
2006	53,529	71,686	125,215
Thereafter	<u>1,143,791</u>	<u>813,722</u>	<u>1,957,513</u>
TOTAL	<u>\$ 1,510,611</u>	<u>\$ 1,204,470</u>	<u>\$ 2,715,081</u>

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 six to ten years. Certain special redemptions, at par 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, 2001, the remaining principal amounts outstanding on issues defeased in previous years are as follows (expressed in thousands):

<u>Issue</u>	<u>Date of Defeasance</u>	<u>Principal Outstanding</u>
1979 Series A Single Family Conventional Bonds	September 1988	\$52,545
1988-1 Compound Accretion Bonds	December 1992	14,218

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 combined financial statements. At June 30, 2001, the bonds outstanding issued under these programs aggregated \$334.5 million.

7. CONCENTRATIONS OF RISK IN LENDING AND LOAN RECEIVABLE INSURANCE

The Authority, through its normal lending activity, originates and maintains loans receivable which are substantially 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 heavily 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.

8. RETIREMENT PLAN

The officials and employees of the Authority participate in a state-wide, multiple-employer public employee retirement system administered by the Arkansas Public Employees Retirement System (the "System"). There is no legal obligation imposed upon the member agencies relative to the operation of the System other than the payment of a percent of the gross salaries of eligible employees participating in the System as an employer contribution. State law provides that Authority contributions for all covered state employees are to be based on 10% of gross payroll. All contributions required of the Authority were made for the year ended June 30, 2001. For the year ended June 30, 2001, the Authority's covered payroll and total payroll for all employees amounted to approximately \$3.3 million.

The contributory plan has been in effect since the beginning of the System, 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, or later in System covered employment. Employees joining the System prior to July 1, 1997, are vested after ten years of employment. Beginning July 1, 1997, the vesting period for new members was reduced to five years. A member covered by the contributory plan can elect to be covered by the noncontributory plan, and the change will be effective January 1, 1978, regardless of when the election was made. The System is audited separately, and included therein is financial data and trend information which gives an indication of the extent to which the system is accumulating sufficient assets to pay benefits when due.

9. 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, 2001, 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 combined financial statements for such contingencies.

During fiscal 2001, the U.S. Department of Housing and Department ("HUD") began a review of the Home Program. On June 12, 2001, HUD issued a preliminary findings report focusing on the Authority's failure to obtain environmental reviews on Home projects. As a result of this failure, HUD suspended the Authority's ability to automatically draw funds in the Integrated Disbursement Information System. In order for the Authority to draw additional Home funds, the Authority must submit an environmental certification and obtain an approved Release of Funds from HUD. As HUD has not finalized its report, it is not possible to determine the amount, if any, of potential disallowed costs. Management is of the opinion that any disallowed cost, if any, would not have a material impact on the operations of the Authority.

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 Multi-Family Housing Programs Fund. A portion of the prepayments of loan principal in this portfolio are 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 \$61.6 million of amounts recorded as cash and investments reported in the combined balance sheet that will be disbursed to borrowers under loan agreements closed prior to June 30, 2001.

10. SUBSEQUENT EVENTS

Subsequent to June 30, 2001, the Authority issued approximately \$1.1 million and \$45 million, in special obligation bonds in the Economic Development Program Fund and Single Family Housing Program Fund, respectively.

On September 7, 2001, HUD issued the Monitoring Report of the Home Program (“Monitoring Report”) for the 1998, 1999 and 2000 program years. The report contained numerous findings, the most significant of which was the lack of documentation of environmental reviews. The Monitoring Report does allow the Authority to cure the inequities by either documenting compliance by completing an environmental review or obtaining statutory dispensation granted through congressional action. The Authority is in the process of obtaining environmental reviews on the projects as well as working with the United States Congress on the passage of a bill granting statutory dispensation (HR2620). The Monitoring Report did not disallow any cost associated with the lack of environmental reviews. Management of the Authority does not anticipate any disallowed cost as a result of the findings of this report.

In October 2001, the Authority’s Board of Directors committed \$500 thousand dollars from the general fund in interim financing for the Home projects currently underway. This amount was in addition to one million dollars committed in June of 2001. Once the violations have been cured, monies drawn down from HUD will be used to repay the general fund.

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

**ADDITIONAL INFORMATION - COMBINING BALANCE SHEET
JUNE 30, 2001
(EXPRESSED IN THOUSANDS)**

	Single Family Housing Program Fund	Multi-Family Housing Program Fund	Economic Development Program Fund	Other Programs and General Fund	Eliminations	Total
ASSETS						
Cash and cash equivalents	\$ 40,589	\$ 8,913	\$ 58,792	\$ 10,125		\$ 118,419
Accounts receivable	1,018	163	3,903	8,713	\$ (12,292)	1,505
Accrued interest receivable	4,952	1,067	2,276	504		8,799
Accrued rent receivable			690			690
Investments, at fair value	969,673	80,646	73,506	25,313		1,149,138
Loans receivable, net	60,396	150,762	169,254	13,921		394,333
Deferred charges	8,736	1,931	1			10,668
Direct financing leases			64,104			64,104
Real estate owned		845	780			1,625
Capitalized assets, net				487		487
TOTAL ASSETS	<u>\$ 1,085,364</u>	<u>\$ 244,327</u>	<u>\$ 373,306</u>	<u>\$ 59,063</u>	<u>\$</u>	<u>\$ 1,749,768</u>
LIABILITIES AND RETAINED EARNINGS						
Accounts payable	\$ 2,634	\$ 6,302	\$ 4,198	\$ 5,460	\$ (12,292)	\$ 6,302
Accrued interest payable	23,123	2,945	2,798			28,866
Bonds and notes payable, net of unamortized discounts and premiums	1,015,956	184,886	299,676	(12,292)		1,510,217
Deposits against financing arrangements		1,061	42,666			43,727
Deferred fees	7,031	656	1,728			9,415
	1,048,744	195,850	351,066	15,159	(12,292)	1,598,527
COMMITMENTS AND CONTINGENCIES						
RETAINED EARNINGS:						
Reserved for programs	36,620	48,477	22,240			107,337
Unreserved				43,904		43,904
	<u>36,620</u>	<u>48,477</u>	<u>22,240</u>	<u>43,904</u>		<u>151,241</u>
TOTAL LIABILITIES AND RETAINED EARNINGS	<u>\$ 1,085,364</u>	<u>\$ 244,327</u>	<u>\$</u>	<u>\$ 59,063</u>	<u>\$</u>	<u>\$ 1,749,768</u>
Total retained earnings						

ARKANSAS DEVELOPMENT FINANCE AUTHORITY,
A COMPONENT UNIT OF THE STATE OF ARKANSAS
ADDITIONAL INFORMATION - COMBINING STATEMENT OF REVENUES,
EXPENSES, AND CHANGES IN RETAINED EARNINGS
YEAR ENDED JUNE 30, 2001
(EXPRESSED IN THOUSANDS)

	<u>Single Family Housing Program Fund</u>	<u>Multi-Family Housing Program Fund</u>	<u>Economic Development Program Fund</u>	<u>Other Programs and General Fund</u>	<u>Eliminations</u>	<u>Total</u>
REVENUES:						
Investment income:						
Loans and direct financing lease income	\$ 6,384	\$ 7,488	\$ 15,026	\$ 453		\$ 29,351
Interest and dividends	53,738	2,305	2,282	2,084		60,409
Amortization of discounts on loans		11,696				11,696
Financing fee income	846	171	655	3,279	\$ (2,600)	2,351
Net appreciation in the fair value of investments	<u>30,226</u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u>38,631</u>
Total investment income	91,194	26,499	20,189	7,156	(2,600)	142,438
Federal financial assistance		13,261		78		13,339
Other income	<u> </u>	<u> </u>	<u> </u>	<u>22</u>	<u> </u>	<u>22</u>
	<u>91,194</u>	<u>39,760</u>	<u>20,189</u>	<u>7,256</u>	<u> </u>	<u>155,799</u>
EXPENSES:						
Interest on bonds and notes:	4,839	2,226	1,340			
Total revenues	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Current interest	54,933	16,550	15,558	130		87,171
Accreted interest	<u>912</u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u>912</u>
Total interest on bonds and notes	<u>55,845</u>	<u> </u>	<u> </u>	<u>(2,600)</u>	<u> </u>	<u>88,083</u>
Amortization:						
Amortization of discounts and premiums on bonds and notes	(445)	111	122			(212)
Amortization of bond and note issuance costs	<u>1,287</u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u>1,557</u>
	<u>842</u>	<u>380</u>	<u>123</u>	<u> </u>	<u> </u>	<u>1,345</u>
	<u>16,550</u>	<u>15,558</u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Administrative expenses:						
Provision for loan losses		1,018	130	1,635		5,200
Total amortization		9,701	2,547	1,635	(349)	9,352
Federal financial assistance programs				3,255		3,255
Salaries and benefits				752		752
Operations and maintenance	269					3,093
BMIR program participant expense		3,093				2,676
	<u>1,586</u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Other Total administrative expenses	<u>1,586</u>	<u>15,588</u>	<u>3,296</u>	<u>6,458</u>	<u>(2,600)</u>	<u>24,328</u>
Total expenses	<u>58,273</u>	<u>32,518</u>	<u>18,977</u>	<u>6,588</u>	<u>(2,600)</u>	<u>113,756</u>
NET INCOME BEFORE TRANSFERS FROM (TO) OTHER FUNDS						
	32,921	7,242	1,212	668		42,043
	1,776	749	816	(2,251)		(Continued)

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

**ADDITIONAL INFORMATION - COMBINING STATEMENT OF REVENUES,
EXPENSES, AND CHANGES IN RETAINED EARNINGS
YEAR ENDED JUNE 30, 2001
(EXPRESSED IN THOUSANDS)**

	<u>Single Family Housing Program Fund</u>	<u>Multi-Family Housing Program Fund</u>	<u>Economic Development Program Fund</u>	<u>Other Programs and General Fund</u>	<u>Eliminations</u>	<u>Total</u>
OPERATING TRANSFERS FROM (TO) OTHER FUNDS	\$ (1,036)	\$ _____	\$ _____	\$ _____	_____	_____
NET INCOME (LOSS)	33,957	7,716	(273)	643	_____	\$ 42,043
RETAINED EARNINGS:						
Beginning of year	2,694	40,007	22,513	43,984	_____	109,198
Residual equity transfers	<u>(31)</u>	<u>1,485</u>	<u>25</u>	<u>(723)</u>	_____	_____
End of year	<u>\$ 36,620</u>	<u>\$ 48,477</u>	<u>\$ 22,240</u>	<u>\$ 43,904</u>	<u>_____</u>	<u>\$ 151,241</u>

(Concluded)

