

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

*Combined Financial Statements and Additional
Information for the Year Ended June 30, 2000,
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, 2000, 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, 2000, 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.

Also, as more fully discussed in Note 9, management of the Authority has restated June 30, 1999, retained earnings.

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 November 3, 2000, 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

November 3, 2000

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

COMBINED BALANCE SHEET

JUNE 30, 2000

(EXPRESSED IN THOUSANDS)

ASSETS

Cash and cash equivalents (Note 2)	\$ 160,411
Accounts receivable	2,278
Accrued interest receivable	11,089
Accrued rent receivable	766
Investments, at fair value (Note 2)	997,687
Loans receivable, net (Notes 3, 6, and 8)	421,565
Deferred charges	11,709
Direct financing leases (Note 3 and 4)	71,656
Real estate owned	1,935
Capitalized assets, net	<u>360</u>
TOTAL ASSETS	<u>\$1,679,456</u>

LIABILITIES AND RETAINED EARNINGS

Accounts payable	\$ 9,888
Accrued interest payable	27,961
Bonds and notes payable, net of unamortized discounts and premiums (Note 5)	1,475,949
Deposits against financing arrangements	41,754
Deferred fees	9,896
Other liabilities	<u>4,810</u>
Total liabilities	1,570,258

COMMITMENTS AND CONTINGENCIES (Notes 3, 6, and 8)

RETAINED EARNINGS (Note 9):

Reserved for programs	65,214
Unreserved	<u>43,984</u>
Total retained earnings	<u>109,198</u>

TOTAL LIABILITIES AND RETAINED EARNINGS **\$1,679,456**

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, 2000

(EXPRESSED IN THOUSANDS)

REVENUES:

Investment income:

Loans and direct financing lease income	\$ 30,532
Interest and dividends	59,223
Amortization of discounts on loans	9,272
Financing fee income	2,424
Net depreciation in the fair value of investments	<u>(12,381)</u>

Total investment income 89,070

Federal financial assistance (Note 8) 16,025

Other income 784

Total revenues 105,879

EXPENSES:

Interest on bonds and notes:

Current interest	85,186
Accreted interest	<u>1,066</u>

Total interest on bonds and notes 86,252

Amortization:

Amortization of discounts and premiums on bonds and notes	(266)
Amortization of bond and note issuance costs	<u>2,249</u>

Total amortization 1,983

Administrative expenses:

Provision for loan losses	3,046
Federal financial assistance programs	7,588
Salaries and benefits (Note 7)	2,997
Operations and maintenance	1,008
Other	<u>4,484</u>

Total administrative expenses 19,123

Total expenses 107,358

NET LOSS (1,479)

RETAINED EARNINGS:

Beginning of year, as adjusted (Note 9) 110,677

End of year \$ 109,198

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, 2000
(EXPRESSED IN THOUSANDS)**

OPERATING ACTIVITIES:

Net loss	\$ (1,479)
Adjustments to reconcile net loss to net cash provided by operating activities:	
Amortization of discounts on loans	(9,272)
Amortization of deferred financing fees	(1,629)
Accreted interest	1,066
Amortization of bond and note discounts	(266)
Amortization of bond and note issuance costs	2,249
Provision for loan losses	3,046
Net depreciation of investments	12,381
Changes in operating assets and liabilities:	
Accounts receivable	519
Accrued interest receivable	(2,365)
Accrued rent receivable	140
Other assets	2,294
Accounts payable	1,762
Accrued interest payable	1,556
Other liabilities	<u>12,319</u>
Net cash provided by operating activities	22,321

INVESTING ACTIVITIES:

Purchase of investments	(833,900)
Maturities of investments	711,722
Loan disbursements	(55,943)
Principal repayments on loans	59,738
Direct financing lease disbursements	(850)
Principal repayments on capital leases	<u>4,381</u>

Net cash used in investing activities (114,852)

(Continued)

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

**COMBINED STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2000
(EXPRESSED IN THOUSANDS)**

NONCAPITAL FINANCING ACTIVITIES:	
Proceeds from issuance of bonds and notes payable	\$ 377,237
Repayments of bonds and notes payable	(278,612)
Payments of debt issuance cost	(2,319)
Collection of financing fees	<u>795</u>
Net cash provided by noncapital financing activities	<u>97,101</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,570
CASH AND CASH EQUIVALENTS:	
Beginning of year	<u>155,841</u>
End of year	<u>\$ 160,411</u>
Supplemental disclosure of cash flow information - Interest paid	<u>\$ 84,688</u>
Supplemental schedule of noncash investing activities - Real estate acquired in settlement of loans	<u>\$ 567</u>

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, 2000

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.

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 purchase 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 purchase 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 Investment in Affordable Housing 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, 2000, the funds had cash and cash equivalents and investments totaling \$22.1 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. GNMA securities associated with the Single Family Housing Program Funds contribute significantly to the year end decline in the market value of investments. The Authority has the positive intent and ability to hold these assets as long-term investments until their original maturity date. Investments in the Other Programs and General Fund also experienced an overall decline in market value, however, the Authority has the positive intent and ability to hold these assets as long-term investments until (a) they can be sold at an economic benefit or (b) their original maturity date.

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.

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 \$8.5 million and the bank balance was \$9.3 million. Of the bank balance, \$.8 million was insured by federal depository insurance, \$4.9 million was collateralized by collateral held in a Federal Reserve pledge account, and \$3.6 million was uncollateralized and held by the counterparty in the Authority's name.

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

Reported amount of deposits	\$ 8,459
Investments disclosed as cash equivalents for GASB 3	(1,295)
Cash equivalents disclosed as investments for GASB 3	<u>153,247</u>
Cash and cash equivalents as reported on the combined balance sheet	<u>\$ 160,411</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, 2000, by security type and level of credit risk (expressed in thousands):

Security Type	Category			Reported Value
	1	2	3	
Categorized:				
U.S. Government and agency securities	\$ 737,545			\$ 737,545
Commercial paper	253			253
Repurchase agreement	<u>7,774</u>			<u>7,774</u>
Total investments categorized by investment type	<u>\$ 745,572</u>			<u>\$ 745,572</u>
Uncategorized:				
Investment agreements				\$ 249,868
Money market mutual funds				<u>154,199</u>
Total uncategorized				<u>\$ 404,067</u>
TOTAL INVESTMENTS				<u>\$ 1,149,639</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	\$ 1,149,639
Investments disclosed as cash equivalents for GASB 3	1,295
Cash equivalents disclosed as investments for GASB 3	<u>(153,247)</u>
Investments as reported on the combined balance sheet	<u>\$ 997,687</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%. ADFA 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, 2000, the Authority reported in its combined balance sheet \$47.1 million loans to private companies and \$59.7 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 \$3.5 million, construction draw accounts of \$3.2 million, and timing differences between loan collection and bond payment of \$5.9 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, 2000, bonds outstanding of \$5.7 million were guaranteed by the Bond Guaranty Fund.

Also included in the Development Finance Program are financing activities with educational institutions and other various state agencies. At June 30, 2000, the Authority reported loans of \$51.3 million, direct financing leases of \$71.7 million, and bonds outstanding of \$187 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 \$54.0 million, investment account balances of \$6.5 million and timing differences between loan/lease collection and bond payment of \$3.5 million.

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
2001	\$ 8,276
2002	8,277
2003	8,273
2004	8,261
2005	8,253
Thereafter	<u>57,206</u>
Total minimum lease payments receivable	98,546
Less amount representing interest	<u>26,890</u>
PRESENT VALUE OF MINIMUM LEASE PAYMENTS RECEIVABLE	<u>\$ 71,656</u>

5. BONDS AND NOTES PAYABLE

Bonds and notes payable at June 30, 2000, 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	\$ 971,392
Plus unamortized premium	<u>1,439</u>
Total Single Family Mortgage Purchase Programs Bonds and Notes Payable, net	<u>972,831</u>
Total Multi-Family Bonds Payable, with interest rates ranging from 3.5-9.75% and final maturity at varying dates through 2027	196,855
Less unamortized discount	<u>(866)</u>
Total Multi-Family Mortgage Purchase Programs Bonds and Notes Payable, net	<u>195,989</u>
Total Economic Development Bonds Payable, with interest rates ranging from 3.25-10% and final maturity at varying dates through 2029	307,893
Less unamortized discount	<u>(764)</u>
Total Development Finance Programs Bonds and Notes Payable, net	<u>307,129</u>
TOTAL ALL PROGRAMS BONDS AND NOTES PAYABLE, Net	<u>\$ 1,475,949</u>

Future amounts required to pay principal and interest on all bonds and notes payable at June 30, 2000, 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 \$191 thousand:

	Principal	Interest	Total
Year Ending June 30:			
2001	\$ 105,170	\$ 84,735	\$ 189,905
2002	43,118	83,446	126,564
2003	45,406	80,614	126,020
2004	49,694	77,609	127,303
2005	49,335	74,373	123,708
Thereafter	<u>1,183,417</u>	<u>885,867</u>	<u>2,069,284</u>
TOTAL	<u>\$ 1,476,140</u>	<u>\$ 1,286,644</u>	<u>\$ 2,762,784</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, 2000, 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	\$ 54,905
1982 Series A 2023 Multi-Family Term Bonds	August 1990	9,791
1988-1 Compound Accretion Bonds	December 1992	13,071
1986 Series A & B Local Government Bonds	October 1999	10,480

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, 2000, the bonds outstanding issued under these programs aggregated \$310.9 million.

6. 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.

7. 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, 2000. For the year ended June 30, 2000, the Authority's covered payroll and total payroll for all employees amounted to approximately \$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.

8. 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, 2000, 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.

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 \$63.7 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, 2000.

9. RESTATEMENT OF PRIOR YEAR RETAINED EARNINGS

Retained earnings at June 30, 1999, has been restated as follows (expressed in thousands):

Retained earnings as previously reported	\$ 121,780
Correction of prior year amounts	<u>(11,103)</u>
Retained earnings at June 30, 1999, as adjusted	<u>\$ 110,677</u>

Subsequent to the issuance of the Authority’s 1999 financial statements, management of the Authority determined that certain deposits against financing arrangements and the interest on those deposits had not been properly reflected as a liability in the financial statements. Accordingly, retained earnings and deposits against financing arrangements were overstated and understated, respectively, by approximately \$11.9 million at June 30, 1999.

In addition, management determined that liabilities at June 30, 1999, were understated as a result of prepayments associated with a loan participation agreement. In conjunction with loan prepayments, management also determined that the related amortization of the discount associated with the prepayment on this loan portfolio had not been properly amortized in the financial statements. Accordingly, loans receivable were understated by approximately \$10.7 million, other liabilities were understated by approximately \$5.5 million and retained earnings were understated by approximately \$5.2 million at June 30, 1999.

Management also determined that a residual ownership interest in one of its loan programs had been sold to an outside investor and was not properly recorded in the financial statements. Accordingly, retained earnings and other liabilities were overstated and understated, respectively, by approximately \$4.4 million at June 30, 1999.

As a result of the aforementioned adjustments, management has restated June 30, 1999, retained earnings by approximately \$11.1 million.

10. SUBSEQUENT EVENTS

Subsequent to June 30, 2000, the Authority issued approximately \$13.6 million in special obligation bonds in the Economic Development Programs Fund.

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

ADDITIONAL INFORMATION - COMBINING BALANCE SHEET

JUNE 30, 2000

(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	\$ 50,803	\$ 47,684	\$ 55,417	\$ 6,507		\$ 160,411
Accounts receivable	1,840	1,517	24	5,285	\$ (6,388)	2,278
Accrued interest receivable	6,923	1,310	2,352	504		11,089
Accrued rent receivable			766			766
Investments, at fair value	857,852	29,140	84,906	25,789		997,687
Loans receivable, net	84,788	171,222	158,339	7,216		421,565
Deferred charges	9,466	2,241	2			11,709
Direct financing leases			71,656			71,656
Real estate owned		735	1,200			1,935
Capitalized assets, net				360		360
TOTAL ASSETS	<u>\$ 1,011,672</u>	<u>\$ 253,849</u>	<u>\$ 374,662</u>	<u>\$ 45,661</u>	<u>\$</u>	<u>\$ 1,679,456</u>
LIABILITIES AND RETAINED EARNINGS						
Accounts payable	\$ 1,775	\$ 12,235	\$ 589	\$ 1,677	\$ (6,388)	\$ 9,888
Accrued interest payable	21,983	3,090	2,888			27,961
Bonds and notes payable, net of unamortized discounts and premiums	972,831	195,989	307,129	(6,388)		1,475,949
Deposits against financing arrangements		1,748	40,006			41,754
Deferred fees	7,579	780	1,537			9,896
Other liabilities	4,810					4,810
	1,008,978	213,842	352,149	1,677	(6,388)	1,570,258
COMMITMENTS AND CONTINGENCIES						
RETAINED EARNINGS:						
Reserved for programs	2,694	40,007	22,513			65,214
Unreserved				43,984		43,984
	2,694	40,007	22,513	43,984		109,198
TOTAL LIABILITIES AND RETAINED EARNINGS	<u>\$ 1,011,672</u>	<u>\$ 253,849</u>	<u>\$</u>	<u>\$ 45,661</u>	<u>\$</u>	<u>\$ 1,679,456</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, 2000
(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	\$ 7,480	\$ 7,933	\$ 14,782	\$ 337		\$ 30,532
Interest and dividends	52,260	3,129	1,980	1,854		59,223
Amortization of discounts on loans		9,272				9,272
Financing fee income	1,250	361	184	3,039	\$ (2,410)	2,424
Depreciation (depreciation)						
Net gain in the fair value of investments	(11,420)					(12,381)
Total investment income	49,570	21,101	16,281	4,528	(2,410)	89,070
Federal financial assistance		15,946		79		16,025
Other income	51					784
Total revenues	49,621	38,049	17,235	5,585	(4,611)	105,729
EXPENSES:						
Interest on bonds and notes:		(665)	(702)			
Current interest	406,535	17,579	14,985	87		85,186
Accreted interest	1,066			(2,201)		1,066
Total interest on bonds and notes	53,601	17,579	14,985	87		86,252
Amortization:						
Amortization of discounts and premiums on bonds and notes	(507)	113	128			(266)
Amortization of bond and note issuance costs	2,068			17		2,249
Total amortization	1,561	389	16	17		1,983
Administrative expenses:						
Provision for loan losses		1,360	1,697	(11)		3,046
Federal financial assistance programs					(191)	7,588
Salaries and benefits				2,997		2,997
Repairs and maintenance		(112)		1,008		1,008
Other	276					4,484
Total administrative expenses	3,064	12,499	2,290	5,881	(4,611)	19,123
Total expenses	58,226	30,467	17,291	5,985	(4,611)	107,358
NET INCOME (LOSS) BEFORE TRANSFERS FROM (TO) OTHER FUNDS	7,779	(8,605)	7,582	(56)	(400)	(1,479)
	3,360		1,887	(4,420)		(Continued)
		593				

**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, 2000
(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	\$ 424	\$ _____	\$ _____	\$ _____	_____	_____
NET INCOME (LOSS)	(8,181)	6,057	(67)	712	_____	\$ (1,479)
RETAINED EARNINGS:						
Beginning of year, as adjusted	13,675	33,950	22,512	40,472	_____	110,677
Residual equity transfers	<u>(2,800)</u>	<u>(11)</u>	<u>_____</u>	<u>2,800</u>	_____	<u>_____</u>
End of year	<u>\$ 2,694</u>	<u>\$ 40,007</u>	<u>\$ 22,513</u>	<u>\$ 43,984</u>	<u>_____</u>	<u>\$ 109,198</u>

(Concluded)