

AR DEVELOPMENT FINANCE AUTHORITY

Enabling Laws

Act 784 of 2007
A.C.A. § 15-5-101 et seq.

History and Organization

Indebtedness of the Authority:

Bonds and other debt instruments issued by Arkansas Development Finance Authority (ADFA) are special obligations of the Authority, payable solely from and secured by a lien on the proceeds pledged under the various resolutions authorizing the particular bond issues. The State of Arkansas is not obligated to pay the bonds, and neither the faith nor the taxing power of the State of Arkansas is pledged against the obligations of the Authority.

Operational Funding of the Authority:

The operations and expenses of the Authority are paid entirely from revenue from its various programs. ADFA receives no fund appropriations from the State, and it imposes no taxes and has no taxing authority. Also, it charges no fees on the citizens of the State other than negotiated fees on the Authority's entirely voluntary programs. As a separate, self-sustaining instrumentality, the net revenues of the Authority not only sustain its operations, but build a capital base which has enabled the Authority (without any draw on the State's general appropriations) to create new loan funds and other programs that play an important role in advancing the mission of the Authority.

Mission and Activities of the Authority:

The mission statement of the Authority, reviewed and revised in 2001, is as follows:

The Mission Statement of the Arkansas Development Finance Authority is to provide and support affordable financing for the housing, economic, agricultural and governmental needs of Arkansas. ADFA accomplishes this through a powerful network of partners dedicated to promoting greater economic opportunities and improving the general health, safety and welfare of the state and its citizens.

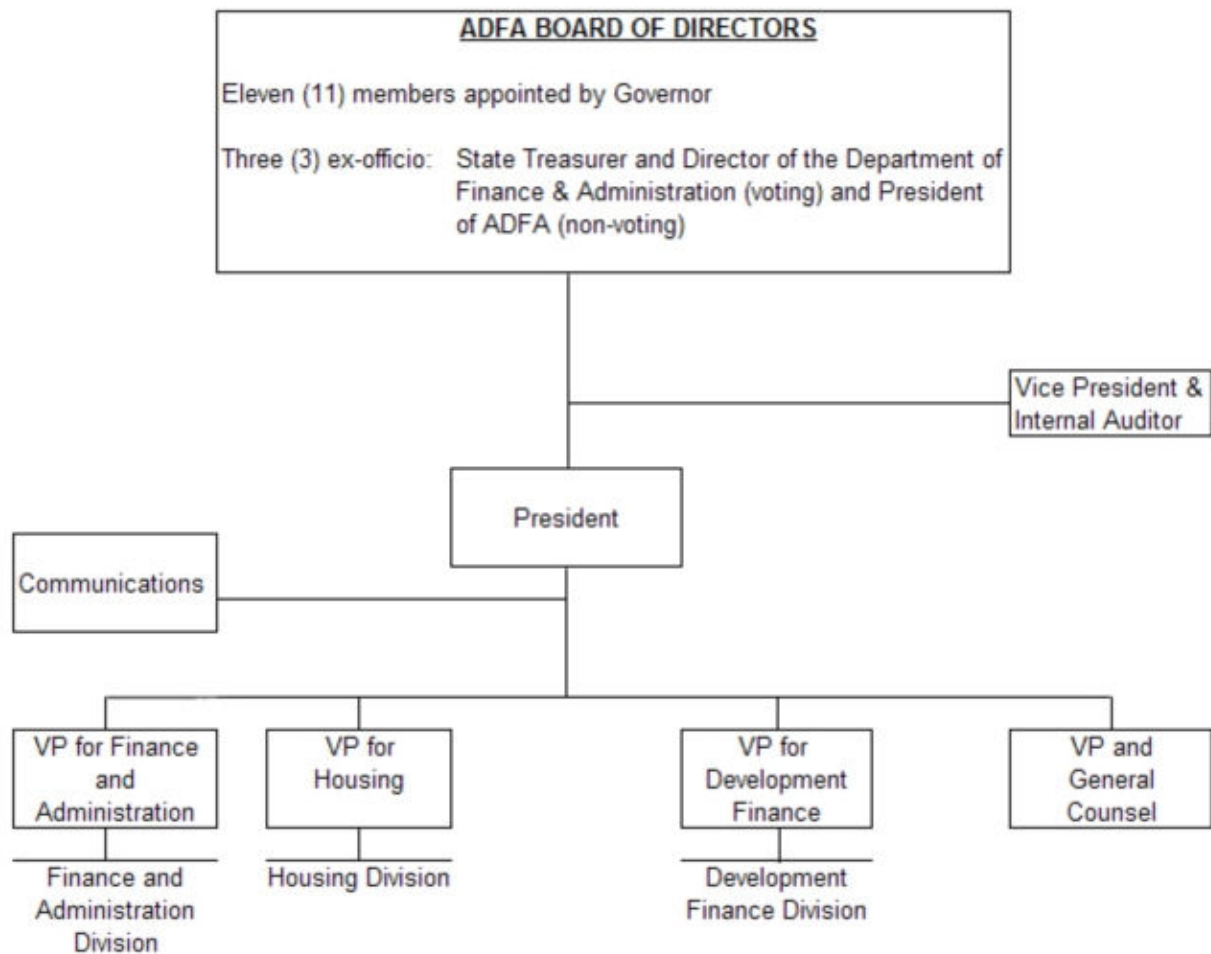
ADFA administers several different programs in each of these activity areas that further the cause of each goal. With the business-like flexibility afforded ADFA by its statutory charge and, under the guidance of a very active and professional Board of Directors, ADFA has added and discontinued programs from time to time, with consideration given to demands and resource availability. Almost all programs, in and of themselves, are self-sustaining from interest margins, negotiated fees or other revenues and, as stated earlier, all programs, in the aggregate, are fully funded and sustained from the self-generated revenue of the Authority.

Oversight of the Authority:

The Authority is subject to considerable oversight both from within and outside the Agency. An internal audit division was established in 1996. This decision has made tremendous strides in strengthening ADFA in terms of compliance, internal accounting controls and the general integrity of the Agency and its programs. Along with the internal audit and compliance oversight:

1. A 14-member Board of Directors meets at least monthly and has a very active committee structure that oversees various aspects of the operations and participates in, among other things, (a) the selection of professionals who serve the Agency, (b) the decisions on the issuance of bonds and other debt instruments, (c) the decision as to whether to offer a guaranty of bonds under the Bond Guaranty Act (A.C.A. § 15-5-401 et seq.), (d) the adoption of any program or Authority rules and regulations and (e) other policy decisions affecting the Authority.
2. ADFA has an annual independent audit performed by an outside accounting firm. Currently, the firm engaged is BKD, LLP, headquartered in Springfield, Mo. Along with the regular audit report, BKD also issues to the Board a "management letter" that addresses internal control weaknesses and recommendations.
3. The loan files in the Authority's Bond Guaranty Program and Intermediary Relending Program are examined by the bank examiners from the State Bank Department. This is a measure initiated in 1998 voluntarily by ADFA with a view to (a) improving the Authority's efficiencies, (b) providing credibility and integrity to the loan files and loan reserve balances and (c) saving costs in the review required by the Authority's outside independent auditors.
4. In our housing division, ADFA administers various programs under the under the direction of the Federal Department of Housing and Urban Development ("HUD"). HUD officials regularly come to our offices and visit property sites for the purpose of monitoring ADFA's compliance with the federal Program rules.
5. As an issuer of bonds that are exempt from federal taxation, the Authority is always subject to audit and review from the Internal Revenue Service and has occasionally been audited in the past.
6. As with all other state agencies which are part of the executive branch, ADFA and its budget, personnel, program rules and regulations, activities and other aspects of the Authority are subject to supervision and executive orders from the Governor's office and oversight and direction of the Arkansas Legislature and its various committees and subcommittees.

A final (and very comprehensive and publicly reported) area of oversight is provided by Standard & Poors, the rating agency that rates the bonds issued by the Authority. Pursuant to an application submitted by ADFA, Standard & Poor's in May, 1999, published what is called an "Issuer Credit Rating" (comparable to the general obligation rating that is maintained by the State of Arkansas), assigning an 'A' rating to ADFA. In December 2006, the rating was upgraded to 'A+'. In assigning and maintaining this rating, ADFA annually undergoes a thorough review of its balance sheet and general finances, as well as a comprehensive review of, among other things, (a) the expertise and experience of its management team and Board of Directors, (b) the efficiency and operation of its accounting, operating and management information systems, (c) its reputation and relationship with the legislature, the Governor's office and other political constituencies and (d) the strength of its internal accounting controls and compliance areas.



Agency Commentary

Appropriation A57 (Cash Operations) will be used primarily to fund federal programs administered by the Arkansas Development Finance Authority (ADFA) as well as to fund the general operations of ADFA.

The Agency requests to restore \$23,000 of appropriation to the Capital Outlay line item each year. This amount of Capital Outlay is authorized in the current biennium and is needed in each year of the upcoming Biennium to replace an existing vehicle due to the vehicles exceeding mileage and/or due to the age of the vehicle.

The Agency requests a reallocation of appropriation increasing Operating Expenses and decreasing Conference and Travel Expenses in the amount of \$20,600. This transfer of appropriation is needed due to increases in ADFA's national housing association dues, parking rental, office rent and fuel purchases.

The federal programs are the U.S. Department of Housing and Urban Development's (HUD's) HOME Program, Grants and Aid Program, and the Agricultural Loan Mediation and Development Program (Mediation Program).

The HOME Program, currently budgeted at \$14,261,800 for each fiscal year, will be funded through

federal grants. The agency requests an appropriation increase for this program in the amount of \$2,079,415 for each year. This will result in a total budgeted amount of \$16,341,215 per fiscal year. This increase in appropriation is needed in response to an increase in HOME fund applications and eligible developments. The increase will allow ADFA to provide adequate resources to develop and support affordable housing throughout the state. Federal funds will be the funding source for this change level increase.

The Grants and Aid Program, budgeted at \$6,600,000 for each fiscal year, will be funded through federal grants. The Mediation Program will be funded partly by cash and partly from federal reimbursement (up to \$76,411 per year) for costs associated with the Loan Mediation Program.

Audit Findings

DIVISION OF LEGISLATIVE AUDIT
AUDIT OF :
ARKANSAS DEVELOPMENT FINANCE AUTHORITY

FOR THE YEAR ENDED JUNE 30, 2006

Findings	Recommendations
None	None

Employment Summary

	Male	Female	Total	%
White Employees	14	28	42	76 %
Black Employees	6	7	13	24 %
Other Racial Minorities	0	0	0	0 %
Total Minorities			13	24 %
Total Employees			55	100 %

Cash Fund Balance Description as of June 30, 2008

Fund Account	Balance	Type	Location
1230200	\$93,684	Checking	Regions Bank, Little Rock, AR

Statutory/Other Restrictions on use:

A.C.A. §15-5-207(b) authorizes the Authority to issue bonds for the purpose of generating investment earnings or other income.

Statutory Provisions for Fees, Fines, Penalties:

A.C.A. §15-5-207(b) authorizes the Authority to issue bonds for the charges in connection with its loans, bond guarantees, commitments, and servicing.

Revenue Receipts Cycle:

The investment earnings or other income shall be used to finance activities or projects of the agency as outlined in the Authority's enabling legislation.

Fund Balance Utilization:

The use of fund balances are restricted by the terms of trust indentures that pertain to the maintenance of various funds and reserves and investments of such when not needed for authorized purposes.

Publications

A.C.A. 25-1-204

Name	Statutory Authorization	Required for		# of Copies	Reason(s) for Continued Publication and Distribution
		Governor	General Assembly		
Annual Audit Report	A.C.A. 15-5-210	N	Y	2	Reporting of audited agency financials.
Bond Issuance Report	Act 36 of 1989	N	Y	1	Provides summary of bond transactions when executed
Bond Issues/Outstanding Report	Act 222 of 1987	N	N	1	Provides comprehensive list of bonds issued and outstanding.

Agency Position Usage Report

FY2006 - 2007						FY2007 - 2008						FY2008 - 2009					
Authorized in Act	Budgeted			Unbudgeted	% of Authorized Unused	Authorized in Act	Budgeted			Unbudgeted	% of Authorized Unused	Authorized in Act	Budgeted			Unbudgeted	% of Authorized Unused
	Filled	Unfilled	Total	Total			Total	Total	Filled	Unfilled			Total	Total	Filled	Unfilled	
64	60	1	61	3	6.25 %	62	57	5	62	0	8.06 %	62	55	7	62	0	11.29 %

The Authorized Position amount decreased in FY07 due to the Authority's decision to leave 3 positions unbudgeted in FY06 and only ask to restore 1 of the positions in the 2007-09 Biennial Request.

Analysis of Budget Request

Appropriation: A57 - ADFA-Cash Operations

Funding Sources: 123 - Arkansas Development Finance Authority Cash

A.C.A. §15-5-201 created the Arkansas Development Finance Authority along with a Board of Directors that was created in A.C.A. §15-5-202. The Board of Directors is composed of the Director of the Department Finance and Administration and eleven (11) public members appointed by the Governor with the advice and consent of the Senate. Duties and responsibilities of the Board may include but are not limited to, powers to sue; make and issue rules, regulations, and bylaws; acquire, hold, and dispose of real and personal property for corporate purposes; appoint officers, agents, and employees; borrow money; issue notes and bonds on behalf of state agencies and political subdivisions; make secured or unsecured loans; sell mortgages and security interests, collect fees and charges in connection with its loans, bond guarantees; and invest moneys of the Authority.

This appropriation reflects all operational costs of the Authority including the federal Housing Assistance Program, HUD Home Program, and other financial programs. Funding for this appropriation is derived primarily from federal funds with other funding from bond proceeds.

The Base Level request of \$3,466,137 in FY10 and \$3,534,380 in FY11 includes board member Stipend payments and Career Service payments for eligible employees. Base Level salaries for classified positions reflect the recommendations of the Pay Plan Study and unclassified positions reflect similar adjustments in line item salaries. A 2.3% Cost of Living Allowance is reflected in the second year of the biennium. Personal Services Matching includes a \$75 increase in the monthly contribution for State employee's health insurance for a total State match per budgeted employee of \$425.

The Authority's total Base Level is \$26,391,464 for FY10 and \$26,473,024 for FY11. The Authority's request reflects an increase of \$2,102,415 for each year. The request includes Capital Outlay of \$23,000 each year to replace one existing vehicle each year; an increase in appropriation of \$2,102,415 million each year to compensate for an increase in the federally funded HUD HOME program grant availability; and a \$20,600 per year reallocation from Conference and Travel Expenses into Operating Expenses to account for a rise in office rent, fuel and membership dues for national associations.

The Executive Recommendation provides for the Agency Request. Expenditure of appropriation is contingent upon available funding.

Appropriation Summary

Appropriation: A57 - ADFA-Cash Operations
Funding Sources: 123 - Arkansas Development Finance Authority Cash

Historical Data

Agency Request and Executive Recommendation

Commitment Item	Historical Data			Agency Request and Executive Recommendation			Agency Request and Executive Recommendation		
	2007-2008 Actual	2008-2009 Budget	2008-2009 Authorized	2009-2010			2010-2011		
				Base Level	Agency	Executive	Base Level	Agency	Executive
Regular Salaries 5010000	3,095,921	3,421,298	3,488,420	3,466,137	3,466,137	3,466,137	3,534,380	3,534,380	3,534,380
#Positions	58	62	62	62	62	62	62	62	62
Extra Help 5010001	22,875	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000
#Extra Help	4	5	5	5	5	5	5	5	5
Personal Services Matching 5010003	866,106	912,314	975,555	985,542	985,542	985,542	998,859	998,859	998,859
Operating Expenses 5020002	566,792	558,858	558,858	558,858	579,458	579,458	558,858	579,458	579,458
Conference & Travel Expenses 5050009	62,884	102,315	102,315	102,315	81,715	81,715	102,315	81,715	81,715
Professional Fees 5060010	93,122	112,300	112,300	112,300	112,300	112,300	112,300	112,300	112,300
Data Processing 5090012	0	0	0	0	0	0	0	0	0
Grants and Aid 5100004	2,079,415	6,600,000	6,600,000	6,600,000	6,600,000	6,600,000	6,600,000	6,600,000	6,600,000
Capital Outlay 5120011	3,316	23,000	23,000	0	23,000	23,000	0	23,000	23,000
Data Processing Services 5900044	252,087	264,512	264,512	264,512	264,512	264,512	264,512	264,512	264,512
Hud Home Program 5900046	14,006,171	14,261,800	14,261,800	14,261,800	16,341,215	16,341,215	14,261,800	16,341,215	16,341,215
Total	21,048,689	26,296,397	26,426,760	26,391,464	28,493,879	28,493,879	26,473,024	28,575,439	28,575,439
Funding Sources									
Fund Balance 4000005	71,852	93,684		93,684	93,684	93,684	32,699	32,699	32,699
Federal Revenue 4000020	16,085,586	20,861,800		20,861,800	22,941,215	22,941,215	20,861,800	22,941,215	22,941,215
Cash Fund 4000045	4,984,935	5,434,597		5,468,679	5,491,679	5,491,679	5,600,239	5,623,239	5,623,239
Total Funding	21,142,373	26,390,081		26,424,163	28,526,578	28,526,578	26,494,738	28,597,153	28,597,153
Excess Appropriation/(Funding)	(93,684)	(93,684)		(32,699)	(32,699)	(32,699)	(21,714)	(21,714)	(21,714)
Grand Total	21,048,689	26,296,397		26,391,464	28,493,879	28,493,879	26,473,024	28,575,439	28,575,439

Actual exceeds Budget and Authorized Appropriation in Operating Expenses by authority of a Budget Classification Transfer.

Change Level by Appropriation

Appropriation: A57 - ADFA-Cash Operations
Funding Sources: 123 - Arkansas Development Finance Authority Cash

Agency Request

Change Level		2009-2010	Pos	Cumulative	% of BL	2010-2011	Pos	Cumulative	% of BL
BL	Base Level	26,391,464	62	26,391,464	100.0	26,473,024	62	26,473,024	100.0
C01	Existing Program	2,102,415	0	28,493,879	108.0	2,102,415	0	28,575,439	107.9
C04	Reallocation	0	0	28,493,879	108.0	0	0	28,575,439	107.9

Executive Recommendation

Change Level		2009-2010	Pos	Cumulative	% of BL	2010-2011	Pos	Cumulative	% of BL
BL	Base Level	26,391,464	62	26,391,464	100.0	26,473,024	62	26,473,024	100.0
C01	Existing Program	2,102,415	0	28,493,879	108.0	2,102,415	0	28,575,439	107.9
C04	Reallocation	0	0	28,493,879	108.0	0	0	28,575,439	107.9

Justification

C01	The Agency requests a Change Level to restore \$23,000 of appropriation to the Capital Outlay line item in order to replace an existing vehicle in each fiscal year of the biennium due to the vehicle exceeding the mileage and/or due to the age of the vehicle. The Agency requests a Change Level increase to the HUD Home Program in the amount of \$2,079,415 in order to provide adequate funding to develop and support affordable housing, in response to an increase for HOME funds and eligible developments (source of increase: U.S. HUD federal dollars).
C04	The Agency requests to reallocate Conference and Travel Expenses (09) to Operating Expenses (02) in the amount of \$20,600, due to increases in the Agency's national housing association dues, parking rental, office rent and fuel purchases.

CARRY FORWARD OF ANY UNEXPENDED BALANCE OF APPROPRIATION AND/OR FUNDING FROM FISCAL YEAR 2008 TO FISCAL YEAR 2009

Agency: Development Finance Authority

Program: ADFA-Cash Operations

Act #: 784 of 2007 Section(s) #: 3 & 4

Estimated Carry Forward Amount \$ 0.00 Appropriation Funds

Funding Source: Federal

Accounting Information:

Business Area: 0395 Funds Center: A57 Fund: 123 Functional Area: COMM

Line Item	Commitment Item	Estimated Carry Forward Amount	Actual Carry Forward Amount
Total		\$ 0.00	\$ 0.00

Current law requires a written statement be submitted to the DFA Office of Budget stating the reason(s) to carry forward appropriation and/or funding for a program or a specific line item within a program from the first fiscal year of the biennium to the second fiscal year of the biennium.

Justification for carry forward of unexpended balance of appropriation and/or funding:

We expect funds to be expended by June 30, 2008 therefore no carry forward will be necessary.

Actual Funding Carry Forward Amount \$ 0.00

Current status of carry forward appropriation/funding:

All appropriation was used in FY08, no carry forward is available.

Mac Dodson
President

08-14-2008
Date