



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

June 30, 2022

**Combined Financial Statements
And
Supplementary Information**

With

Independent Auditor's Report



FROST, PLLC
Certified Public Accountants

Table of Contents

	<u>Page</u>
Independent Auditor's Report	1 – 3
Management's Discussion and Analysis	4 – 8
Combined Financial Statements	
Combined Statement of Net Position	9 – 10
Combined Statement of Revenues, Expenses and Changes in Net Position	11
Combined Statement of Cash Flows (Authority Only)	12 – 13
Notes to Combined Financial Statements.....	14 – 47
Required Supplementary Information	
Schedule of the Authority's Proportionate Share of the Net Pension Liability – Arkansas Public Employees Retirement System as of June 30, 2022 – June 30, 2015	48
Schedule of the Authority's Contributions – Arkansas Public Employees Retirement System for the Years Ended June 30, 2022 – June 30, 2015	49
Schedule of Changes in Total Other Postemployment Benefits Liability for the Years Ended June 30, 2022 – June 30, 2018	50
Supplementary Information	
Combining Statement of Net Position.....	51 – 52
Combining Statement of Revenues, Expenses and Changes in Net Position.....	53

Table of Contents (cont.)

	<u>Page</u>
Compliance and Internal Control Section	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	54 – 55
Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance in Accordance With the Uniform Guidance.....	56 – 58
Schedule of Findings and Questioned Costs	59
Summary Schedule of Prior Audit Findings.....	60
Schedule of Expenditures of Federal Awards.....	61
Notes to Schedule of Expenditures of Federal Awards.....	62 – 63

Independent Auditor's Report

Board of Directors
Arkansas Development Finance Authority,
A Component Unit of the State of Arkansas
Little Rock, Arkansas

Report on the Audit of the Combined Financial Statements

Opinions

We have audited the combined financial statements of the business-type activities and the aggregate discretely presented component unit of the Arkansas Development Finance Authority, a component unit of the State of Arkansas, as of and for the year ended June 30, 2022, and the related notes to the combined financial statements, which collectively comprise Arkansas Development Finance Authority's basic combined financial statements as listed in the table of contents.

In our opinion, the accompanying combined financial statements present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component unit of Arkansas Development Finance Authority, a component unit of the State of Arkansas, as of June 30, 2022, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Combined Financial Statements section of our report. We are required to be independent of Arkansas Development Finance Authority, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of the combined financial statements in accordance with GAAP, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the combined financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Arkansas Development Finance Authority's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Combined Financial Statements

Our objectives are to obtain reasonable assurance about whether the combined financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. We did not audit the financial statements of the Arkansas Institutional Fund, LLC, which represents 40%, 21% and 77% of the assets, net position and total changes in net position, respectively, for the year ended June 30, 2022 of the aggregate financial statements of the Arkansas Venture Capital Investment Trust, which is an aggregate discretely presented component unit of the Arkansas Development Finance Authority. Those statements were audited by another auditor whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for such entities, is based solely on the reports of the other auditor. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the combined financial statements. The financial statements of Arkansas Institutional Fund, LLC, a blended component unit included in the financial statements of the aggregate discretely presented component unit, were not audited in accordance with *Government Auditing Standards*.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the combined financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the combined financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Arkansas Development Finance Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the combined financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Arkansas Development Finance Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

GAAP require that the management's discussion and analysis on pages 4 through 8, and other required supplementary information on pages 48 through 50 be presented to supplement the basic combined financial statements. Such information is the responsibility of management and, although not a part of the basic combined 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 combined financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, 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 combined financial statements, and other knowledge we obtained during our audit of the basic combined 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 opinions on the combined financial statements that collectively comprise Arkansas Development Finance Authority's basic combined financial statements. The schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and are not a required part of the basic combined 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic combined 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 combined financial statements or to the basic combined financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the supplementary information and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic combined financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2022, on our consideration of Arkansas Development Finance Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Arkansas Development Finance Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Arkansas Development Finance Authority's internal control over financial reporting and compliance.

Frost, PLLC

Certified Public Accountants

Management's Discussion and Analysis

For the Year Ended June 30, 2022

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 combined financial statements and notes as a whole.

Understanding the Combined Financial Statements

The June 30, 2022 basic combined financial statements include three required statements: The combined statement of net position; the combined statement of revenues, expenses and changes in net position; and the combined statement of cash flows. The combined statement of net position and the combined statement of revenues, expenses and changes in net position are presented for all of ADFA's programs in the combining statements of the Authority. ADFA has nine programs presented as supplementary information following the notes to combined financial statements: Single Family Housing Programs, Federal Housing Programs, Multi-Family Programs, Economic Development Bond Guaranty Program, State Facilities and Amendment 82 Programs, Other Economic Development Programs, Tobacco Settlement Revenue Bonds Program, Student Loan Programs and General Fund Program.

The Authority includes three other legally separate entities in its reporting entity – the Arkansas Venture Capital Investment Trust ("AVCIT") and its blended component units, the Arkansas Institutional Fund, LLC ("AIF") and the Arkansas Venture Development Fund, LLC ("AVDF"). Although legally separate, these component units are included because the Authority is financially and administratively accountable for them and excluding them would be misleading. Financial information for these component units is reported separately from the financial information presented for the Authority itself. Additional information about the relationships between the Authority and these component units can be found in Note 1.a. to the combined financial statements.

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

5

Management's Discussion and Analysis (cont.)

For the Year Ended June 30, 2022

Condensed Combined Statements of Net Position

	<u>Authority</u>	
	<u>2022</u>	<u>2021</u>
<i>(In thousands)</i>		
Assets		
Current assets	\$ 298,739	\$ 315,201
Capital assets, net	2,264	2,400
Other noncurrent assets	<u>762,118</u>	<u>770,706</u>
Total assets	<u>1,063,121</u>	<u>1,088,307</u>
Deferred outflow of resources	<u>3,292</u>	<u>4,333</u>
Liabilities		
Current liabilities	36,468	39,241
Noncurrent liabilities	<u>536,157</u>	<u>602,330</u>
Total liabilities	<u>572,625</u>	<u>641,571</u>
Deferred inflow of resources	<u>4,824</u>	<u>1,017</u>
Net position		
Investment in capital assets	2,264	2,400
Restricted expendable by bond resolution and programs	336,929	301,129
Unrestricted	<u>149,771</u>	<u>146,523</u>
Net position	<u>\$ 488,964</u>	<u>\$ 450,052</u>

Combined Statement of Net Position

During fiscal year 2022, total assets decreased approximately \$25.2 million to approximately \$1.1 billion due primarily to the decrease in cash and cash equivalents as discussed below.

Cash and cash equivalents decreased \$32.7 million, or 11%, primarily from the purchase of investments and paying debt service net of federal funds received but not yet disbursed. Investments increased \$21.8 million, or 86%, to \$183.5 million due to investing cash once the market and rates improved.

The Authority's liabilities decreased by approximately \$69.0 million, or 11%, due to a decrease in bonds payable of \$60.2 million. The decrease for bonds payable is attributable to redemptions exceeding bond issuances.

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

6

Management's Discussion and Analysis (cont.)

For the Year Ended June 30, 2022

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

	Authority	
	<u>2022</u>	<u>2021</u>
<i>(In thousands)</i>		
Operating revenues		
Total investment income	\$ 22,910	\$ 36,794
Other	<u>107</u>	<u>1,181</u>
Total operating revenues	<u>23,017</u>	<u>37,975</u>
Operating expenses		
Interest and amortization on bonds and notes	17,383	16,926
Total administrative expenses	<u>27,143</u>	<u>21,995</u>
Total operating expenses	<u>44,526</u>	<u>38,921</u>
Operating loss	(21,509)	(946)
Nonoperating revenues		
Federal grants	<u>61,003</u>	<u>15,495</u>
Income before transfers out, net	39,494	14,549
Transfers out, net	<u>(582)</u>	<u>(525)</u>
Changes in net position	38,912	14,024
Net position - beginning of year	<u>450,052</u>	<u>436,028</u>
Net position - end of year	<u>\$ 488,964</u>	<u>\$ 450,052</u>

Management's Discussion and Analysis (cont.)

For the Year Ended June 30, 2022

Combined Statement of Revenues, Expenses and Changes in Net Position

ADFA's profit before transfers out totaled \$39.5 million for the year ended June 30, 2022, compared with a profit of \$14.5 million for the year ended June 30, 2021.

The increase in the income before transfers out relates primarily to the increase in federal grants of \$45.5 million and decrease in provision for loan losses of \$6.0 million net of increases of a total \$12.6 million in federal financial assistance and operations and maintenance expenses primarily (federal expenses) and decrease of \$12.1 million in net depreciation of investments.

The increase associated with federal grants and federal expenses is mainly due to the Homeowner Assistance Fund Program. This program was awarded to the State of Arkansas in fiscal year 2021 from the U.S. Department of the Treasury under the American Rescue Plan. The Authority was authorized to administer the program for the state. During fiscal year 2022, the remaining balance of \$57 million was received and only disbursed or incurred expenses of \$15.1 million during the year. In the prior year, \$6 million was received and only \$16,000 expensed.

Also causing the increase to income before transfers out was the decrease in provision for loan losses of \$6 million. This decrease is mainly due to one housing project which was 100% reserved being reclassified to Real Estate Owned and sold within the fiscal year which caused a \$1.2 million decrease to expense. In the prior year, additional provisions were reported for certain loans of \$4.4 million.

Lastly was the decrease in net depreciation of investments of \$15.4 million. This was primarily due to market conditions improving in the last quarter of the fiscal year and causing market values to be closer to cost values of the mortgage-backed securities which comprise the majority of the Authority's portfolio.

ADFA's overall financial position has improved.

Student Loans – The Authority received \$20.5 million in student loan repayments during the year ended June 30, 2022, and \$12.7 million for the year ended June 30, 2021. The Authority received less subsidy (guaranteed yield on loans from the U.S. Department of Education) due to the loan balance decreasing and the decrease in the three-month London Interbank Offered Rate ("LIBOR") throughout the year. The Authority's subsidy is based on the three-month average of the three-month LIBOR plus an applicable fixed spread, depending upon the type of loan, the status of the loan and the time period in which the loan was disbursed.

Management's Discussion and Analysis (cont.)

For the Year Ended June 30, 2022

Credit Ratings

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

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

The Student Loan Bonds Series 2010-1 have a current Moody's rating of Aaa (Stable outlook) and a Fitch rating of AAA (Negative outlook). The Series 2012-1 have a current S&P rating of AA+ (Stable outlook) and a Fitch rating of AAA (Negative outlook).

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

Contacting the Authority's Financial Management

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 President / Chief Financial Officer by telephoning 501.682.5900. The Authority's website is <http://adfa.arkansas.gov>.

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

9

Combined Statement of Net Position

June 30, 2022

(In Thousands)

<u>Assets and Deferred Outflow of Resources</u>	<u>Authority</u>	Component <u>Unit</u>
Current assets		
Cash and cash equivalents	\$ 271,143	\$ 5,467
Accrued interest receivable	7,972	-
Accounts receivable	4,463	82
Current portion of		
Investments	7,001	-
Loans	1,835	-
Loan to Component Unit	<u>6,325</u>	<u>-</u>
Total current assets	<u>298,739</u>	<u>5,549</u>
Noncurrent assets		
Investments		
Unrestricted	74,736	-
Restricted	101,758	20,527
Loans, net of allowance for loan losses of \$79,567	582,398	125
Real estate owned	1,065	-
Capital assets, net	2,264	-
Other assets	<u>2,161</u>	<u>-</u>
Total noncurrent assets	<u>764,382</u>	<u>20,652</u>
Total assets	<u>1,063,121</u>	<u>26,201</u>
Deferred outflow of resources		
Deferred charge on refunding	2,281	-
OPEB difference in expected versus actual experience	12	-
Changes in OPEB actuarial assumptions and proportions	523	-
Pension contributions	449	-
Pension differences in expected versus actual experience	<u>27</u>	<u>-</u>
Total deferred outflow of resources	<u>3,292</u>	<u>-</u>
Total assets and deferred outflow of resources	<u>\$ 1,066,413</u>	<u>\$ 26,201</u>

The accompanying notes are an integral part of these combined financial statements.

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

10

Combined Statement of Net Position (cont.)

June 30, 2022

(In Thousands)

<u>Liabilities, Deferred Inflow of Resources and Net Position</u>	<u>Authority</u>	<u>Component Unit</u>
Current liabilities		
Accounts payable	\$ 3,501	\$ 15
Accrued interest payable	2,032	63
Unearned fees	211	-
Contract obligations	7,016	-
Deferred gain on refinancing sale of asset	10	-
Current portion of bonds and notes payable	23,606	6,325
OPEB and pension liabilities	92	-
Total current liabilities	<u>36,468</u>	<u>6,403</u>
Noncurrent liabilities		
Unearned fees	885	-
Contract obligations	815	-
Bonds and notes payable, net of unamortized premiums and discounts and current portion	478,366	-
Deposits against financing arrangements	52,415	-
Deferred gain on refinancing sale of asset	97	-
OPEB and pension liabilities	3,167	-
Other liabilities	412	-
Total noncurrent liabilities	<u>536,157</u>	<u>-</u>
Total liabilities	<u>572,625</u>	<u>6,403</u>
Deferred inflow of resources		
OPEB difference in expected versus actual experience	327	-
Changes in OPEB actuarial assumptions and proportions	1,090	-
Pension difference in expected versus actual experience	76	-
Changes in pensions actuarial assumptions	8	-
Net differences between projected and actual earnings on pension plan investments	2,057	-
Changes in employer pension contribution and share of contributions	449	-
Lease obligations	817	-
Total deferred inflow of resources	<u>4,824</u>	<u>-</u>
Total liabilities and deferred inflow of resources	<u>577,449</u>	<u>6,403</u>
Net position		
Investment in capital assets	2,264	-
Restricted expendable by bond resolution and programs	336,929	19,265
Restricted, nonexpendable and minority interest	-	533
Unrestricted	149,771	-
Total net position	<u>488,964</u>	<u>19,798</u>
Total liabilities, deferred inflow of resources and net position	<u>\$ 1,066,413</u>	<u>\$ 26,201</u>

The accompanying notes are an integral part of these combined financial statements.

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

11

Combined Statement of Revenues, Expenses and Changes in Net Position

For the Year Ended June 30, 2022

(In Thousands)

	<u>Authority</u>	Component <u>Unit</u>
Operating revenues		
Investment income (loss)		
Interest and dividends	\$ 5,137	\$ 13,886
Impairment loss	-	(1,025)
Loans and direct financing leases	23,222	15
Amortization of discounts on loans	2	-
Financing fees	9,993	-
Net depreciation of investments	(15,444)	-
Total investment income	22,910	12,876
Other income	107	-
Total operating revenues	<u>23,017</u>	<u>12,876</u>
Operating expenses		
Interest and amortization on bonds and notes	<u>17,383</u>	<u>313</u>
Administrative expenses		
Recovery of loan losses	(1,329)	-
Federal financial assistance programs	12,201	-
Loan servicing and other contractual services	802	-
Special allowance	2,190	-
Salaries and benefits	2,045	-
Operations and maintenance	6,557	-
Other	4,677	260
Total administrative expenses	<u>27,143</u>	<u>260</u>
Total operating expenses	<u>44,526</u>	<u>573</u>
Operating income (loss)	(21,509)	12,303
Nonoperating revenues		
Federal grants	<u>61,003</u>	<u>-</u>
Income before transfers out, net	39,494	12,303
Transfers out, net	<u>(582)</u>	<u>-</u>
Changes in net position	38,912	12,303
Net position - beginning of year	450,052	8,038
Distributions to member	<u>-</u>	<u>(543)</u>
Net position - end of year	<u>\$ 488,964</u>	<u>\$ 19,798</u>

The accompanying notes are an integral part of these combined financial statements.

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

12

Combined Statement of Cash Flows (Authority Only)

For the Year Ended June 30, 2022

(In Thousands)

Cash flows from operating activities	
Financing fee income received	\$ 6,065
Other received	95
Cash paid to employees	(2,945)
Special allowance paid	(2,194)
Cash received for loan servicing and default management	75
Cash paid for program administration	(21,558)
Net cash used by operating activities	<u>(20,462)</u>
 Cash flows from noncapital financing activities	
Proceeds from issuance of bonds and notes payable	16,196
Repayments of bonds and notes payable	(79,960)
Cash paid for interest	(13,843)
Nonoperating revenues received	61,003
Transfers out, net	(582)
Net cash used by noncapital financing activities	<u>(17,186)</u>
 Cash flows from investing activities	
Purchase of investments	(77,746)
Maturities of investments	40,450
Interest received on investments	4,866
Interest received on loans	20,638
Principal repayments on loans	92,177
Loan disbursements	(73,566)
Cash paid for financing arrangements	(4,561)
Proceeds from sale of real estate owned	2,804
Purchase of capital assets	(668)
Proceeds from sale of capitalized assets	604
Net cash provided by investing activities	<u>4,998</u>
 Net decrease in cash and cash equivalents	(32,650)
 Cash and cash equivalents - beginning of year	<u>303,793</u>
 Cash and cash equivalents - end of year	<u>\$ 271,143</u>

The accompanying notes are an integral part of these combined financial statements.

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

13

Combined Statement of Cash Flows (Authority Only) (cont.)

For the Year Ended June 30, 2022

(In Thousands)

Reconciliation of changes in net position to net cash used by
operating activities

Operating loss	\$ (21,509)
Adjustments to reconcile operating loss of changes in net position to net cash used by operating activities	
Amortization	248
Accreted deferred financing fees	(375)
Accreted interest on loans	(3,502)
Accreted interest on bonds	3,502
Depreciation of capital assets	200
Recovery of loan losses	(1,329)
Loss on sale of real estate owned	283
Net depreciation of investments	15,444
Interest income	(24,832)
Interest paid on bonds and notes	13,633
Changes in operating assets and liabilities	
Accounts receivable	(3,312)
Other assets	910
Accounts payable	1,811
Other liabilities	<u>(1,634)</u>

Net cash used by operating activities	<u>\$ (20,462)</u>
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The accompanying notes are an integral part of these combined financial statements.

Notes to Combined Financial Statements

June 30, 2022

1. **Nature of Operations and Summary of Significant Accounting Policies**

- a. **Nature of operations and reporting entity** – The Arkansas Development Finance Authority (“ADFA” or the “Authority”), a component unit of the State of Arkansas, was created on 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. Pursuant to Act 1062 of 1985, 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. In 2019, Governor Asa Hutchinson proposed consolidating 42 state agencies into 15 cabinet-level departments, and to accomplish that goal, the General Assembly approved Act 910 of 2019, the Transformation and Efficiencies Act of 2019. Ten former state agencies and several boards and commissions are now a part of the Department of Commerce, including the Authority. The mission of the Department of Commerce is to champion economic opportunities through strategic initiatives and an equitable regulatory environment that attracts and grows businesses, safeguards consumers, enhances workforce quality, and energizes our infrastructure, creating a better quality of life of all Arkansans.

On April 4, 2017, Governor Asa Hutchinson signed into law Act 824 of the 2017 Acts of Arkansas, which by the terms of the Act, merged Arkansas Student Loan Authority (“ASLA”) with the Authority effective July 1, 2017. ASLA functions as a division of the Authority. Pursuant to Subchapter 19 of the Act, the Arkansas Student Loan Financing Act, in Section 15-902(e), the Authority effective on that date assumed all the contracts and debt obligations of the Authority that were outstanding as of that date. ASLA was created to improve access to higher education funding for Arkansas students. As part of its mission, ASLA administers federal loans, provides loan servicing on behalf of the U.S. Department of Education, provides fee-based default management services to Arkansas colleges and universities, and provides free college planning services to college-bound high school students.

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 (“DFA”) 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 combined 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 is not obligated to pay the bonds and other debt instruments, and neither the faith and credit nor the taxing power of the State 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.

Notes to Combined Financial Statements

June 30, 2022

1. Nature of Operations and Summary of Significant Accounting Policies (cont.)

Component units are legally separate organizations for which the Authority's management is financially accountable or for which the nature and significance of their relationship with the Authority are such that exclusion would cause the Authority's combined financial statements to be misleading.

Three component units meet the criteria to be discretely presented in the combined financial statements. The financial information of the Arkansas Venture Capital Investment Trust ("AVCIT" or "Component Unit"), including its blended component units, the Arkansas Institutional Fund, LLC ("AIF") and the Arkansas Venture Development Fund, LLC ("AVDF"), is presented in a separate column in the agency-wide financial statements to emphasize that the AVCIT (including AIF and AVDF) is legally separate from the Authority.

The Authority is financially accountable for the AVCIT because the Authority's president is one of the three trustees, and the Authority is charged with daily operations and management of the programs within the trust.

The AVCIT, a public trust, was created in 2003 pursuant to the provisions of the laws of the State, including specifically Title 28, Chapter 72, Subchapter 2 of the Arkansas Code of 1987 Annotated. The General Assembly of the State adopted the Venture Capital Investment Act of 2001 ("VCI Act"), codified as Title 15, Chapter 5, Subchapter 14 of the Arkansas Code of 1987 Annotated, for the purpose of increasing the availability of equity and near-equity capital for emerging, expanding, relocating and restructuring enterprises in the State. The trust is governed by three trustees: the President of the Authority, the Secretary of the DFA and the Executive Director of the Arkansas Economic Development Commission ("AEDC"). In 2019, legislation was passed to consolidate various programs (Risk Capital Matching, Seed & Angel and Co-Investment Fund) of the AVCIT into one program, the Arkansas Venture Capital Development Fund ("AVC"). The purpose of this legislation was to drive efficiencies while still achieving the intended goals of the AVCIT. The AVCIT, like its predecessor programs, is accounted for on a fiscal year ending June 30.

The AIF was formed in 2003 by AVCIT, which owns 99.8% of the limited liability company. The purpose of the AIF is to invest in private equity, seed and venture funds and to support the growth and development of the venture capital industry in the State. Although AVCIT is the fund manager of AIF, it has contracted with the Authority to perform those duties. The AIF's audited financial statements are accounted for on a calendar-year basis and reported under Financial Accounting Standards Board ("FASB") standards. As such, AIF's financial statement presentation was recast to be consistent with Governmental Accounting Standards Board ("GASB") presentation features. No other modifications have been made to the AIF's financial information in the Authority's financial reporting entity for differences of FASB and GASB standards. Subsequent to 2016, the purposes of this entity were carried out through the AVDF.

Notes to Combined Financial Statements

June 30, 2022

1. **Nature of Operations and Summary of Significant Accounting Policies (cont.)**

The AVDF was formed in 2016 by AVCIT, which is the sole owner of the limited liability company. The primary purposes of the AVDF are to assist the Authority and the AVCIT in advancing the goals and objectives of the Authority by strengthening the economic base and creating jobs within the State, including carrying out the purposes and goals of the VCI Act.

Separately issued audited financial statements are not available for AVC and AVDF. Separately issued audited financial statements for AIF can be obtained by contacting:

Arkansas Development Finance Authority
1 Commerce Way, Suite 602
Post Office Box 8023
Little Rock, Arkansas 72202

- b. **Measurement focus and basis of accounting** – 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 combined 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.

- c. **Recently issued accounting pronouncements** – GASB Statement No. 87, "Leases." This statement establishes a new single model for lease accounting based on the principle that leases represent the financing of the right to use an underlying asset. The effective date is for periods beginning after June 15, 2021. During the year ended June 30, 2022, the Authority adopted this statement, which did not have a material impact on its combined financial statements.

GASB Statement No. 89, "Accounting for Interest Cost Incurred before the End of a Construction Period." This statement enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and simplifies accounting for interest cost incurred before the end of a construction period. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. This statement supersedes paragraphs 5 through 22 of GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements." This statement is effective for periods beginning after December 15, 2020. The requirements of this statement should be applied prospectively. During the year ended June 30, 2022, the Authority adopted this statement, which did not have an impact on its combined financial statements.

Notes to Combined Financial Statements

June 30, 2022

1. **Nature of Operations and Summary of Significant Accounting Policies (cont.)**

GASB Statement No. 91, "Conduit Debt Obligations." This statement provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The requirements of this statement are effective for reporting periods beginning after December 15, 2021 and will be applied retrospectively. The Authority has not yet determined the impact, if any, that this statement could have on its combined financial statements.

GASB Statement No. 93, "Replacement of Interbank Offered Rates." This statement will enhance comparability of accounting and financial reporting requirements and will improve the consistency of authoritative literature. More comparable reporting will improve the usefulness of information for users of state and local government financial statements. The removal of the London Interbank Offered Rate ("LIBOR") as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this statement are effective for reporting periods beginning after June 15, 2020. Earlier application is encouraged. During the year ended June 30, 2021, the Authority adopted this statement, except for the removal of LIBOR which is not yet effective. This adoption did not have a material effect on the Authority's combined financial statements.

GASB Statement No. 95, "Postponement of the Effective Dates of Certain Authoritative Guidance." This statement will provide temporary relief to governments and other stakeholders in light of the Coronavirus Disease 2019 ("COVID-19") pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that became effective or are scheduled to become effective for periods beginning after June 15, 2018 and later. The effective dates of certain provisions are postponed by one year and others are pushed back by 18 months. The Authority will follow new implementation dates for adoption of the upcoming standards.

- d. **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.

Notes to Combined Financial Statements

June 30, 2022

1. Nature of Operations and Summary of Significant Accounting Policies (cont.)

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

Single Family Housing Programs

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 the State. Included within this program are the Authority's Single Family Mortgage Revenue Bond General Resolution, adopted on July 20, 1995 (1995 General Resolution) and the Authority's Home Ownership Revenue Bond General Resolution adopted on November 19, 2009 (2009 General Resolution).

Federal Housing Programs

HOME Partnership Program – Accounts for federal financial assistance received from the U.S. 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.

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 from HUD for TCAP funding.

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. The Authority 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 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.

Preservation Revolving Loan Fund Program – Accounts for federal financial assistance received from U.S. Department of Agriculture ("USDA") Rural Housing Service to loan funds to carry out a demonstration program that provides revolving loans for the preservation and revitalization of low-income multi-family housing.

National Housing Trust Fund Program – Accounts for federal financial assistance received from HUD for the purpose to expand and preserve the supply of affordable housing, particularly rental housing, for extremely low-income to very low income households.

Notes to Combined Financial Statements

June 30, 2022

1. Nature of Operations and Summary of Significant Accounting Policies (cont.)

Homeowner Assistance Fund (“HAF”) Program – Accounts for federal financial assistance received from the U.S. Department of the Treasury as a grant under the American Rescue Plan for the purpose of preventing homeowner mortgage delinquencies, defaults, foreclosures, loss of utilities or home energy services, and displacements of homeowners experiencing financial hardship after January 21, 2020 through qualified expenses related to mortgages and housing.

Multi-Family Programs

Financing Adjustment Factor (“FAF”)/New BMIR Loan Programs – Accounts for loans receivable funded by distributions the Authority received from an old multi-family bond issue, as well as from FAF distributions from the federally funded Section 8 Housing Assistance Payment Program.

Affordable Housing Assistance Program (“AHAP”) – Accounts for loans receivable funded for the use of down payment assistance, rental assistance, low-interest financing, land acquisition, new construction, rehabilitation constructions, and reconstruction.

Economic Development Bond Guaranty Program

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 the Authority and guaranteed by the Bond Guaranty Fund, the debt service requirements of the bonds and related loans and leases to private companies. The Bond Guaranty 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, 2022, the fund had cash and cash equivalents and investments totaling \$16.8 million in the reserve account to collateralize Authority-guaranteed bonds and future issues under the bond guaranty program.

State Facilities Programs and Amendment 82 Programs

State Facilities Programs – Accounts for the proceeds from the sale of development revenue bonds; the debt service requirements of the bonds and related loans and leases to public and government bodies within the State; and includes certain assets not owned and related obligations not owed by the Authority.

Amendment 82 Programs – Accounts for the proceeds from the sale of general obligation bonds of the State as authorized under Amendment 82 of the Arkansas Constitution; related loans and leases to private institutions and government bodies within the State and includes certain assets not owned and related obligations not owed by the Authority.

Notes to Combined Financial Statements

June 30, 2022

1. Nature of Operations and Summary of Significant Accounting Policies (cont.)

Other Economic Development Programs

Other Economic Development Programs – Accounts for loan reserve programs, such as Capital Access and Disadvantaged Business Enterprise.

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

Tobacco Settlement Revenue Bonds Program

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.

Student Loan Programs

Student Loan Programs – To provide student loan funding and servicing to students and families through originating loans directly to students and purchasing student loans from lending institutions, provide student loan servicing on behalf of the United States Department of Education (“USDE”) for Federal Direct Loans originated by the USDE, provide fee-based default management services to Arkansas colleges and universities, and provide free financial literacy and counseling to students and families.

General Fund Program

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.

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

Notes to Combined Financial Statements

June 30, 2022

1. **Nature of Operations and Summary of Significant Accounting Policies (cont.)**

- f. **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, 2022, cash equivalents of \$271.1 million consisted primarily of money market mutual funds with variable interest rates.
- g. **Investments and investment income** – Investments are carried at fair value with the exception of equity investments held by AVCIT.

Equity investments held by the AVCIT are carried at cost. The net accumulated earnings of individual investments subsequent to the date of acquisition are recognized by AVCIT only to the extent distributed as dividends. A decrease in the carrying value of an investment is recognized when a series of operating losses of an individual investment or other factors indicate that an other than temporary decline in value below cost has occurred.

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 Authority's investments at June 30, 2022 was less than the cost basis by \$3.9 million.

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

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

- i. **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 expense. Actual 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.

Notes to Combined Financial Statements

June 30, 2022

1. Nature of Operations and Summary of Significant Accounting Policies (cont.)

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. The general component covers non-classified 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.

- j. **Income taxes** – As an essential government function of the State, the Authority is exempt from income taxes under Section 115 of the IRC and a similar provision of state law.
- k. **Direct financing leases** – The Authority issues revenue bonds to provide financing of correction facilities, office space for the State and certain transactions for private companies. The Authority typically does not maintain or operate the facilities.
- l. **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. The Authority defines capital assets as assets with an initial, individual cost of more than \$5,000 and life greater than one year.

Notes to Combined Financial Statements

June 30, 2022

1. Nature of Operations and Summary of Significant Accounting Policies (cont.)

- m. **Pensions** – For purposes of measuring the net pension liability, deferred outflow of resources and deferred inflow of resources related to pensions and pension expense, information about the fiduciary net position of the Arkansas Public Employees Retirement System (“APERS”), and additions to/deductions from APERS fiduciary net position have been determined on the same basis as they are reported by APERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.
- n. **Postemployment benefits other than pensions** – For purposes of measuring the net other postemployment benefits (“OPEB”) liability, deferred inflows of resources and deferred outflows of resources related to OPEB and OPEB expense, information about the fiduciary net position of the benefit plan and additions to/deductions from the plan’s fiduciary net position have been determined on the same basis as they were determined by a third party actuarial report on the plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.
- o. **Deferred outflow/inflow of resources** – The Authority reports increases in net position that relate to future periods as deferred outflow of resources in a separate section of its combined statement of net position. The Authority reports decreases in net position that relate to future periods as deferred inflow of resources in a separate section of its combined statement of net position. These amounts will be amortized as pension and OPEB expense over future periods as shown in Notes 9 and 10.
- p. **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.
- q. **Contract obligations** – Contract obligations consist of payables on contracts the Authority entered into with the Arkansas Department of Corrections (“ADC”), a software subscription service agreement to administer the HAF program and the remaining balance of the consulting service agreement for the HAF program.
- r. **Unearned guaranty fee** – The Authority receives guaranty fees from borrowers who participate in the Bond Guaranty Fund Programs. Fees, which are nonrefundable, are amortized into income ratably over the term of the respective programs.
- s. **Conduit debt obligations** – Conduit debt issued by the Authority is recorded on the Authority’s combined 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.

Notes to Combined Financial Statements

June 30, 2022

1. Nature of Operations and Summary of Significant Accounting Policies (cont.)

Additionally, the Authority reports conduit debt obligations of entities included in the State of Arkansas reporting entity on its combined statement of net position. At June 30, 2022, the principal balance of these bonds included in the Authority's combined statement of net position totaled \$297.1 million.

- t. **Net position** – Net position represents the difference between assets and deferred outflow of resources, and liabilities and deferred inflow of resources on the accompanying combined statement of net position. Net position is classified in four components:

Restricted, expendable by bond resolution and programs – Represents those funds restricted within the respective bond resolution or by specific provisions of the programs.

Restricted, nonexpendable and minority interest – Represents the equity interest of the Component Unit held by a minority participant.

Investment 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 Authority's Board of Directors to complement 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 positions are available.

2. Deposits and Investments

Deposits

The Authority – 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, including the State Board of Finance's Management of Cash Funds Rule 2012-A, 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. Department of the Treasury, U.S. agencies or instrumentalities, municipal bonds or bank purchase agreements having an aggregate value at least 105% of the amount of the deposits.

Notes to Combined Financial Statements

June 30, 2022

2. Deposits and Investments (cont.)

At June 30, 2022, the carrying value of the Authority's deposits was \$5.6 million. The balances, per the bank statements, totaled \$5.8 million. Of those deposits, \$277,000 were exposed to custodial credit risk.

(In thousands)

Uninsured and uncollateralized	\$ <u>277</u>
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The uninsured and uncollateralized balance represents deposits with the Federal Home Loan Bank ("FHLB") of Dallas.

Investments

The Authority – The Authority may legally invest in direct obligations of, and other obligations guaranteed as to principal by the U.S. Department of the 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, 2022, the Authority had the following investments and maturities:

	Maturities in Years				Total
	Less than 1	1 - 5	6 - 10	More than 10	
<i>(In thousands)</i>					
U.S. agencies obligations	\$ 7,995	\$ 62,288	\$ 10,692	\$ -	\$ 80,975
Mortgage-backed securities	28	3,254	16,237	77,935	97,454
Money market mutual funds	236,469	-	-	-	236,469
Mutual bond funds	299	1,492	236	1,438	3,465
State Treasurer Money Management Trust Fund ("MMTF")	30,723	-	-	-	30,723
	<u>\$ 275,514</u>	<u>\$ 67,034</u>	<u>\$ 27,165</u>	<u>\$ 79,373</u>	<u>\$ 449,086</u>

Component Unit – The mission of ACVIT is to increase the availability of equity and near-equity capital for emerging, expanding, relocation and restructuring enterprises in the State, with the ultimate goal of strengthening the State's economic base and creation of jobs. ACVIT can legally invest in equity capital and near equity capital and was created to invest in such. There are no scheduled maturities for these investments nor are they rated investments. There is no limit on the amount that may be invested in any one company. There is only one investment that represented 5% or more of the total equity investments. This company focuses on diagnostic health testing and is 6.78% of the total equity investments balance at June 30, 2022. Total equity investments for ACVIT at June 30, 2022 were \$20.5 million.

Notes to Combined Financial Statements

June 30, 2022

2. **Deposits and Investments (cont.)**

- a. **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 combined 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.

- b. **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 (“S&P’s”) and “Aaa” by Moody’s Investors Service at June 30, 2022. Investments in money market mutual funds or the investments of those funds were primarily rated “AAAm” by S&P’s and “Aaa” by Moody’s Investors Service.
- c. **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.
- d. **Concentration of credit** – 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, 2022 are as follows:

<u>Issuer</u>	<u>Fair Value</u>	<u>Percentage</u>
<i>(In thousands)</i>		
State Treasurer MMTF	\$ 30,723	6.84%
FHLB	47,401	10.56%

Notes to Combined Financial Statements

June 30, 2022

2. **Deposits and Investments (cont.)**

Summary of Carrying Values

The carrying values of deposits and investments are included on the accompanying combined statement of net position as follows:

	<u>Authority</u>	<u>Component Unit</u>
<i>(In thousands)</i>		
Carrying value		
Deposits	\$ 5,552	\$ 5,467
Investments	<u>449,086</u>	<u>20,527</u>
	<u>\$ 454,638</u>	<u>\$ 25,994</u>

Included in the following combined statement of net position captions:

	<u>Authority</u>	<u>Component Unit</u>
<i>(In thousands)</i>		
Current assets		
Cash and cash equivalents	\$ 271,143	\$ 5,467
Current portion of investments	7,001	-
Noncurrent assets		
Investments		
Unrestricted	74,736	-
Restricted	<u>101,758</u>	<u>20,527</u>
	<u>\$ 454,638</u>	<u>\$ 25,994</u>

The Authority's investments above are carried at their estimated fair market value. Unrealized gains and losses are included in investment income on the accompanying combined statement of revenues, expenses and changes in net position and combined statement of cash flows. The Authority recorded unrealized losses of \$15.4 million for fiscal year 2022. As discussed in Note 11 for federated treasury obligations, money market obligations and cash management fund, the carrying value approximates fair value. The Component Unit investments are carried at historical cost less any impairments. During the year ended June 30, 2022, the Component Unit recorded impairments of approximately \$1.0 million.

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

28

Notes to Combined Financial Statements

June 30, 2022

3. Loans and Direct Financed Leases

The following presents the breakdown of the Authority's portfolio of loans receivable:

The Authority

<u>Type of Loan</u>	<u>Balance</u>	<u>Allowance</u>	<u>Loans Net of Allowance</u>	<u>Stated Interest Rate</u>	<u>Impairments</u>
Federal Housing Programs	\$ 158,439	\$ 70,620	\$ 87,819	0.00% to 6.25%	\$ 66,045
Multi-family Programs	6,864	3,225	3,639	0.00% to 4.00%	2,917
Bond Guaranty Program	31,511	2,200	29,311	Rate on bonds	2,965
State Facilities Program	241,860	-	241,860	Rate on bonds	-
Other Economic Development	1,176	601	575	3.00%	871
Tobacco Settlement Revenue Bonds Program	72,902	-	72,902	4.81 % to 5.10%	-
General Fund Program	43,733	2,462	41,271	0.00% to 9.50%	396
Student Loan Programs	<u>113,640</u>	<u>459</u>	<u>113,181</u>	3.73% to 6.28%	<u>-</u>
Totals	<u>\$ 670,125</u>	<u>\$ 79,567</u>	<u>\$ 590,558</u>		<u>\$ 73,194</u>

- a. **Federal Housing Programs** – Includes loans funded by federal agencies, mainly HUD, and are either for multi-family housing or single-family housing loan 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.
- b. **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).

Additionally, the Bond Guaranty Fund guarantees principal and interest on revenue bonds issued by municipalities within the State for economic development purposes. At June 30, 2022, revenue bonds outstanding of \$6.9 million were guaranteed by the Bond Guaranty Fund. Furthermore, the Bond Guaranty Fund guarantees bond anticipation notes. At June 30, 2022, the principal amount on these notes totaled \$2.8 million outstanding, with \$2.5 million guaranteed.

- c. **State Facilities Program** – Includes financing activities with various state agencies.

Notes to Combined Financial Statements

June 30, 2022

3. **Loans and Direct Financed Leases (cont.)**

- d. **Tobacco Settlement Revenue Bonds Program** – Includes a loan agreement between the Authority and the University of Arkansas’s Board of Trustees (the “University”), whereby the University agrees to provide for repayment in the event tobacco settlement revenues are not available.
- e. **General Fund Program** – Includes loans that are residual assets of the Single Family Mortgage Purchase Program, Multi-Family Mortgage Purchase Program or funded by the general fund as special initiatives of the Authority. Mortgage loans purchased by the Authority under the Single Family Mortgage Purchase Program are typically Federal Housing Administration insured, guaranteed by USDA Rural Development or U.S. Department of Veterans Affairs guaranteed. Included in general fund program is a \$6.3 million loan to the component unit.
- f. **Student Loan Programs** – Student loans paid in full were approximately \$1.55 billion through June 30, 2022. As of June 30, 2022, the Authority received claim payments from guarantors on loans in default of approximately \$206.0 million since inception.

Student loans receivable of \$71.2 million were pledged to the repayment of bonds and notes payable as of June 30, 2022.

Installment repayment of Federal Stafford (“Stafford”) and Unsubsidized Stafford loans begins after a grace period of six or nine months, following graduation or loss of qualified student status. Repayment of Federal Parent Loans for Undergraduate Students (“PLUS”) loans begins within 60 days of disbursement (no grace period). Repayment of consolidated loans begins within 60 days after the borrower’s liability on all loans being consolidated have been discharged. The repayment period is generally 10 years for all Federal Family Education Loan Program (“FFELP”) loans (excluding Federal Consolidated (“Consolidated”) loans, which may be repaid up to a maximum of 30 years). Stafford and Unsubsidized Stafford loans bear interest at variable interest rates. The rate resets every July 1st. PLUS loans have variable interest rates, currently 6.28%. The PLUS variable rate for loans varies based on the origination date of the loan. Consolidated loans originated after November 12, 1997 bear interest at the lesser of the weighted-average interest rates of the loans being consolidated. At June 30, 2022, student loans receivable outstanding were composed of 49.2% Stafford loans, 49.9% Consolidated loans and 0.9% PLUS loans.

As part of the Coronavirus Aid, Relief and Economic Security Act, the office of Federal Student Aid began providing the temporary relief on federal student loans on March 20, 2020, including suspension of loan payments, stopping collections on defaulted loans and a 0% interest rate. As of June 30, 2022, approximately \$23.9 million of student loans were in forbearance as part of this program.

- g. **Delinquent loans** – At June 30, 2022, accruing loans delinquent 180 days or more where payment is anticipated due to current payment activity totaled approximately \$3.1 million. At June 30, 2022, nonaccruing loans were \$15.8 million.
- h. **Direct financing leases** – The Authority is the lessor under various 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.

Notes to Combined Financial Statements

June 30, 2022

4. **Loan to Component Unit**

AVCIT

The Authority finances a line of credit to the AIF, a blended component unit of the AVCIT and the total is not to exceed to \$36 million. The balance was \$6.3 million for the year ended June 30, 2022 (see Note 7).

5. **Capital Assets**

Premises and equipment activity consists of the following:

	<u>June 30, 2021</u>	<u>Additions</u>	<u>Transfers and Disposals</u>	<u>June 30, 2022</u>
<i>(In thousands)</i>				
Premises and equipment	\$ 4,149	\$ 668	\$ (736)	\$ 4,081
Less accumulated depreciation	<u>1,749</u>	<u>200</u>	<u>(132)</u>	<u>1,817</u>
Capital assets, net	<u>\$ 2,400</u>	<u>\$ 468</u>	<u>\$ (604)</u>	<u>\$ 2,264</u>

Depreciation expense was approximately \$200,000 for the year ended June 30, 2022.

6. **Noncurrent Liabilities**

Changes in noncurrent liabilities, other than bonds and notes payable discussed in Note 7, consist of the following:

The Authority

	<u>June 30, 2021</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2022</u>	<u>Amount Due Within One Year</u>
<i>(In thousands)</i>					
Unearned fees	\$ 1,353	\$ -	\$ (257)	\$ 1,096	\$ 211
Contract obligations	4,981	6,276	(3,426)	7,831	7,016
Deposits against financing arrangements	59,835	25,172	(32,592)	52,415	-
Deferred gain on refinancing sale of asset	91	88	(72)	107	10
OPEB liability	4,309	-	(2,222)	2,087	92
Pension liability	4,869	-	(3,697)	1,172	-
Other liabilities	<u>358</u>	<u>54</u>	<u>-</u>	<u>412</u>	<u>-</u>
	<u>\$ 75,796</u>	<u>\$ 31,590</u>	<u>\$ (42,266)</u>	<u>\$ 65,120</u>	<u>\$ 7,329</u>

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

31

Notes to Combined Financial Statements

June 30, 2022

6. Noncurrent Liabilities (cont.)

Component Unit

	<u>June 30, 2021</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2022</u>	<u>Amount Due Within One Year</u>
<i>(In thousands)</i>					
Deferred gain on refinancing sale of asset	\$ 22	\$ -	\$ (22)	\$ -	\$ -

7. Bonds and Notes Payable

Bonds and notes payable consist of the following:

The Authority

(In thousands)

Total Single Family bonds payable, with interest rates ranging from 2.49% - 4.35% and final maturity at varying dates through July 1, 2043.	\$ 23,277
Total Federal Housing notes payable, with interest rates 1.00% and final maturity at varying dates through July 29, 2045.	3,382
Total Economic Development bonds payable, guaranteed by the Bond Guaranty Fund, with interest rates ranging from 2.25% - 6.00% and final maturity at varying dates through January 1, 2040.	34,614
Total State Facilities bonds payable, with interest rates ranging from 0.55% - 5.00% and final maturity at varying dates through December 1, 2050.	297,102
Tobacco bonds payable, with interest rates ranging from 4.77% - 5.10% and final maturity at varying dates through July 1, 2046.	72,901

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

32

Notes to Combined Financial Statements

June 30, 2022

7. Bonds and Notes Payable (cont.)

Total Student Loan Program bonds and notes payable, rates at one-month and three-month LIBOR plus 0.45% and 0.90%, with final maturities ranging through November 25, 2043.	\$ 71,240
Unamortized discount	<u>(544)</u>
Total Student Loan Program bonds and notes payable, net	<u>70,696</u>
Total all bonds and notes payable, net	<u><u>\$ 501,972</u></u>

Component Unit

(In thousands)

Note payable to the Authority, with an interest rate of 2.50% and maturing in March 2023.	<u><u>\$ 6,325</u></u>
-------------------------------------------------------------------------------------------	------------------------

Activity in bonds and notes payable consist of the following:

The Authority

	<u>Beginning Balance</u>	<u>Additions Including Accretion</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amount Due Within One Year</u>
<i>(In thousands)</i>					
Bonds payable	\$ 553,336	\$ 19,610	\$ (78,433)	\$ 494,513	\$ 22,617
Notes payable	<u>9,442</u>	<u>88</u>	<u>(1,527)</u>	<u>8,003</u>	<u>989</u>
	562,778	19,698	(79,960)	502,516	23,606
Unamortized discounts	<u>(645)</u>	<u>-</u>	<u>101</u>	<u>(544)</u>	<u>-</u>
Total	<u><u>\$ 562,133</u></u>	<u><u>\$ 19,698</u></u>	<u><u>\$ (79,859)</u></u>	<u><u>\$ 501,972</u></u>	<u><u>\$ 23,606</u></u>

Component Unit

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amount Due Within One Year</u>
<i>(In thousands)</i>					
Note payable	<u><u>\$ 22,069</u></u>	<u><u>\$ 699</u></u>	<u><u>\$ (16,443)</u></u>	<u><u>\$ 6,325</u></u>	<u><u>\$ 6,325</u></u>

The future amount of principal and interest due is undeterminable at this time because the balances will fluctuate with draws needed for capital calls and reductions for distributions by investee companies.

Notes to Combined Financial Statements

June 30, 2022

7. Bonds and Notes Payable (cont.)

The Authority

Future amounts required for principal and interest on all bonds and notes payable at June 30, 2022 were as follows:

<i>(In thousands)</i>	<u>Principal</u>	<u>Interest</u>
<u>Year Ended June 30,</u>		
2023	\$ 23,606	\$ 12,068
2024	28,902	11,363
2025	23,625	10,714
2026	24,118	10,108
2027	23,375	9,480
2028 - 2032	136,002	37,274
2033 - 2037	111,662	22,484
2038 - 2042	78,045	10,903
2043 - 2047	98,118	3,359
2048 - 2050	6,670	465
Unamortized premiums and discounts, net	(544)	-
Accreted interest	<u>(51,607)</u>	<u>51,607</u>
 Total	 <u>\$ 501,972</u>	 <u>\$ 179,825</u>

Under certain bond resolutions, the Authority has the option to redeem bonds early at various premium rates. Generally, the redemption option cannot be exercised prior to the time the bonds have been outstanding for 6 to 10 years. Certain special redemptions, as governed by the bond resolutions, are permitted or required prior to such time. During fiscal 2022, \$19.1 million of bonds were redeemed at par early.

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.

For the Student Loan Program bonds, principal distributions were allocated to the bonds on each quarterly or monthly distribution date in an amount equal to the funds available to pay principal based upon the indenture trust agreement. The normal quarterly or monthly waterfall of available funds is as follows (in this order): payment of trustee fees, payment of loan servicing fees, payment of loan administration fees, payment of interest on notes and payment of principal on notes.

Notes to Combined Financial Statements

June 30, 2022

7. Bonds and Notes Payable (cont.)

As of June 30, 2022, the remaining principal amounts outstanding on defeased issues (which are excluded from the Authority's combined financial statements) are as follows:

<u>Issue</u>	<u>Date of Defeasance</u>	<u>Principal Outstanding</u>
<i>(In thousands)</i>		
State Agency Facilities Revenue Bonds, Series 2012, Arkansas Department of Environmental Quality Project	August 2021	\$ <u>575</u>

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. 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, 2022, the bonds outstanding issued under these programs aggregated \$1.9 billion.

8. Concentration of Risk in Lending and Loan Receivable

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 forms of repayment assurance are 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.

Notes to Combined Financial Statements

June 30, 2022

9. **Retirement Plan**

Plan Descriptions

The officials and employees of the Authority participate in a statewide, cost sharing, multiple employer, defined benefit pension plan administered by APERS. There is no legal obligation imposed upon the member agencies relative to the operation of APERS other than the payment of a percentage of the gross salaries of eligible employees participating in the Plan as an employer contribution. APERS consists of both a contributory plan and a noncontributory plan. The noncontributory plan was created by Act 793 of 1977 and was effective January 1, 1978. It automatically applied to all members hired from January 1, 1978 to June 30, 2005. Act 2084 of 2005 requires that, beginning July 1, 2005, all new hires become contributory members and are required to contribute 5% of their earnings to APERS. All other noncontributory members were given the opportunity to become contributory if they so elected by December 31, 2005. Employees joining APERS 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. APERS is audited separately, and included therein is financial data and trend information, which gives an indication of the extent to which APERS is accumulating sufficient assets to pay benefits when due.

Eligible employees of the Authority are provided with pensions through APERS, administered by APERS's Board of Trustees. APERS is a cost sharing multiple employer defined benefit plan. Benefit provisions are established and amended by Arkansas Code Title 24.

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

Arkansas Public Employees Retirement System
124 W. Capitol Avenue, Suite 400
Little Rock, Arkansas 72201-3704
(501) 682-7800
<http://www.apers.org/annualreports/index.php>

Benefits Provided

APERS provides retirement, disability and death benefits and annual adjustments to plan members and beneficiaries, as follows:

The normal retirement benefit, paid on a monthly basis, is determined based on (1) the member's final average compensation (an average of the highest 36 months' earnings) and (2) the number of years of credited service. Retiree benefit increases are calculated each year on July 1 for the following 12 months. The re-determined amount is the amount of the benefit payable as of the immediately preceding July 1, increased by 3%. Members are eligible for full retirement benefits (1) at any age with 28 years of credited service; (2) at age 65 with five years of actual service, except for members of the General Assembly who must have 10 years of actual service if the member only has service as a member of the General Assembly; or (3) at age 55 with 35 years of credited service as an elected official or public safety member. Members are eligible for reduced benefits (1) at any age with at least 25 years but less than 28 years of actual service; or (2) at age 55 with five years of actual service. Members who are defined as a public safety member are eligible for a reduced benefit with five years of actual service if the member is within 10 years of normal retirement age.

Notes to Combined Financial Statements

June 30, 2022

9. Retirement Plan (cont.)

Contributions

Arkansas Code Title 24 establishes the contribution requirements of active members and participating employers. Contribution rates are as follows:

Contribution provisions applicable to the participating employers are established by APERS's Board of Trustees and should be based on an independent actuary's determination of the rate required to fund APERS. The General Assembly and certain agencies employing individuals in public safety positions must also remit additional amounts. For the fiscal year ended June 30, 2021, the employer contribution rates, as a percentage of active member payrolls, ranged from 4.00% to 38.99%. Contributions to APERS from the Authority were approximately \$449,000 for the year ended June 30, 2022.

During a member's participation in APERS deferred retirement option plan, the employer continues to contribute and the employee ceases to contribute.

Net Pension Liability

The collective net pension liability of \$768.8 million was measured as of June 30, 2021 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Each employer's proportion of the net pension liability was based on the employers' share of contributions to the pension plan relative to the total contributions of all participating employees. At June 30, 2021, the Authority's proportion was 0.1525% for APERS. At June 30, 2022, the Authority reported liabilities of \$1.2 million for its proportionate share of the net pension liability and has been recognized in the Authority's accompanying combined statement of net position.

The net pension liability in the cost-sharing pension plan at June 30, 2022 using the 2021 measurement date is as follows:

	Total APERS Pension Liability	ADFA's Liability Portion
<i>(In thousands)</i>		
Total pension liability	\$ 11,954,286	\$ 18,225
Plan net position	<u>11,185,454</u>	<u>17,053</u>
Net pension liability	<u>\$ 768,832</u>	<u>\$ 1,172</u>
Plan net position as a % of total pension liability	93.57%	93.57%

Notes to Combined Financial Statements

June 30, 2022

9. **Retirement Plan (cont.)**

Pension Liabilities, Pension Expense, Deferred Outflow of Resources and Deferred Inflow of Resources to Pensions

For the year ended June 30, 2022, the Authority recognized pension expense of \$395,295. For the year ended June 30, 2022, the Authority reported deferred outflow of resources and deferred inflow of resources related to pensions as follows:

	Deferred Outflow of <u>Resources</u>	Deferred Inflow of <u>Resources</u>
<i>(In thousands)</i>		
Differences between expected and actual experience	\$ 27	\$ 76
Changes of assumptions	-	8
Net differences between projected and actual earnings on pension plan investments	-	2,057
Changes in proportion and differences between the Authority's contributions and proportionate share of contributions	-	449
The Authority's contributions subsequent to the measurement date	<u>449</u>	<u>-</u>
Total	<u>\$ 476</u>	<u>\$ 2,590</u>

At June 30, 2022, the Authority reported \$449,326 as deferred outflow of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2022. Other amounts reported as deferred outflow of resources and deferred inflow of resources related to pensions will be recognized in pension expense as follows:

<i>(In thousands)</i>	
2023	\$ (693)
2024	(623)
2025	(623)
2026	<u>(624)</u>
	<u>\$ (2,563)</u>

Notes to Combined Financial Statements

June 30, 2022

9. **Retirement Plan (cont.)**

Actuarial Assumptions

For fiscal 2022, the total pension liability in the actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, (a) an inflation rate of 3.25%, (b) salary increases in the range of 3.25% to 9.85%, including inflation, (c) an investment rate of return of 7.15% and (d) the RP-2006 weighted generational mortality tables for healthy annuitant, disability, or employee death in service, as applicable, was used. The tables applied credibility adjustments of 135% for males and 125% for females and were adjusted for fully generational mortality improvements using Scale MP-2017.

The actuarial assumptions used in the June 30, 2021 valuation were based on the period July 1, 2012 through June 30, 2017.

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The best estimates of arithmetic real rates of return for the 10-year period from 2021 - 2030 were provided by the plan investment consultant.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return</u>
Broad domestic equity	37%	6.22%
International equity	24%	6.69%
Real assets	16%	4.81%
Absolute return	5%	3.05%
Domestic fixed	<u>18%</u>	0.57%
Total	<u>100%</u>	

Notes to Combined Financial Statements

June 30, 2022

9. **Retirement Plan (cont.)**

Discount Rate

The discount rate for the plan was determined as follows:

The discount rate used to measure the total pension liability was 7.15% for the year ended June 30, 2022. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Authority's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

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

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
APERS - current discount rate 7.15%	\$ <u>3,506,297</u>	\$ <u>1,172,128</u>	\$ <u>(755,559)</u>

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued financial report of the plan.

10. **Postemployment Benefits Other Than Pensions**

Plan Description

The Authority contributes to the single-employer defined benefit healthcare plan for eligible state employees, Arkansas State Employee Health Plan ("ASE") (administered by Department of Finance and Administration – Employee Benefits Division).

Benefits Provided

The plan provides medical and prescription drug benefits to plan members and beneficiaries as established by state law Arkansas Code § 21-5-401 to § 21-5-414.

Notes to Combined Financial Statements

June 30, 2022

10. **Postemployment Benefits Other Than Pensions (cont.)**

ASE covers state employees that are members of APERS and are eligible to be in ASE on their last day of employment and their dependents. Retirees and their spouse are eligible to continue participation in ASE until the death of each covered individual. Retirees that are Medicare eligible will have their benefits coordinated with Medicare Part A and B with ASE being the secondary payer.

Employees Covered by Benefit Terms

The Authority had 45 active employees as of June 30, 2022. Inactive employees still receiving benefits are not maintained at each agency's level.

Annual OPEB Cost and Net OPEB Obligation

At June 30, 2022, the Authority reported the following liability as determined as of the date listed:

	Measurement Date	Total OPEB Liability
(In thousands)		
Authority	June 30, 2022	\$ 2,087

Actuarial Assumptions and Other Inputs

The total OPEB liability was determined by an actuarial valuation as of the valuation date of June 30, 2022, calculated based on the discount rate and actuarial assumptions below. Any significant changes during the period have been reflected as prescribed by GASB Statement No. 75. The actuarial valuations used are included in the State's report.

The discount rate was 3.54% and was based on the Bond Buyer 20-Bond GO Index. The inflation rate was 2.30% and salary increases, including both wage growth in addition to promotion and longevity, ranged from 9.85% to 3.67% for ages ranging from 20 years to 60 years.

Mortality rates were based on the RP-2014 Healthy Annuitant benefits or RP-2014 Disabled Retiree weighted generational mortality tables for males and females. Mortality rates are multiplied by 135% for males and 125% for females. The healthy annuitant tables are adjusted for fully generational mortality improvements using Scale MP-2017.

Long-Term Expected Rate of Return

Since there are no plan assets held in trust, the expected long-term rate of return is zero. Therefore, the required supplementary information associated with the schedule of contributions of investment returns is not included.

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

41

Notes to Combined Financial Statements

June 30, 2022

10. Postemployment Benefits Other Than Pensions (cont.)

Changes in the Total OPEB Liability

The following table provides the changes in the total OPEB liability for the Authority:

	<u>Total OPEB Liability</u>
<i>(In thousands)</i>	
Balance - June 30, 2021	\$ 4,309
Changes for the current fiscal year	
Service cost	214
Interest	95
Effect of plan changes	(1,089)
Effect of economic/demographic gains or losses	(354)
Changes in assumptions or other inputs	(946)
Changes in proportion	(33)
Benefit payments	(109)
Net changes	(2,222)
Balance - June 30, 2022	\$ 2,087

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following table presents the total OPEB liability of the Authority, as well as what the Authority's total OPEB liability would be if it were calculated using a discount rate that is one percentage-point lower or one percentage-point higher than the current discount rate for the plan:

	<u>1% Decrease</u>		<u>Current Discount Rate</u>		<u>1% Increase</u>	
	<u>Rate</u>	<u>Total OPEB Liability</u>	<u>Rate</u>	<u>Total OPEB Liability</u>	<u>Rate</u>	<u>Total OPEB Liability</u>
<i>(In thousands)</i>						
Authority	2.54%	\$ 2,404	3.54%	\$ 2,087	4.54%	\$ 1,529

Notes to Combined Financial Statements

June 30, 2022

10. **Postemployment Benefits Other Than Pensions (cont.)**

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following table presents the total OPEB liability of the Authority, as well as what the Authority's total OPEB liability would be if it were calculated using healthcare costs trend rates that are one percentage-point lower or one percentage-point higher than the current healthcare cost trend rates for the plan:

	1% Decrease	Current Health Care Cost Trend Rate	1% Increase
(In thousands)	<u>Total OPEB Liability</u>	<u>Total OPEB Liability</u>	<u>Total OPEB Liability</u>
Authority	\$ 1,787	\$ 2,087	\$ 2,470

OPEB Expense and Deferred Outflow of Resources and Deferred Inflow of Resources Related to OPEB

For the year ended June 30, 2022, the Authority recognized OPEB expense for the plan as follows:

	Total OPEB <u>Expense</u>
(In thousands)	
Authority	\$ <u>(1,190)</u>

At June 30, 2022, the Authority reported deferred outflow of resources and deferred inflow of resources related to OPEB for the plan:

	<u>Authority</u>	
	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflow of Resources</u>
(In thousands)		
Difference between expected and actual experience	\$ 12	\$ (327)
Changes of assumptions and other inputs	<u>523</u>	<u>(1,090)</u>
Total	<u>\$ 535</u>	<u>\$ (1,417)</u>

Notes to Combined Financial Statements

June 30, 2022

10. Postemployment Benefits Other Than Pensions (cont.)

Amounts reported as deferred outflow of resources and deferred inflow of resources related to OPEB will be recognized in OPEB expense as follows:

(In thousands)

Year Ended June 30,

2023	\$ (192)
2024	(52)
2025	(240)
2026	<u>(398)</u>
Total	<u>\$ (882)</u>

11. Fair Value of Financial Instruments

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

- **Level I** – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- **Level II** – Quoted prices in markets that are not active or inputs, which are observable, either directly or indirectly, for substantially the full term of the asset or liability.
- **Level III** – Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

Notes to Combined Financial Statements

June 30, 2022

11. **Fair Value of Financial Instruments (cont.)**

Recurring Measurements

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

		Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)
	<u>Fair Value</u>			
<i>(In thousands)</i>				
U.S. agencies obligations	\$ 80,975	\$ -	\$ 80,975	\$ -
Mortgage-backed securities	97,454	-	97,454	-
Mutual bond funds	3,465	-	3,465	-
State Treasurer MMTF	<u>30,723</u>	<u>-</u>	<u>30,723</u>	<u>-</u>
	<u>\$ 212,617</u>	<u>\$ -</u>	<u>\$ 212,617</u>	<u>\$ -</u>

The fair value amounts in the previous table do not reflect all investments included in the amounts presented in the combined statement of net position. GASB Statement No. 72, "Fair Value Measurement and Application," provides certain exceptions including guaranteed investment contracts, money market mutual funds, state and local government agencies (or certain U.S. Department of the Treasury obligations) and equity investments in connection with economic development activities that are providing venture capital.

The following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized on the accompanying combined financial statements, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended June 30, 2022.

Notes to Combined Financial Statements

June 30, 2022

11. Fair Value of Financial Instruments (cont.)

Investments

Where quoted market prices are available in an active market, securities are classified within Level I of the valuation hierarchy. The Authority did not have any Level I securities at June 30, 2022. Level II securities include U.S. Government and federal agencies, mortgage-backed securities, negotiable certificates of deposit and mutual bond fund. If quoted market prices are not available, then fair values are estimated by an independent third party pricing service using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. For these investments, the inputs used by the pricing service to determine fair value may include one, or a combination of observable inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data market research publications and are classified within Level II of the valuation hierarchy. In certain cases where Level I or Level II inputs are not available, securities are classified within Level III of the hierarchy. The Authority did not have any Level III securities at June 30, 2022.

Nonrecurring Measurements

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

		Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)
	<u>Fair Value</u>			
<i>(In thousands)</i>				
Real estate owned	<u>\$ 1,065</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,065</u>

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

Real Estate Owned

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

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

Notes to Combined Financial Statements

June 30, 2022

12. Commitments and Contingencies

The Authority

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 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, 2022 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 on the accompanying combined financial statements for such contingencies.

The Authority has \$67.7 million of amounts recorded as cash and investments on the accompanying combined statement of net position that may be disbursed to borrowers under loan and lease agreements closed prior to June 30, 2022.

Component Unit

Outstanding commitments to various funds/companies by the AVCIT, except for the AIF, were \$2.7 million for the year ended June 30, 2022. The outstanding commitments for the AIF were \$0.2 million as of December 31, 2021.

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 may 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. There have been no settlements exceeding insurance coverage in the past three years.

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

In 2003, the Authority initiated the funding for the AIF, an institutional fund of funds venture capital program created by the Arkansas General Assembly in 2001. The VCI Act 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 the Authority and draws occurring on an as-needed basis. The outstanding balance on the guaranteed line of credit was \$6.3 million as of June 30, 2022. As of June 30, 2022, there were \$0.2 million in investment commitments yet to be funded with the line of credit.

Notes to Combined Financial Statements

June 30, 2022

12. **Commitments and Contingencies (cont.)**

The Bond Guaranty Fund guarantees a letter of credit with a financial institution for up to \$3.75 million in the event of non-performance by the borrower. This guaranty is renewed annually.

Third Party Servicers

The Authority has contracted with and utilizes the services of EdFinancial Services, Inc. (“EdFinancial”) and Nelnet, Inc. as its third party student loan servicers. These third party servicers perform virtually all of the student loan servicing activities on behalf of the Authority including maintenance of borrower files, payment processing and application thereof, due diligence activities and quarterly reporting to the USDE. In addition, the Authority has contracted with EdFinancial to perform a variety of administrative activities primarily related to marketing the Authority and certain other administrative functions on behalf of the Authority’s Student Loan Programs.

13. **Subsequent Events Evaluation Date**

The Authority evaluated the events and transactions subsequent to its June 30, 2022 combined statement of net position date and determined there were no significant events to report through November 1, 2022, which is the date the Authority issued its combined financial statements.

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

Schedule of the Authority's Proportionate Share of the Net Pension Liability – Arkansas Public Employees Retirement System

June 30, 2022 – June 30, 2015

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Authority's proportion of net pension liability	0.1525%	0.1700%	0.1785%	0.1790%	0.1996%	0.1880%	0.1941%	0.1898%
Authority's proportionate share of the net pension liability	\$ 1,172,128	\$ 4,868,576	\$ 4,306,471	\$ 3,947,934	\$ 5,156,742	\$ 4,496,128	\$ 3,575,061	\$ 2,692,466
Authority's covered payroll, cash basis	2,948,277	3,366,431	3,418,710	3,394,031	3,250,192	3,408,161	3,444,062	3,354,903
Authority's proportionate share of the net pension liability as a percentage of its covered-employee payroll	39.76%	144.62%	125.97%	116.32%	158.66%	131.92%	103.80%	80.25%
Plan fiduciary net position as a percentage of total pension liability	93.57%	75.38%	78.55%	79.59%	75.65%	75.50%	80.39%	84.15%

Information in this schedule has been determined as of the measurement date (June 30 of the year prior to the most recent fiscal year-end) of the Authority's net pension liability.

This schedule is presented to illustrate the requirement to disclose information for 10 years. However, until a full 10-year trend is compiled under the provisions of GASB Statement No. 68, "Accounting and Financial Reporting for Pensions," the Authority will only present available information.

For 2022 through 2018 information for ASLA is included.

See independent auditor's report.

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

Schedule of the Authority's Contributions – Arkansas Public Employees Retirement System

For the Years Ended June 30, 2022 – June 30, 2015

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 449,326	\$ 466,396	\$ 508,214	\$ 523,322	\$ 494,459	\$ 471,153	\$ 493,947	\$ 508,343
Contributions in relation to the contractually required contribution	<u>449,326</u>	<u>466,396</u>	<u>508,214</u>	<u>523,322</u>	<u>494,459</u>	<u>471,153</u>	<u>493,947</u>	<u>508,343</u>
Contribution deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Authority's covered employee payroll	\$ 2,944,747	\$ 2,948,277	\$ 3,366,431	\$ 3,418,710	\$ 3,394,031	\$ 3,250,192	\$ 3,408,161	\$ 3,444,062
Contributions as a percentage of covered employee payroll	15.26%	15.82%	15.32%	15.31%	14.57%	14.50%	14.49%	14.76%

Information in this schedule has been determined as of the Authority's most recent fiscal year-end.

This schedule is presented to illustrate the requirement to disclose information for 10 years. However, until a full 10-year trend is compiled under the provisions of GASB Statement No. 68, the Authority will only present available information.

For 2022 through 2018 information for ASLA is included.

See independent auditor's report.

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

Schedule of Changes in Total Other Postemployment Benefits Liability

For the Years Ended June 30, 2022 – June 30, 2018

(In Thousands)

<u>Plan</u>					
Measurement date	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Service cost	\$ 214	\$ 206	\$ 114	\$ 104	\$ 132
Interest	95	93	112	122	137
Effect of plan changes	(1,089)	-	-	-	-
Effect of economic/demographic gains or losses	(354)	12	(108)	20	(55)
Changes in assumptions or other inputs	(946)	(177)	1,020	(305)	(144)
Changes in proportion	(33)	104	120	(661)	-
Benefit payments	<u>(109)</u>	<u>(92)</u>	<u>(87)</u>	<u>(94)</u>	<u>(109)</u>
Net changes	(2,222)	146	1,171	(814)	(39)
Total OPEB liability - beginning	<u>4,309</u>	<u>4,163</u>	<u>2,992</u>	<u>3,806</u>	<u>3,845</u>
Total OPEB liability - ending	<u>\$ 2,087</u>	<u>\$ 4,309</u>	<u>\$ 4,163</u>	<u>\$ 2,992</u>	<u>\$ 3,806</u>
Covered employee payroll	\$ 2,945	\$ 2,948	\$ 3,366	\$ 3,419	\$ 3,394
Total as a percentage of covered employee payroll	70.87%	146.17%	123.68%	87.51%	112.14%

The State implemented GASB Statement No. 75 “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions” in fiscal year 2018. Information for the schedule was not available prior to fiscal year 2018.

See independent auditor’s report.

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

Combining Statement of Net Position

June 30, 2022

(In Thousands)

<u>Assets and Deferred Outflow of Resources</u>	Single Family Housing Programs	Federal Housing Programs	Multi-Family Programs	Economic Development Bond Guaranty Program	State Facilities and Amendment 82 Programs	Other Economic Development Programs	Tobacco Settlement Revenue Bonds Program	General Fund Program	Student Loan Programs	Eliminations	Total
Current assets											
Cash and cash equivalents	\$ 33,912	\$ 68,263	\$ 5,361	\$ 9,353	\$ 107,613	\$ 2,434	\$ 5,271	\$ 33,556	\$ 5,380	\$ -	\$ 271,143
Accrued interest receivable	320	121	8	63	799	2	5	565	6,089	-	7,972
Accounts receivable	-	2,868	-	177	5	-	-	1,876	393	(856)	4,463
Current portion of											
Investments	-	-	-	-	-	-	-	7,001	-	-	7,001
Loans	-	-	-	-	-	-	-	1,835	-	-	1,835
Loan to Component Unit	-	-	-	-	-	-	-	6,325	-	-	6,325
Total current assets	<u>34,232</u>	<u>71,252</u>	<u>5,369</u>	<u>9,593</u>	<u>108,417</u>	<u>2,436</u>	<u>5,276</u>	<u>51,158</u>	<u>11,862</u>	<u>(856)</u>	<u>298,739</u>
Noncurrent assets											
Investments											
Unrestricted	-	-	-	-	-	-	-	74,736	-	-	74,736
Restricted	82,651	-	-	14,043	-	-	-	-	5,064	-	101,758
Loans, net of allowance for loan losses of \$79,567	-	87,819	3,639	29,311	241,860	575	72,902	33,111	113,181	-	582,398
Real estate owned	-	1,065	-	-	-	-	-	-	-	-	1,065
Capital assets, net	-	-	-	-	-	-	-	39	2,225	-	2,264
Other assets	-	974	-	-	-	-	-	288	899	-	2,161
Total noncurrent assets	<u>82,651</u>	<u>89,858</u>	<u>3,639</u>	<u>43,354</u>	<u>241,860</u>	<u>575</u>	<u>72,902</u>	<u>108,174</u>	<u>121,369</u>	<u>-</u>	<u>764,382</u>
Total assets	<u>116,883</u>	<u>161,110</u>	<u>9,008</u>	<u>52,947</u>	<u>350,277</u>	<u>3,011</u>	<u>78,178</u>	<u>159,332</u>	<u>133,231</u>	<u>(856)</u>	<u>1,063,121</u>
Deferred outflow of resources											
Deferred charge on refunding	-	-	-	-	-	-	-	-	2,281	-	2,281
OPEB difference in expected versus actual experience	-	-	-	-	-	-	-	12	-	-	12
Changes in OPEB actuarial assumptions and proportions	-	-	-	-	-	-	-	523	-	-	523
Pension contributions	-	-	-	-	-	-	-	449	-	-	449
Pension differences in expected versus actual experience	-	-	-	-	-	-	-	27	-	-	27
Total deferred outflow of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,011</u>	<u>2,281</u>	<u>-</u>	<u>3,292</u>
Total assets and deferred outflow of resources	<u>\$ 116,883</u>	<u>\$ 161,110</u>	<u>\$ 9,008</u>	<u>\$ 52,947</u>	<u>\$ 350,277</u>	<u>\$ 3,011</u>	<u>\$ 78,178</u>	<u>\$ 160,343</u>	<u>\$ 135,512</u>	<u>\$ (856)</u>	<u>\$ 1,066,413</u>

See independent auditor's report.

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

Combining Statement of Net Position (cont.)

June 30, 2022

(In Thousands)

<u>Liabilities, Deferred Inflow of Resources and Net Position</u>	Single Family Housing Programs	Federal Housing Programs	Multi-Family Programs	Economic Development Bond Guaranty Program	State Facilities and Amendment 82 Programs	Other Economic Development Programs	Tobacco Settlement Revenue Bonds Program	General Fund Program	Student Loan Programs	Eliminations	Total
Current liabilities											
Accounts payable	\$ -	\$ 929	\$ 4	\$ 160	\$ 10	\$ -	\$ -	\$ 2,702	\$ 552	\$ (856)	\$ 3,501
Accrued interest payable	313	20	-	364	1,219	-	-	-	116	-	2,032
Unearned fees	-	-	-	171	-	-	-	40	-	-	211
Contract obligations	-	1,571	-	-	5,445	-	-	-	-	-	7,016
Deferred gain on refinancing sale of asset	-	-	-	-	-	7	-	3	-	-	10
Current portion of bonds and notes payable	1,050	139	-	3,003	13,605	-	4,960	-	849	-	23,606
OPEB and pension liabilities	-	-	-	-	-	-	-	92	-	-	92
Total current liabilities	<u>1,363</u>	<u>2,659</u>	<u>4</u>	<u>3,698</u>	<u>20,279</u>	<u>7</u>	<u>4,960</u>	<u>2,837</u>	<u>1,517</u>	<u>(856)</u>	<u>36,468</u>
Noncurrent liabilities											
Unearned fees	-	-	-	817	-	-	-	68	-	-	885
Contract obligations	-	467	-	-	348	-	-	-	-	-	815
Bonds and notes payable, net of unamortized premiums and discounts and current portion	22,227	3,243	-	31,611	283,497	-	67,941	-	69,847	-	478,366
Deposits against financing arrangements	-	-	-	985	46,153	-	5,277	-	-	-	52,415
Deferred gain on refinancing sale of asset	-	-	-	-	-	55	-	42	-	-	97
OPEB and pension liabilities	-	-	-	-	-	-	-	3,167	-	-	3,167
Other liabilities	-	-	-	-	-	-	-	412	-	-	412
Total noncurrent liabilities	<u>22,227</u>	<u>3,710</u>	<u>-</u>	<u>33,413</u>	<u>329,998</u>	<u>55</u>	<u>73,218</u>	<u>3,689</u>	<u>69,847</u>	<u>-</u>	<u>536,157</u>
Total liabilities	<u>23,590</u>	<u>6,369</u>	<u>4</u>	<u>37,111</u>	<u>350,277</u>	<u>62</u>	<u>78,178</u>	<u>6,526</u>	<u>71,364</u>	<u>(856)</u>	<u>572,625</u>
Deferred inflow of resources											
OPEB difference in expected versus actual experience	-	-	-	-	-	-	-	327	-	-	327
Changes in OPEB actuarial assumptions and proportions	-	-	-	-	-	-	-	1,090	-	-	1,090
Pension difference in expected versus actual experience	-	-	-	-	-	-	-	76	-	-	76
Changes in pensions actuarial assumptions	-	-	-	-	-	-	-	8	-	-	8
Net differences between projected and actual earnings on pension plan investments	-	-	-	-	-	-	-	2,057	-	-	2,057
Changes in employer pension contribution and share of contributions	-	-	-	-	-	-	-	449	-	-	449
Lease obligations	-	-	-	-	-	-	-	-	817	-	817
Total deferred inflow of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,007</u>	<u>817</u>	<u>-</u>	<u>4,824</u>
Total liabilities and deferred inflow of resources	<u>23,590</u>	<u>6,369</u>	<u>4</u>	<u>37,111</u>	<u>350,277</u>	<u>62</u>	<u>78,178</u>	<u>10,533</u>	<u>72,181</u>	<u>(856)</u>	<u>577,449</u>
Net position											
Investment in capital assets	-	-	-	-	-	-	-	39	2,225	-	2,264
Restricted expendable by bond resolution and programs	93,293	154,741	9,004	15,836	-	2,949	-	-	61,106	-	336,929
Unrestricted	-	-	-	-	-	-	-	149,771	-	-	149,771
Total net position	<u>93,293</u>	<u>154,741</u>	<u>9,004</u>	<u>15,836</u>	<u>-</u>	<u>2,949</u>	<u>-</u>	<u>149,810</u>	<u>63,331</u>	<u>-</u>	<u>488,964</u>
Total liabilities, deferred inflow of resources and net position	<u>\$ 116,883</u>	<u>\$ 161,110</u>	<u>\$ 9,008</u>	<u>\$ 52,947</u>	<u>\$ 350,277</u>	<u>\$ 3,011</u>	<u>\$ 78,178</u>	<u>\$ 160,343</u>	<u>\$ 135,512</u>	<u>\$ (856)</u>	<u>\$ 1,066,413</u>

See independent auditor's report.

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

Combining Statement of Revenues, Expenses and Changes in Net Position

For the Year Ended June 30, 2022

(In Thousands)

	Single Family Housing Programs	Federal Housing Programs	Multi-Family Programs	Economic Development Bond Guaranty Program	State Facilities and Amendment 82 Programs	Other Economic Development Programs	Tobacco Settlement Revenue Bonds Program	General Fund Program	Student Loan Programs	Eliminations	Total
Operating revenues											
Investment income (loss)											
Interest and dividends	\$ 4,017	\$ 94	\$ 8	\$ 151	\$ -	\$ 4	\$ -	\$ 1,296	\$ (433)	\$ -	\$ 5,137
Loans and direct financing leases	-	1,079	63	1,395	10,367	28	3,502	1,393	5,395	-	23,222
Amortization of discounts on loans	-	-	-	-	-	-	-	1	1	-	2
Financing fees	-	-	-	667	-	168	-	10,398	-	(1,240)	9,993
Net depreciation of investments	(8,840)	-	-	(849)	-	-	-	(5,755)	-	-	(15,444)
Total investment income (loss)	(4,823)	1,173	71	1,364	10,367	200	3,502	7,333	4,963	(1,240)	22,910
Other income	-	-	-	-	-	-	-	96	11	-	107
Total operating revenues	(4,823)	1,173	71	1,364	10,367	200	3,502	7,429	4,974	(1,240)	23,017
Operating expenses											
Interest and amortization on bonds and notes	795	42	-	1,435	10,436	-	3,502	6	1,167	-	17,383
Administrative expenses											
Provision for (recovery of) loan losses	-	(1,751)	(200)	437	-	9	-	(25)	201	-	(1,329)
Federal financial assistance programs	-	11,907	-	294	-	-	-	-	-	-	12,201
Loan servicing and other contractual services	-	-	-	-	-	-	-	-	802	-	802
Special allowance	-	-	-	-	-	-	-	-	2,190	-	2,190
Salaries and benefits	-	-	-	-	-	-	-	1,542	503	-	2,045
Operations and maintenance	-	6,800	10	-	-	-	-	478	341	(1,072)	6,557
Other	109	776	1,493	415	-	155	-	1,790	107	(168)	4,677
Total administrative expenses	109	17,732	1,303	1,146	-	164	-	3,785	4,144	(1,240)	27,143
Total operating expenses	904	17,774	1,303	2,581	10,436	164	3,502	3,791	5,311	(1,240)	44,526
Operating income (loss)	(5,727)	(16,601)	(1,232)	(1,217)	(69)	36	-	3,638	(337)	-	(21,509)
Nonoperating revenues											
Federal grants	-	60,640	-	294	69	-	-	-	-	-	61,003
Income (loss) before transfers out, net	(5,727)	44,039	(1,232)	(923)	-	36	-	3,638	(337)	-	39,494
Transfers out, net	-	(46)	-	-	-	(136)	-	(400)	-	-	(582)
Changes in net position	(5,727)	43,993	(1,232)	(923)	-	(100)	-	3,238	(337)	-	38,912
Net position - beginning of year	99,020	110,748	10,236	16,759	-	3,049	-	146,572	63,668	-	450,052
Net position - end of year	\$ 93,293	\$ 154,741	\$ 9,004	\$ 15,836	\$ -	\$ 2,949	\$ -	\$ 149,810	\$ 63,331	\$ -	\$ 488,964

See independent auditor's report.

**Independent Auditor's Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance With *Government Auditing Standards***

Board of Directors
Arkansas Development Finance Authority
A Component Unit of the State of Arkansas
Little Rock, Arkansas

We have audited, 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, the combined financial statements of the business-type activities and the aggregate discretely presented component unit of Arkansas Development Finance Authority as of and for the year ended June 30, 2022, and the related notes to the combined financial statements, which collectively comprise Arkansas Development Finance Authority's basic combined financial statements, and have issued our report thereon dated November 1, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the combined financial statements, we considered Arkansas Development Finance Authority's internal control over financial reporting (internal control) as a basis for designing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of Arkansas Development Finance Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Arkansas Development Finance Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's combined financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Arkansas Development Finance Authority's combined financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the combined financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Frost, PLLC

Certified Public Accountants

Little Rock, Arkansas
November 1, 2022

**Independent Auditor's Report on Compliance for Each
Major Federal Program and Report on Internal Control
Over Compliance in Accordance With the Uniform Guidance**

Board of Directors
Arkansas Development Finance Authority
A Component Unit of the State of Arkansas
Little Rock, Arkansas

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Arkansas Development Finance Authority's compliance with the types of compliance requirements identified as subject to audit in the U.S. Office of Management and Budget ("OMB") *Compliance Supplement* that could have a direct and material effect on each of Arkansas Development Finance Authority's major federal programs for the year ended June 30, 2022. Arkansas Development Finance Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Arkansas Development Finance Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America ("GAAS"); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States ("*Government Auditing Standards*"); and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, ("Uniform Guidance"). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Arkansas Development Finance Authority and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Arkansas Development Finance Authority's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to Arkansas Development Finance Authority's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Arkansas Development Finance Authority's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Arkansas Development Finance Authority's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Arkansas Development Finance Authority's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Arkansas Development Finance Authority's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Arkansas Development Finance Authority's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Frost, PLLC

Certified Public Accountants

Little Rock, Arkansas
November 1, 2022

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2022

Section I – Summary of Auditor’s Results

Combined Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified? ☐ Yes ☒ None Reported

Noncompliance material to combined financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified? ☐ Yes ☒ None Reported

Type of auditor’s report issued on compliance for major federal programs. Unmodified

Are any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? ☐ Yes ☒ No

Identification of major federal programs:

Federal Assistance Listing (“FAL”) Number(s) and Name of Federal Program or Cluster

Federal Family Education Loans 84.032

Dollar threshold used to distinguish between type A and type B programs: \$ 750,000

Auditee qualified as a low-risk auditee? ☒ Yes ☐ No

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

60

Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2022

<u>Reference Number</u>	<u>Summary of Finding</u>	<u>Status</u>
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No matters were reported in the June 30, 2021 Schedule of Findings and Questioned Costs.

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

61

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2022

<u>Federal Grantor/Pass-Through Grantor Program or Cluster Title</u>	<u>FAL Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Pass-Through Through to Subrecipients</u>	<u>Total Federal Expenditures</u>
U.S. Department of Agriculture Development/Preservation Revolving Loan Fund	10.415	N/A	\$ -	\$ 3,999,424
U.S. Department of Housing and Urban Development/Neighborhood Stabilization Program	14.228	N/A	-	702,248
U.S. Department of Housing and Urban Development/Arkansas Economic Development Council/CDBG - Entitlement Grants Cluster/(Community Development Block Grant)	14.218	B-08-DI-05-0001	-	21,829
U.S. Department of Treasury/American Rescue Plan/Home Owner Assistance Fund	21.026	N/A	-	15,055,779
U.S. Department of Housing and Urban Development/Housing Trust Fund	14.275	N/A	-	1,076,534
U.S. Department of Education Federal Family Education Loans				
Student loan interest subsidy	84.032	N/A	-	287,167
Special allowance	84.032	N/A	-	88,127
Noncash awards student loans outstanding - beginning of year	84.032	N/A	-	132,448,397
U.S. Department of Housing and Urban Development/HOME Investment				
Partnerships Program	14.239	N/A	377,040	1,842,264
HOME-ARP Program	14.239	N/A	-	21,108
			<u>\$ 377,040</u>	<u>\$ 155,542,877</u>

The accompanying notes are an integral part of the schedule of expenditures of federal awards.

Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2022

1. The accompanying schedule of expenditures of federal awards ("SEFA") includes the federal award activity of the Arkansas Development Finance Authority (the "Authority"), a component unit of the State of Arkansas, under programs of the federal government for the year ended June 30, 2022. The information in the SEFA is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the SEFA presents only a selected portion of the operations of the Authority, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Authority.
2. Expenditures reported on the SEFA are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, the cost principles in Office of Management and Budget A-110 or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Authority has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.
3. Expenditures reflected in FAL 10.415, Preservation Revolving Loan Fund, include loans to contractors for development of multi-family housing. The funding sources for these loans are two \$2,125,000 promissory notes executed between the Authority and U.S. Department of Agriculture Rural Development during fiscal year 2013 and fiscal year 2016. When received, the funds were used to make new loans for program activities. The outstanding loan receivable balance was \$3,419,558 for the year ended June 30, 2022. Total disbursements for loans made totaled \$88,553 during the year ended June 30, 2022.
4. Expenditures reflected in FAL 14.228, Neighborhood Stabilization Programs, include loans to contractors for redevelopment of foreclosed or abandoned homes for sale or rent in order to stabilize neighborhoods and stem the decline of house values in neighboring homes. The funding source for these loans is federal grant funds. The funds are disbursed after expenses have been incurred as forgiveness of principal and repayable loans. The outstanding loan receivable balance was \$14,052,568 for the year ended June 30, 2022. No disbursements were made for repayable loans during the year ended June 30, 2022.
5. Expenditures reflected in FAL 14.218, Community Development Block Grant, include loans to contractors for development or redevelopment of affordable rental housing. The funding source for these loans is federal grant funds. The funds are disbursed after expenses have been incurred as forgiveness of principal and repayable loans. The outstanding loan receivable balance was \$7,700,000 for the year ended June 30, 2022. No disbursements were made for repayable loans during the year ended June 30, 2022.
6. Expenditures reflected in FAL 14.239, HOME Investment Partnerships Program, include loans to contractors and borrowers for development of single-family and multi-family housing. The funding source for these loans includes federal grant funds and revolving program funds. The funds are disbursed after expenses have been incurred as forgiveness of principal and repayable loans. The outstanding loan receivable balance was \$108,645,645 for the year ended June 30, 2022. Total disbursements of federal funds for repayable loans totaled \$684,242 during the year ended June 30, 2022.

Notes to Schedule of Expenditures of Federal Awards (cont.)

For the Year Ended June 30, 2022

7. The federal loan programs listed subsequently are administered directly by the Authority, and balances and transactions relating to the programs are included in the Authority's basic combined financial statements. Notes payable outstanding at the beginning of the year and federal expenditures during the year are included in the federal expenditures presented in the SEFA. The balance of the notes payable outstanding at June 30, 2022 consists of:

Reference Number	Program Name	Outstanding Balance at June 30, 2022
10.415	Preservation Revolving Loan Fund	\$3,381,943

8. Federal interest and special allowance subsidies for Arkansas Student Loan Authority are included in loan interest and special allowance expense in the Authority's combined financial statements.
9. Education loans made or purchased by the Authority are guaranteed by the Great Lakes Higher Education Corporation ("Great Lakes"), United Student Aid Funds ("USAF") or the U.S. Department of Education ("USDE"). Student loans guaranteed by the USDE are considered noncash awards, which amounted to \$132,448,397 at July 1, 2021. The Great Lakes, USAF and USDE guarantees are contingent upon the loans being serviced within the due diligence requirements of the guarantors and loan services.
10. Expenditures reflected in FAL 14.275, Housing Trust Fund, include loans to contractors for development or redevelopment of affordable housing, particularly rental housing, for extremely low income and very low income households. The funding source for these loans is federal grant funds. The funds are disbursed after expenses have been incurred as forgiveness of principal and repayable loans. The outstanding loan receivable balance was \$4,823,626 for the year ended June 30, 2022. Total disbursements for loans made totaled \$332,200 during the year ended June 30, 2022.
11. Expenditures reflected in FAL 21.026, Homeowner Assistance Fund, include disbursements to prevent homeowner mortgage delinquencies, defaults, utilities delinquencies and expenses for the administration of this program. The funding source for these expenses is federal grant funds.