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

Auditor's Report and Financial Statements

June 30, 2013 and 2012

BKD LLP
CPAs & Advisors

Arkansas Development Finance Authority,
A Component Unit of the State of Arkansas
June 30, 2013 and 2012

Contents

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Independent Auditor's 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, which are comprised of a statement of net position as of June 30, 2013 and 2012, and statements of revenues, expenses and changes in net position and of cash flows for the years then ended and the related notes to the financial statements, as listed in the table of contents, of Arkansas Development Finance Authority (the Authority), a component unit of the State of Arkansas.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

experience BKD

Praxity MEMBER
GLOBAL ALLIANCE OF INDEPENDENT FIRMS

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, 2013 and 2012, and its changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

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

Supplementary Information

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

BKD, LLP

Little Rock, Arkansas
October 31, 2013

Arkansas Development Finance Authority,
A Component Unit of the State of Arkansas
Management's Discussion and Analysis
June 30, 2013 and 2012

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, 2013, basic financial statements include three required statements: the statement of net position; the statement of revenues, expenses and changes in net position; and the statement of cash flows. Comparative totals as of and for the years ended June 30, 2012 and 2011, are also presented. These comparative totals are intended to facilitate an enhanced understanding of the Authority's financial position and results of operations for the current fiscal year in comparison to the prior fiscal years. The statement of net position and the statement of revenues, expenses and changes in net position are presented for all of ADFA's programs in the Combining Statements. ADFA has eight programs presented as supplementary information following the Notes to Financial Statements: Single Family Housing Programs, Federal Housing Programs, Multi-Family Programs, Economic Development Bond Guaranty Program, State and Health Facilities Programs, Other Economic Development Programs, Tobacco Bonds Program and General Fund Programs. In addition, there is further information provided on the Single Family Housing Programs to detail the Authority's Single Family Mortgage Revenue Bond Resolution, adopted on July 20, 1995, which is part of the Single Family Mortgage Purchase Program and the New Issue Bond Program (NIBP). A description of each of these programs is included in *Note 1* of the Notes to Financial Statements.

Condensed Statements of Net Position

(In thousands)	2013	2012	2011
Capital assets	$ 102	$ 126	$ 170
Other assets	1,115,677	1,206,815	1,270,984
Total assets	1,115,779	1,206,941	1,271,154
Current liabilities	46,178	89,574	144,845
Noncurrent liabilities	774,249	826,993	882,332
Total liabilities	820,427	916,567	1,027,177
Net position			
Restricted by bond resolution and programs	185,069	169,972	113,038
Invested in capital assets	102	126	170
Unrestricted	110,181	120,276	130,769
Net position	$ 295,352	$ 290,374	$ 243,977

June 30, 2013 to June 30, 2012

At June 30, 2013, total assets were $1.1 billion compared to $1.2 billion at June 30, 2012, decreasing $91.2 million or 8%. Total assets consisted primarily of investments of $520.8 million, cash of $146.5 million, loans (net of allowance) of $302.3 million and direct financing leases of $128.6 million at June 30, 2013.

Investments decreased $75.6 million, or 13%, to $520.8 million at June 30, 2013, from $596.4 million at June 30, 2012. The decrease is attributed to the decrease in the fair value and to the principal receipts on mortgage-backed security balances, which were used to redeem outstanding bonds, primarily in the Single Family Housing Programs.

The Authority's current assets decreased $9.6 million, or 6%, to $153.0 million at June 30, 2013, from $162.5 million at June 30, 2012. Part of this decrease is attributed to the net decrease in cash and cash equivalents of $5.1 million, or 3%, since June 30, 2012. The decrease was attributed to the decline in the NIBP money market fund, which was used to redeem escrow bonds and to fund mortgage-backed securities ("MBS"). The cash decrease was offset by the receipt of MBS remittances of principal and interest and the proceeds from a Single Family Bond issue during June 2013. Current loans also decreased $3.7 million, or 70%, due to a bond anticipation loan converting to a long term loan.

Direct financing leases decreased $6.0 million, or 4%, since June 30, 2012. This decrease is primarily attributed to repayments on outstanding leases.

The Authority's current liabilities decreased to $46.2 million from $89.6 million. This decrease is attributed to $30 million in NIBP escrow bonds being redeemed during the year. Total noncurrent liabilities decreased $52.7 million, or 6%, since June 30, 2012, and consisted primarily of net bonds and notes payable. The decrease is attributed to bond redemptions exceeding new issuances. Total liabilities decreased due to scheduled bond and note redemptions of $127.2 million and special and optional bond and note redemptions of $394.9 million offset by new issuances of bonds and notes of $426.0 million. Additional information on the Authority's long-term debt can be found in *Note 6* of the Notes to Financial Statements.

June 30, 2012 to June 30, 2011

At June 30, 2012, total assets were $1.2 billion compared to $1.3 billion at June 30, 2012, decreasing $64.0 million or 5%. Total assets consisted primarily of investments of $596.4 million, cash of $151.6 million, loans (net of allowance) of $304.9 million and direct financing leases of $134.6 million at June 30, 2012.

Investments decreased $15.5 million or 3% since June 30, 2011, to $596.4 million. The decrease is attributed to the principal receipts on mortgage-backed security balances, which were used to redeem outstanding bonds, primarily in the Single Family Housing Programs. This was offset by an increase in the warehousing of mortgage-backed securities (General Fund Programs) from the prior year.

The Authority's current assets decreased $52.0 million, or 24%, to $162.5 million at June 30, 2012, from $214.5 million at June 30, 2011. This decrease is attributed to the net decrease in cash and cash equivalents of $53.7 million, or 26%, since June 30, 2011, primarily attributed to the decline in the NIBP money market fund, which was used to redeem escrow bonds and to fund mortgage-backed securities.

Direct financing leases decreased $3.5 million, or 3%, since June 30, 2011. This decrease is primarily attributed to repayments on outstanding leases.

The Authority's current liabilities decreased to $89.6 million from $144.8 million. This decrease is attributed to $46 million in NIBP escrow bonds being redeemed during the year. Total noncurrent liabilities decreased $55.3 million, or 6%, since June 30, 2011, and consisted primarily of net bonds and notes payable. The decrease is attributed to bond redemptions exceeding new issuances. Total liabilities decreased due to scheduled bond and note redemptions of $143.4 million and special and optional bond and note redemptions of $214.3 million offset by new issuances of bonds and notes of $248.7 million.

Condensed Statements of Revenues, Expenses and Changes in Net Position

(In thousands)	2013	2012	2011
Total investment income	$ 22,797	$ 53,387	$ 57,598
Other income	19	271	43
Total operating revenues	22,816	53,658	57,641
Total interest on bonds and notes	32,106	38,333	43,515
Total amortization	513	379	751
Administrative expenses	21,951	31,823	101,197
Total operating expenses	54,570	70,535	145,463
Operating loss	(31,754)	(16,877)	(87,822)
Federal grants	28,313	45,637	101,387
State grants	-	50	-
Total nonoperating revenues	28,313	45,687	101,387
Income (Loss) before transfers in	(3,441)	28,810	13,565
Transfers in	8,419	17,587	5,000
Change in net position	4,978	46,397	18,565
Net position			
Beginning of year	290,374	243,977	225,412
End of year	$ 295,352	$ 290,374	$ 243,977

ADFA's loss before transfers in totaled $3.4 million for the year ended June 30, 2013, compared with $28.8 million and $13.6 million for the years ended June 30, 2012 and 2011, respectively. The decrease from the prior year relates primarily to the decrease in the fair value of investments of $26.6 million and the federal grants decreasing $17.3 million from the prior year offset by decreases in interest on bonds and notes of $6.4 million and federal financial assistance programs expense of $7.3 million. The decrease from the year ended June 30, 2011 to June 30, 2013, primarily relates to a decrease in the fair value of investments of $26.5 million and federal grants of $73.1 million, offset by decreases in interest on bonds and notes of $11.4 million, provision of loan losses of $18.9 million and federal financial assistance programs expense of $59.8 million.

Transfers in have historically represented the receipt of the annual tobacco settlement revenue pledged to the Tobacco Bonds Program of $5.0 million. Transfers in decreased $9.2 million from the prior year ended June 30, 2012 and increased $12.6 million from June 30, 2011 to June 30, 2012. The fluctuation in fiscal year 2012 is attributed to the receipt of $9 million allocated to ADFA by the Attorney General for the purpose of funding affordable housing programs for Arkansas residents. These funds were part of a total sum received by the State of Arkansas pursuant to a lawsuit commonly referred to as the national mortgage foreclosure settlement. In addition, the two-year increase in transfers in since June 30, 2011, is also attributed to the Community Development Block Grant Program funds received of $9.4 million from the U.S. Housing and Urban Development through the Arkansas Economic Development Commission to be used for affordable housing pursuant to a Memorandum of Understanding between the two state agencies.

Other Financial Highlights

Years ended June 30, 2013 to June 30, 2012

Loans and direct financing lease income was $17.4 million for fiscal year ended June 30, 2013, compared with $18.1 million for the prior year. The decrease relates primarily to declining loan and lease balances in the majority of all programs but the Federal Housing Program. Interest income on Federal Housing Program loans will be recognized when loan repayment begins. The related average interest yield decreased to 3.2% for June 30, 2013, from 3.4% at June 30, 2012.

Revenues from investment interest and dividends were $23.5 million for fiscal year 2013 and $26.6 million for fiscal year 2012. The decrease is primarily attributable to the average cash and investment balance declining from $720.7 million to $606.2 million. The average return on cash, cash equivalents and investments was 3.9% for June 30, 2013, and 3.7% for June 30, 2012.

Federal grants decreased $17.3 million during the year to $28.3 million for the year ended June 30, 2013. The decrease is primarily attributed to the HOME Program declining $16.6 million from prior year and the Section 1602 Exchange Program declining $8 million, which ended December 2011. The decrease was offset by increases in the State Small Business Credit Initiative Program of $4.8 million and Neighborhood Stabilization Programs of $3 million.

The average interest expense on bonds and notes payable was 4.0% at June 30, 2013 and 4.2% at June 30, 2012.

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, 2013, reflected a $9.9 million decrease in total administrative expenses. The federal financial assistance programs decreased $7.3 million, due to the Section 1602 Exchange Program activity ending in the prior year. The provision for loan losses decreased $1.5 million, attributed mainly to the HOME program decreased activity from prior year.

<u>Years ended June 30, 2012 to June 30, 2011</u>

Loans and direct financing lease income was $18.1 million for fiscal year ended June 30, 2012, compared with $20.0 million for the prior year. The decrease relates primarily to declining loan and lease balances in all programs but Federal Housing, and interest income on those loans will be recognized when loan repayment begins. The related average interest yield decreased to 3.4% for June 30, 2012, from 3.8% at June 30, 2011.

Revenues from investment interest and dividends were $26.6 million for fiscal year 2012 and $29.0 million for fiscal year 2011. The decrease is primarily attributable to the average cash and investment balance declining from $818.1 million to $720.7 million. The average return on cash, cash equivalents and investments was 3.7% for June 30, 2012, and 3.6% for June 30, 2011.

Federal grants decreased $55.8 million during the year to $45.6 million for the year ended June 30, 2012. The decrease is primarily attributable to the final disbursements being made for the TCAP and the Section 1602 Exchange Program during the year, which were $55 million less than prior year.

The average interest expense on bonds and notes payable was 4.2% at both June 30, 2012 and 2011.

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, 2012, reflected a $69.4 million decrease in total administrative expenses. The federal financial assistance programs decreased $52.5 million, due to a majority of Section 1602 Exchange Program activity being funded in the prior year. The provision for loan losses decreased $17.5 million, attributed to the provision on the TCAP loans being recorded when funded.

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 position or borrowings from the Federal Home Loan Bank of Dallas. The total amount of mortgage-backed securities warehoused at June 30, 2013, was $8.1 million compared with $62.9 million and $51.4 million at June 30, 2012 and 2011, respectively. There were no associated borrowings at the end of the current year, compared with $39.5 million and $13.6 million at June 30, 2012 and 2011, respectively.

Single Family Housing Programs – New Issue Bond Program—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, 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 December 2009 as escrow bonds. ADFA has optionally redeemed $119.1 million and fully converted $74.0 million of these bonds from program inception through December 2012, which ended the program.

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

ADFA issued $36.9 million in non-callable capital appreciation bonds for the Arkansas Cancer Research Center Project in 2006. These 40-year bonds utilize the revenue stream of the initial tobacco bonds when those bonds are fully redeemed, which is projected for 2021. This bond issue includes a loan agreement between ADFA and the University of Arkansas Board of Trustees (the University), whereby the University agreed to provide for repayment of the bonds in the event the TSRs are not available. Therefore, as bond proceeds were disbursed, ADFA recorded a loan receivable for the corresponding amounts, as well as for any interest accretion on the bonds. The loan receivable was $51.9 million at June 30, 2013, compared with $49.5 million and $47.1 million at June 30, 2012 and 2011, 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.

ADFA's overall financial position has improved.

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 Position
June 30, 2013 and 2012

(In thousands)	2013	2012
Current Assets		
Cash and cash equivalents	$ 146,547	$ 151,634
Accrued interest receivable		
Investments	1,954	2,308
Loans	1,095	1,193
Accounts receivable	712	992
Investments – current portion	1,024	1,031
Loans – current portion	1,637	5,370
Total current assets	152,969	162,528
Noncurrent Assets		
Deferred charges	2,763	3,081
Investments – unrestricted	49,884	122,458
Investments – restricted	469,911	472,945
Loans, net of allowance for loan losses of $82,256 and $77,036 at June 30, 2013 and 2012, respectively	300,632	299,493
Direct financing leases – restricted	128,608	134,592
Installment sale agreement	10,870	11,380
Real estate owned	40	338
Capital assets, net	102	126
Total noncurrent assets	962,810	1,044,413
Total assets	1,115,779	1,206,941
Current Liabilities		
Accounts payable	252	345
Accrued interest payable	8,762	10,815
Contract obligations – current portion	4,784	3,702
Bonds and notes payable – current portion	32,380	74,712
Total current liabilities	46,178	89,574
Noncurrent Liabilities		
Deferred fees	3,674	4,197
Contract obligations	2,027	2,000
Bonds and notes payable, net of unamortized premiums and discounts	736,433	787,703
Deposits against financing arrangements	28,674	29,869
Other liabilities	3,441	3,224
Total noncurrent liabilities	774,249	826,993
Total liabilities	820,427	916,567
Net Position		
Restricted by bond resolution and programs	185,069	169,972
Invested in capital assets	102	126
Unrestricted	110,181	120,276
Net position	$ 295,352	$ 290,374

Arkansas Development Finance Authority,
A Component Unit of the State of Arkansas
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2013 and 2012

(In thousands)	2013	2012
Operating Revenues		
Investment income		
Interest and dividends	$ 23,497	$ 26,597
Loans and direct financing leases	17,355	18,085
Amortization of discounts on loans	197	302
Financing fees	3,679	3,769
Net (depreciation) appreciation of investments	(21,931)	4,634
Total investment income	22,797	53,387
Other	19	271
Total operating revenues	22,816	53,658
Operating Expenses		
Interest on bonds and notes		
Current	29,327	35,700
Accreted	2,779	2,633
Total interest on bonds and notes	32,106	38,333
Amortization		
Amortization of discounts and premiums on bonds and notes	(523)	(615)
Amortization of bond and note issuance costs	1,036	994
Total amortization	513	379
Administrative expenses		
Provision for loan losses	7,336	8,797
Federal financial assistance programs	8,206	15,484
Salaries and benefits	4,599	4,734
Operations and maintenance	1,442	1,596
BMIR program participant expense	23	23
Other	345	1,189
Total administrative expenses	21,951	31,823
Total operating expenses	54,570	70,535
Operating Loss	(31,754)	(16,877)
Nonoperating Revenue		
Federal grants	28,313	45,637
State grants	-	50
Total nonoperating revenue	28,313	45,687
(Loss) Income Before Transfers In	(3,441)	28,810
Transfers In	8,419	17,587
Change in Net Position	4,978	46,397
Net Position, Beginning of Year	290,374	243,977
Net Position, End of Year	$ 295,352	$ 290,374

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

Statements of Cash Flows

Years Ended June 30, 2013 and 2012

(In thousands)	2013	2012
Operating Activities		
Interest received on investments	$ 23,851	$ 26,860
Interest received on loans	14,560	16,023
Financing fee income received	2,288	1,778
Principal repayments on loans	42,536	35,337
Principal repayments on capital leases	25,947	45,427
Principal repayments on installment sales	510	490
Other received	19	70
Loan disbursements	(44,494)	(53,050)
Direct financing lease disbursements	(19,962)	(41,465)
Cash received (paid) for financing arrangements	781	(1,226)
Cash paid for interest	(31,157)	(37,548)
Cash paid for program administration	(14,477)	(20,967)
Net cash provided by (used in) operating activities	402	(28,271)
Noncapital Financing Activities		
Proceeds from issuance of bonds and notes payable	426,010	248,683
Repayments of bonds and notes payable	(522,092)	(357,729)
Nonoperating grants received	28,313	45,687
Transfers in	8,419	17,587
Payments of debt issuance costs	(718)	(322)
Collection of financing fees	480	123
Net cash used in noncapital financing activities	(59,588)	(45,971)
Investing Activities		
Purchase of investments	(152,218)	(166,579)
Maturities of investments	205,902	186,737
Proceeds from sale of real estate owned	430	354
Purchase of capital assets	(15)	-
Net cash provided by investing activities	54,099	20,512
Decrease in Cash and Cash Equivalents	(5,087)	(53,730)
Cash and Cash Equivalents, Beginning of Year	151,634	205,364
Cash and Cash Equivalents, End of Year	$ 146,547	$ 151,634

Arkansas Development Finance Authority,
A Component Unit of the State of Arkansas
Statements of Cash Flows (Continued)
Years Ended June 30, 2013 and 2012

(In thousands)	2013	2012
Reconciliation of Operating Income to Net Cash Used in Operating Activities		
Operating loss	$ (31,754)	$ (16,877)
Items not requiring (providing) operating activities cash flows		
Amortization of discounts on loans	(197)	(302)
Amortization of deferred financing fees	(1,003)	(1,133)
Accreted interest on loans	(2,779)	(2,366)
Accreted interest on bonds	2,779	2,633
Amortization of bond and note discounts and premiums	(299)	(464)
Amortization of bond and note issuance costs	1,036	994
Depreciation of capital assets	39	44
Provision for loan losses	7,336	8,797
Loss on sale of real estate owned	60	242
Net depreciation (appreciation) of investments	21,931	(4,634)
Changes in		
Accounts receivable	280	33
Accrued interest receivable	452	728
Loans receivable	(1,958)	(17,713)
Direct financing leases	5,985	3,962
Installment sale agreement	510	490
Other assets	-	18
Accounts payable	(93)	62
Accrued interest payable	(2,054)	(1,999)
Contract obligations	1,109	3,085
Other liabilities	(978)	(3,871)
Net cash provided by (used) in operating activities	$ 402	$ (28,271)
Supplemental Cash Flows Information		
Real estate acquired in settlement of loans	$ 192	$ 380
Sale and financing of real estate owned	$ -	$ 500

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

Nature of Operations and Reporting Entity

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

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

Recently Issued Accounting Pronouncements

In March 2012, the Governmental Accounting Standards Board issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Although the Authority is still determining the impact of this pronouncement, it is expected to affect how the refunding of debt and debt issuance costs are recorded. It is effective for periods beginning after December 15, 2012, and had no effect on the June 30, 2013 financial statements.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, will amend the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 50, *Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27*, as they relate to governmental employers that account for pensions provided through trusts, or equivalent arrangements, that meet certain criteria. The statement further includes guidance for accounting for participating employers in single-employer and multiple-employer defined benefit pension plans, cost-sharing plans, defined contribution plans and plans with insured benefits. The note disclosure and required supplementary information requirements for employers whose employees are provided with defined benefit pensions through qualified trusts also are addressed. Finally, the statement includes guidance on accounting for special funding situations where an entity other than the employer government is legally responsible for plan contributions. The Statement also requires employers participating in cost-sharing multiple-employer plans to recognize their proportional share of the plan's collective net pension liability, pension expense and deferred outflows of resources and deferred inflows of resources in the employer's financial statements. The pension expense will no longer be based on the contractually required contribution or contributions actually made, but will be actuarially determined. This will result in the pension expense and liability being recognized as benefits are earned by employees, and is expected to increase current pension expense along with the recognition of the proportional share of the net pension liability. Note disclosures and required supplementary information would also be expanded. The requirements of GASB 68 are effective for financial statements for fiscal years beginning after June 15, 2014.

The GASB has published GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which was approved on April 22, 2013. GASB 70 provides accounting and financial reporting guidance to state and local governments that offer nonexchange financial guarantees and for governments that receive nonexchange financial guarantees on their obligations. GASB 70 requires a state or local government guarantor that offers a nonexchange financial guarantee to another government, organization, or individual to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement.

GASB 70 also requires:

- A government guarantor to consider qualitative factors when determining if a payment on its guarantee is more likely than not to be required. Such factors may include whether the issuer of the guaranteed obligation is experiencing significant financial difficulty or initiating the process of entering into bankruptcy or financial reorganization.
- An issuer government that is required to repay a guarantor for guarantee payments made to continue to report a liability unless legally released. When a government is released, the government would recognize revenue as a result of being relieved of the obligation.
- A government guarantor or issuer to disclose information about the amounts and nature of nonexchange financial guarantees.

The requirements of GASB 70 are effective for reporting periods beginning after June 15, 2013.

Fund Accounting

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

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

(i) Single Family Housing Programs

(a) *Single Family Mortgage Purchase Program*—Accounts for proceeds from single family mortgage revenue bonds, the debt service requirements of the bonds and the related mortgage-backed securities or mortgage loans for single family owner-occupied housing in Arkansas. Included within this program is the Authority's Single Family Mortgage Revenue Bond General Resolution, adopted on July 20, 1995 (1995 General Resolution).

(b) *New Issue Bond Program*—Accounts for the issuance of single family bonds, as well as the related deferred charges and investment of bond proceeds, issued under a general resolution created specifically for this program. The U.S. Department of the Treasury developed this program for housing finance agencies, whereby ADFA sold $193.1 million in bonds to Fannie Mae and Freddie Mac (the GSEs) in December 2009 as escrow bonds. The bonds sold to the GSEs initially would represent 60% of the total long-term bond issue, and the other 40% would be issued in the marketplace. The 40% marketplace requirement was eliminated when the program was extended to December 31, 2012, as of January 1, 2012. The GSEs will purchase 100% of a bond issue. The interest rate on the GSEs' portion of ADFA's long-term bonds also changed, whereby the interest rate is calculated and capped as outlined in the bond documents.

(ii) Federal Housing Programs

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

(b) *Tax Credit Assistance Program (TCAP)*—Accounts for federal financial assistance in the form of American Reinvestment and Recovery Act (ARRA) funds received from HUD for the purpose of providing additional financing in the form of loans to developers to ensure that developments have sufficient financing to provide quality affordable housing. Only developments that were awarded low-income housing tax credits under Section 42(h) of the Internal Revenue Code (IRC) in federal fiscal years 2007, 2008 and 2009 were eligible for the sub-awards granted to the State of Arkansas from HUD for TCAP funding.

(c) *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 were eligible for the sub-awards granted to the State of Arkansas from the U.S. Treasury for exchange funding. Exchange funds were derived from ADFA exchanging tax credits in an amount up to $0.85 per tax credit.

(d) *Neighborhood Stabilization Programs (NSP)*—Accounts for federal financial assistance received from HUD for the purpose of stabilizing neighborhoods that have suffered the most from foreclosures and abandonment. ADFA participated in two of the three NSP offered by HUD. The first NSP was authorized by the Housing and Economic Recovery Act, which was signed into law on July 30, 2008. The third NSP was authorized by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) of 2010. NSP provides loans to purchase and rehabilitate foreclosed or abandoned homes for sale or rent in order to stabilize neighborhoods and stem the decline of house values in neighboring homes.

(e) *Community Development Block Grant–Disaster Funds Program (CDBG)*—Accounts for federal financial assistance received from HUD through the Arkansas Economic Development Commission (AEDC) for use in the development or redevelopment of affordable rental housing related to the five presidentially-declared disaster areas declared from February to October 2008. The Authority is administering $10.1 million of a $25.0 million disaster funds award reserved to the State of Arkansas for affordable rental housing to address the effects of these disasters through a Memorandum of Understanding between the Authority and AEDC.

(f) *Preservation Revolving Loan Fund Program (PRLF)* – Accounts for federal financial assistance received from United States Department of Agriculture Rural Housing Service (USDA) to loan funds to carry out a demonstration program that provides revolving loans for the preservation and revitalization of low-income Multi-Family Housing.

(iii) Multi-Family Programs

(a) *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 Arkansas State Treasurer (which was subsequently repaid by the Authority) for the purpose of enhancing and supporting the creditworthiness of bonds and other debt instruments guaranteed by the Authority. At June 30, 2013 and 2012, the fund had cash and cash equivalents and investments totaling $19.8 million and $18.9 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 the related debt service requirements of the bonds and related loans to public higher education institutions. Also, accounts for loan reserve programs, such as Capital Access, Business Life and Disadvantaged Business Enterprise.

(b) *State Small Business Credit Initiative Program (SSBCI)*—Accounts for federal financial assistance received from the U.S. Treasury as grants under the State Small Business Credit Initiative Act of 2010. The State of Arkansas was awarded approximately $13.2 million to be allocated to support six programs, three of which are included within these financial statements: Arkansas Capital Access Program, Bond Guaranty/Loan Participation Program and Disadvantaged Business Enterprise/Small Business Loan Guaranty Program.

(vii) Tobacco Bonds Program

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

(viii) General Fund Programs

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets 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, 2013 and 2012, cash equivalents of $146.5 million and $151.6 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, if any, and the net change for the year in the fair value of investments carried at fair value.

The fair value of the investments at June 30, 2013, was lower than the cost basis by $30.4 million and was in excess of the cost basis by $53.4 million at June 30, 2012.

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 uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

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

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

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

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

Income Taxes

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

Direct Financing Leases

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

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 position if either (a) the Authority has a vested interest in the residual value of the bond issue after its retirement or (b) the Authority guarantees the debt through the Bond Guaranty Fund.

Additionally, the Authority reports conduit debt obligations of entities that are included in the State of Arkansas reporting entity on its statement of net position. At June 30, 2013 and 2012, the principal balance of these bonds included in the Authority’s statement of net position totaled $237.1 million and $245.0 million, respectively.

Net Position

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

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

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, 2013 and 2012, the carrying value of the Authority's deposits was $7.1 million and $2.6 million, respectively. The balances per the bank statements totaled $7.4 million and $3.4 million, respectively. Of those deposits, $5.9 million and $1.2 million, respectively, were exposed to custodial credit risk as follows:

(In thousands)	2013	2012
Uninsured and uncollateralized	$ 5,533	$ 1,231
Uninsured and collateral held by pledging financial institution's trust department or agent in other than the Authority's name	352	-
	$ 5,885	$ 1,231

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, 2013 and 2012, the Authority had the following investments and maturities:

	June 30, 2013				
		Maturities in Years			
Type	Fair Value	Less than 1	1–5	6–10	More than 10
U.S. Treasury obligations	$ 7,385	$ 3,628	$ 3,352	$ 405	$ -
U.S. agencies obligations	14,666	441	11,023	3,202	-
Mortgage-backed securities	484,237	-	-	9,211	475,026
Money market mutual funds	140,487	140,487	-	-	-
Guaranteed investment contracts	12,506	-	2,104	-	10,402
Mutual bond funds	984	984	-	-	-
	$ 660,265	$ 145,540	$ 16,479	$ 12,818	$ 485,428

	June 30, 2012				
		Maturities in Years			
Type	Fair Value	Less than 1	1-5	6-10	More than 10
U.S. Treasury obligations	$ 12,691	$ 5,516	$ 6,127	$ 1,048	$ -
U.S. agencies obligations	18,312	5,541	11,064	1,707	-
Mortgage-backed securities	551,674	-	-	8,261	543,413
Money market mutual funds	150,087	150,087	-	-	-
Guaranteed investment contracts	11,692	-	2,301	-	9,391
Municipal bonds	991	991	-	-	-
	$ 745,447	$ 162,135	$ 19,492	$ 11,016	$ 552,804

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

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

Credit Risk—Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The Authority complies with various trust indentures or internal investment policy whereby investments and debt securities are typically rated "A" or higher. The Authority's investments in U.S. agencies obligations and mortgage-backed securities not directly guaranteed by the U.S. government were primarily rated "AA+" by Standard & Poor's and "Aaa" by Moody's Investors Service at June 30, 2013. Investments in money market mutual funds or the investments of those funds were primarily rated "AAAm" by Standard & Poor's and "Aaa" by Moody's Investors Service. The Authority's investments in guaranteed investment contracts were with providers having at least one rating, with all ratings being rated at least "A-" with the exception of one rated both "A-" by Standard & Poor's and "Baa1" by Moody's Investors Service as of June 30, 2013, totaling $4.1 million.

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, 2013, are as follows (in thousands):

Issuer	Fair Value	Percentage
Federal National Mortgage Association	$ 43,950	8.43%

Summary of Carrying Values

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

(In thousands)	2013	2012
Carrying value		
Deposits	$ 7,101	$ 2,621
Investments	660,265	745,447
	$ 667,366	$ 748,068
Included in the following balance sheet captions:		
Current assets		
Cash and cash equivalents	$ 146,547	$ 151,634
Investments – current portion	1,024	1,031
Noncurrent assets		
Investments – unrestricted	49,884	122,458
Investments – restricted	469,911	472,945
	$ 667,366	$ 748,068

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, 2013 and 2012, respectively, the Authority reported loans of $60.0 million and $57.4 million as deferred loans and $42.2 million and $41.3 million as surplus cash loans. These types of loans had related allowances of $64.4 million and $61.1 million at June 30, 2013 and 2012, respectively.

Multi-Family Mortgage Purchase Program—Includes a 2001 bond issue that 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, 2013 and 2012, respectively, the Authority reported in its statement of net position $46.6 million and $41.6 million in loans and leases to private companies as well as $54.1 million and $46.6 million in related bond issues, which are guaranteed by the Bond Guaranty Fund. Differences between the loan and lease balances and the related bond balance are attributed primarily to the allowance for loan loss of $8.2 million and $7.9 million, offset by loans and leases with no associated bonds of $2.4 million and $3.6 million at June 30, 2013 and 2012, respectively. There was also a difference of $1.2 million for construction draws payable at June 30, 2013; whereas, all loans and leases were fully funded at June 30, 2012.

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, 2013 and 2012, revenue bonds outstanding of $27.2 million and $29.8 million, respectively, were guaranteed by the Bond Guaranty Fund. Furthermore, the Bond Guaranty Fund guarantees bond anticipation notes. At June 30, 2013 and 2012, respectively, the principal amount on these notes totaled $5.6 million and $10.1 million outstanding with $3.1 million and $5.1 million guaranteed.

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

State and Health Facilities Programs—Includes financing activities with various state agencies and health facilities. At June 30, 2013 and 2012, respectively, the Authority reported loans of $90.8 million and $99.1 million, direct financing leases and installment sale of $134.6 million and $140.1 million and bonds outstanding of $237.1 million and $247.6 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 $10.2 million and $7.2 million at June 30, 2013 and 2012, 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 8.35%

Impaired loans totaled $138.0 million and $124.3 million at June 30, 2013 and 2012, respectively, with related allowances for loan losses of $77.1 million and $72.8 million. Impaired loans include loans with a reserve percentage of 20% or more. Impaired loans for the Bond Guaranty Fund and the general fund programs totaled $13.3 million and $16.0 million at June 30, 2013 and 2012, respectively, with related allowances for loan losses of $5.4 million and $7.4 million. Impaired loans also include loans made under the Federal Housing programs with repayment terms allowing deferment or repayment based on net income of the multi-family developments. The Federal Housing impaired loans totaled $120.0 million and $105.2 million at June 30, 2013 and 2012, respectively, with related allowances for loan losses of $69.6 million and $63.8 million.

At June 30, 2013 and 2012, respectively, accruing loans delinquent 180 days or more where payment is anticipated due to current payment activity totaled approximately $800,000 and $700,000. Non-accruing loans at June 30, 2013 and 2012, respectively, were $17.1 million and $18.4 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, 2013, were as follows:

(In thousands)	Lease Payments
Year ending June 30,	
2014	$ 13,916
2015	11,996
2016	12,566
2017	12,439
2018	12,282
2019–2023	50,548
2024–2028	31,876
2029–2033	27,721
2034–2038	8,013
2039–2043	2,693
Total minimum lease payments receivable	184,050
Less amount representing interest	(49,359)
Less unfunded lease amount	(6,083)
Present value of minimum lease payments receivable	$ 128,608

Note 5: Capital Assets

Premises and equipment at June 30 are summarized as follows:

(In thousands)	2013	2012
Cost		
Premises and equipment	$ 141	$ 170
Less accumulated depreciation	(39)	(44)
Net	$ 102	$ 126

Depreciation expense for the years ended June 30, 2013 and 2012, respectively, was approximately $39,000 and $44,000.

Note 6: Bonds and Notes Payable

Bonds and notes payable at June 30 were as follows:

(In thousands)	2013	2012
Total Single Family Bonds Payable, with interest rates ranging from 0.14 – 9.878% and final maturity at varying dates through 2043	$ 379,374	$ 419,377
Less unamortized discount/plus unamortized premium	866	1,204
Total Single Family Bonds Payable, net	380,240	420,581
Total Multi-Family Bonds and Note Payable, with interest rates ranging from 1 – 9.75% and final maturity at varying dates through 2042	12,260	22,095
Less unamortized discount/plus unamortized premium	(300)	(332)
Total Multi-Family Bonds Payable, net	11,960	21,763
Total Economic Development Bonds Payable, Guaranteed by the Bond Guaranty Fund, with interest rates ranging from 0.7 – 7.45% and final maturity at varying dates through 2037	54,082	46,605
Total State and Health Facilities Bonds Payable, with interest rates ranging from 0.75 – 7.0% and final maturity at varying dates through 2040	237,120	247,595
Total Other Economic Development Bonds Payable, with interest rates ranging from 5.6 – 5.7% and final maturity at varying dates through 2015	315	380
Less unamortized discount/plus unamortized premium	(11)	(18)
Total Other Economic Development Bonds Payable, net	304	362
Tobacco Bonds Payable, with interest rates ranging from 4.77 – 5.5% and final maturity at varying dates through 2046	85,107	85,982
Total General Fund Note Payable, with interest rates ranging from 0.20 – 0.22% and final maturity in August 2012	-	39,527
Total all programs bonds and notes payable, net	$ 768,813	$ 862,415

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

Activity in bonds and notes payable for fiscal year 2013 was as follows:

(In thousands)	Beginning Balance	Additions Including Accretion	Reductions	Ending Balance	Amount Due within One Year
Bonds payable	$ 822,034	$ 128,756	$ (183,755)	$ 767,035	$ 32,380
Notes payable	39,527	300,033	(338,337)	1,223	-
	861,561	428,789	(522,092)	768,258	32,380
Unamortized premiums	854	-	(299)	555	-
Total	$ 862,415	$ 428,789	$ (522,391)	$ 768,813	$ 32,380

Activity in bonds and notes payable for fiscal year 2012 was as follows:

(In thousands)	Beginning Balance	Additions Including Accretion	Reductions	Ending Balance	Amount Due within One Year
Bonds payable	$ 954,340	$ 120,623	$ (252,929)	$ 822,034	$ 74,712
Notes payable	13,634	130,693	(104,800)	39,527	-
	967,974	251,316	(357,729)	861,561	74,712
Unamortized premiums	1,318	-	(464)	854	-
Total	$ 969,292	$ 251,316	$ (358,193)	$ 862,415	$ 74,712

Future amounts required for principal and interest on all bonds and notes payable at June 30, 2013, were as follows:

(In thousands)	Principal	Interest
Year Ending June 30,		
2014	$ 32,380	$ 28,370
2015	35,220	27,328
2016	32,911	26,153
2017	34,119	24,852
2018	32,473	23,540
2019–2023	153,740	99,007
2024–2028	120,313	57,425
2029–2033	161,731	53,098
2034–2038	120,331	20,798
2039–2043	47,579	10,350
2044–2046	77,846	150
Unamortized premiums and discounts	555	-
Accreted interest	(80,385)	80,385
Total	$ 768,813	$ 451,456

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, 2013, 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
2004 Series ADFA State Agencies Facilities Revenue Bonds (Donaghey Plaza Project)	April 2012	$ 35,380
2004 Series ADFA State Park Facilities Revenue Bonds (Mt. Magazine Project)	May 2012	$ 23,005
2005 Series ADFA State Agencies Facilities Revenue Bonds (ADEQ Project)	August 2012	$ 17,900

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, 2013 and 2012, respectively, the bonds outstanding issued under these programs aggregated $228.2 million and $190.2 million.

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

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

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

Note 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 percentage of the gross salaries of eligible employees participating in the Plan as an employer contribution. State law provides that Authority contributions for all covered state employees are to be based on 14.24% of gross payroll for the year ended June 30, 2013, 13.47% of gross payroll for the year ended June 30, 2012, and 12.46% of gross payroll for the year ended June 30, 2011. Required payroll contributions totaled approximately $477,000, $447,000 and $367,000 for the years ended June 30, 2013, 2012 and 2011, respectively. All contributions required of the Authority were made for the years ended June 30, 2013, 2012 and 2011. For the years ended June 30, 2013, 2012 and 2011, the Authority's covered payroll and total payroll for all employees amounted to $4.6 million, $4.7 million and $4.5 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 W. 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, 2013, 2012 and 2011, the Authority recorded expenses of $179,000, $322,000 and $232,000, respectively, for the annual required contributions (ARC) and cumulative liabilities of $1,405,000, $1,226,000 and $904,000, respectively, included in other liabilities on the statements of net position, in accordance with the parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions.* The complete disclosures required by GASB 45 are included in the State of Arkansas Comprehensive Annual Financial Report (CAFR).

Note 9: Commitments and Contingencies

The Authority participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Authority has not complied with the rules and regulations governing the grants, refunds of any money received may be required, and the collectability of any related receivable at June 30, 2013 and 2012, 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 $11.4 million and $7.2 million of amounts recorded as cash and investments in the statement of net position that may be disbursed to borrowers under loan and lease agreements closed prior to June 30, 2013 and 2012, 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 Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; workers compensation claims; fiduciary liability; and fidelity for which the Authority either carries commercial insurance or participates in insurance through the State of Arkansas. There have not been any settlements which exceeded insurance coverage in the past three years.

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

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 $25.7 million as of June 30, 2013, and $23.4 million as of June 30, 2012. As of June 30, 2013, there were eight approved investments totaling $28.1 million, of which $6.5 million has yet to be funded, that are anticipated to become part of the AIF.

Note 10: Subsequent Events

On July 1, 2013, the Authority optionally redeemed three Single Family bond issues totaling approximately $27 million which saved future interest costs of approximately $14.7 million.

In July 2013, the Authority entered into a program to participate as a sponsor in the Turnkey Mortgage Origination Program by Raymond James. The program will purchase the loans, once pooled as a mortgage-backed security, at certain pre-designated prices eliminating the interest rate risk for the Authority for future periods.

Supplementary Information

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

Combining Statement of Net Position

June 30, 2013

(In thousands)	Single Family Housing Programs	Federal Housing Programs	Multi-Family Programs	Economic Development Bond Guaranty Program
Current Assets				
Cash and cash equivalents	$ 41,323	$ 504	$ 4,188	$ 6,996
Accrued interest receivable	1,597	48	101	134
Accounts receivable	-	96	-	13
Investments – current portion	-	-	-	-
Loans – current portion	-	-	-	-
Total current assets	42,920	648	4,289	7,143
Noncurrent Assets				
Deferred charges	2,738	-	2	-
Investments – unrestricted	-	-	-	-
Investments – restricted	439,729	-	4,893	18,121
Loans, net	79	79,449	16,858	41,747
Direct financing leases – restricted	-	-	-	4,836
Installment sale agreement	-	-	-	-
Real estate owned	-	40	-	-
Capital assets, net	-	-	-	-
Total noncurrent assets	442,546	79,489	21,753	64,704
Total assets	485,466	80,137	26,042	71,847
Current Liabilities				
Accounts payable	24	278	-	67
Accrued interest payable	6,388	3	62	529
Contract obligations – current portion	-	-	-	-
Bonds and notes payable – current portion	8,715	-	1,430	4,380
Total current liabilities	15,127	281	1,492	4,976
Noncurrent Liabilities				
Deferred fees	1,649	-	1	2,012
Contract obligations	-	-	-	-
Bonds and notes payable, net of unamortized premiums and discounts	371,525	1,223	9,307	49,702
Deposits against financing arrangements	-	2	-	2,303
Other liabilities	-	-	1,753	-
Total noncurrent liabilities	373,174	1,225	11,061	54,017
Total liabilities	388,301	1,506	12,553	58,993
Net Position (Deficit)				
Restricted by bond resolution and programs	97,165	78,631	13,489	12,854
Invested in capital assets	-	-	-	-
Unrestricted	-	-	-	-
Net position (deficit)	$ 97,165	$ 78,631	$ 13,489	$ 12,854

State and Health Facilities Programs	Other Economic Development Programs	Tobacco Bonds Program	General Fund Programs	Eliminations	Total
$ 38,927	$ 10,258	$ 2,690	$ 41,661	$ -	$ 146,547
872	7	27	263	-	3,049
536	-	-	1,467	(1,400)	712
-	-	-	1,024	-	1,024
-	-	-	1,637	-	1,637
40,335	10,265	2,717	46,052	(1,400)	152,969
-	-	-	23	-	2,763
-	-	-	49,884	-	49,884
2,853	-	4,315	-	-	469,911
90,753	2,631	51,942	17,173	-	300,632
123,772	-	-	-	-	128,608
10,870	-	-	-	-	10,870
-	-	-	-	-	40
-	-	-	102	-	102
228,248	2,631	56,257	67,182	-	962,810
268,583	12,896	58,974	113,234	(1,400)	1,115,779
2	20	-	1,261	(1,400)	252
1,635	1	144	-	-	8,762
4,784	-	-	-	-	4,784
16,185	70	1,600	-	-	32,380
22,606	91	1,744	1,261	(1,400)	46,178
-	-	-	12	-	3,674
2,027	-	-	-	-	2,027
220,935	234	83,507	-	-	736,433
23,017	23	3,326	3	-	28,674
-	-	13	1,675	-	3,441
245,979	257	86,846	1,690	-	774,249
268,585	348	88,590	2,951	(1,400)	820,427
(2)	12,548	(29,616)	-	-	185,069
-	-	-	102	-	102
-	-	-	110,181	-	110,181
$ (2)	$ 12,548	$ (29,616)	$ 110,283	$ -	$ 295,352

Arkansas Development Finance Authority,
A Component Unit of the State of Arkansas
Combining Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2013

(In thousands)

	Single Family Housing Programs	Federal Housing Programs	Multi-Family Programs	Economic Development Bond Guaranty Program
Operating Revenues				
Investment income				
Interest and dividends	$ 17,768	$ -	$ 194	$ 349
Loans and direct financing leases	4	536	1,145	2,220
Amortization of discounts on loans	-	-	197	-
Financing fees	740	-	2	307
Net (depreciation) appreciation of investments	(13,805)	-	2	(483)
Total investment income	4,707	536	1,540	2,393
Other	-	-	-	2
Total operating revenues	4,707	536	1,540	2,395

State and Health Facilities Programs	Other Economic Development Programs	Tobacco Bonds Program	General Fund Programs	Eliminations	Total
$ -	$ 1	$ -	$ 5,185	$ -	$ 23,497
9,327	86	2,485	1,552	-	17,355
-	-	-	-	-	197
-	48	-	3,883	(1,301)	3,679
(1)	-	-	(7,644)	-	(21,931)
9,326	135	2,485	2,976	(1,301)	22,797
-	7	-	10	-	19
9,326	142	2,485	2,986	(1,301)	22,816

Arkansas Development Finance Authority,
A Component Unit of the State of Arkansas
Combining Statement of Revenues, Expenses and Changes in Net Position (Continued)
Year Ended June 30, 2013

(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	$ 14,141	$ 5	$ 1,174	$ 2,429
Accreted	294	-	-	-
Total interest on bonds and notes	14,435	5	1,174	2,429
Amortization				
Amortization of discounts and premiums on bonds and notes	(533)	-	3	-
Amortization of bond and note issuance costs	1,031	-	5	-
Total amortization	498	-	8	-
Administrative expenses				
Provision for loan losses	-	5,755	514	666
Federal financial assistance programs	-	7,908	-	298
Salaries and benefits	-	-	-	-
Operations and maintenance	-	1,302	-	-
BMIR program participant expense	-	-	23	-
Other	659	(9)	23	(336)
Total administrative expenses	659	14,956	560	628
Total operating expenses	15,592	14,961	1,742	3,057
Operating Loss	(10,885)	(14,425)	(202)	(662)
Nonoperating Revenue				
Federal grants	-	18,810	-	297
Total nonoperating revenue	-	18,810	-	297
Income (Loss) Before Transfers In (Out)	(10,885)	4,385	(202)	(365)
Transfers In (Out)	6,977	5,190	-	-
Change in Net Position (Deficit)	(3,908)	9,575	(202)	(365)
Net Position (Deficit), Beginning of Year	101,073	69,056	13,691	13,219
Net Position (Deficit), End of Year	$ 97,165	$ 78,631	$ 13,489	$ 12,854

State and Health Facilities Programs	Other Economic Development Programs	Tobacco Bonds Program	General Fund Programs	Eliminations	Total
$ 9,644	$ 19	$ 1,850	$ 65	$ -	$ 29,327
-	-	2,485	-	-	2,779
9,644	19	4,335	65	-	32,106
-	7	-	-	-	(523)
-	-	-	-	-	1,036
-	7	-	-	-	513
-	243	-	158	-	7,336
-	-	-	-	-	8,206
-	-	-	4,599	-	4,599
-	-	-	949	(809)	1,442
-	-	-	-	-	23
-	64	-	436	(492)	345
-	307	-	6,142	(1,301)	21,951
9,644	333	4,335	6,207	(1,301)	54,570
(318)	(191)	(1,850)	(3,221)	-	(31,754)
317	8,823	-	66	-	28,313
317	8,823	-	66	-	28,313
(1)	8,632	(1,850)	(3,155)	-	(3,441)
-	(1,784)	5,000	(6,964)	-	8,419
(1)	6,848	3,150	(10,119)	-	4,978
(1)	5,700	(32,766)	120,402	-	290,374
$ (2)	$ 12,548	$ (29,616)	$ 110,283	$ -	$ 295,352

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

Single Family Housing Programs

Combining Statement of Net Position

June 30, 2013

(In thousands)	1995 General Resolution	Single Family New Issue Bond Program	Other Single Family Housing Programs	Single Family Housing Programs (Total)
Current Assets				
Cash and cash equivalents	$ 33,450	$ 7,349	$ 524	$ 41,323
Accrued interest receivable	1,304	280	13	1,597
Total current assets	34,754	7,629	537	42,920
Noncurrent Assets				
Deferred charges	2,037	699	2	2,738
Investments – restricted	342,817	92,762	4,150	439,729
Loans, net	-	-	79	79
Total noncurrent assets	344,854	93,461	4,231	442,546
Total assets	379,608	101,090	4,768	485,466
Current Liabilities				
Accounts payable	20	4	-	24
Accrued interest payable	5,030	1,358	-	6,388
Bonds and notes payable – current portion	6,525	2,190	-	8,715
Total current liabilities	11,575	3,552	-	15,127
Noncurrent Liabilities				
Deferred fees	1,368	281	-	1,649
Bonds and notes payable, net of unamortized premiums and discounts	275,003	93,355	3,167	371,525
Total noncurrent liabilities	276,371	93,636	3,167	373,174
Total liabilities	287,946	97,188	3,167	388,301
Net Position				
Restricted by bond resolution and programs	91,662	3,902	1,601	97,165
Net position	$ 91,662	$ 3,902	$ 1,601	$ 97,165

Arkansas Development Finance Authority,
A Component Unit of the State of Arkansas
Single Family Housing Programs
Combining Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2013

(In thousands)	1995 General Resolution	Single Family New Issue Bond Program	Other Single Family Housing Programs	Single Family Housing Programs (Total)
Operating Revenues				
Investment income				
Interest and dividends	$ 14,662	$ 3,050	$ 56	$ 17,768
Loans and direct financing leases	-	-	4	4
Financing fees	672	68	-	740
Net (depreciation) appreciation of investments	(10,405)	(3,442)	42	(13,805)
Total investment income	4,929	(324)	102	4,707
Total operating revenues	4,929	(324)	102	4,707

Arkansas Development Finance Authority,
A Component Unit of the State of Arkansas
Single Family Housing Programs
Combining Statement of Revenues, Expenses and Changes in Net Position (Continued)
Year Ended June 30, 2013

(In thousands)	1995 General Resolution	Single Family New Issue Bond Program	Other Single Family Housing Programs	Single Family Housing Programs (Total)
Operating Expenses				
Interest on bonds and notes				
Current	$ 11,584	$ 2,557	$ -	$ 14,141
Accreted	-	-	294	294
Total interest on bonds and notes	11,584	2,557	294	14,435
Amortization				
Amortization of discounts and premiums on bonds and notes	(533)	-	-	(533)
Amortization of bond and note issuance costs	907	123	1	1,031
Total amortization	374	123	1	498
Administrative expenses				
Other	623	35	1	659
Total administrative expenses	623	35	1	659
Total operating expenses	12,581	2,715	296	15,592
Operating Loss	(7,652)	(3,039)	(194)	(10,885)
Transfers In (Out)	7,659	429	(1,111)	6,977
Change in Net Position (Deficit)	7	(2,610)	(1,305)	(3,908)
Net Position, Beginning of Year	91,655	6,512	2,906	101,073
Net Position, End of Year	$ 91,662	$ 3,902	$ 1,601	$ 97,165