

AR DEVELOPMENT FINANCE AUTHORITY

Enabling Laws

Act 138 of 2014
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. Other than for the Arkansas Housing Trust Fund, ADFA receives no direct fund appropriations from the State, and it imposes no taxes and has no taxing authority. When requested, ADFA through interagency agreement, has administered appropriations, fees and other cash revenue of other state agencies. Those include the Arkansas Department of Corrections, the Arkansas Science and Technology Authority, the Arkansas Economic Development Commission and the Arkansas Natural Resource Commission. ADFA charges no fees to 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 perpetuate its operations, but build a capital base that has enabled the Authority (without any draws on the State's general appropriations) to create new loan funds, investment capital and implement 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 is as follows:

The primary 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. In 2003, a new

mission of venture capital investment evolved. ADFA administers the Arkansas Venture Capital Investment Trust (AVCIT), a public trust formed by then Governor Mike Huckabee. The AVCIT is the vehicle that allows for venture capital investments in equity investment funds and for direct investments in Arkansas emerging technology based companies.

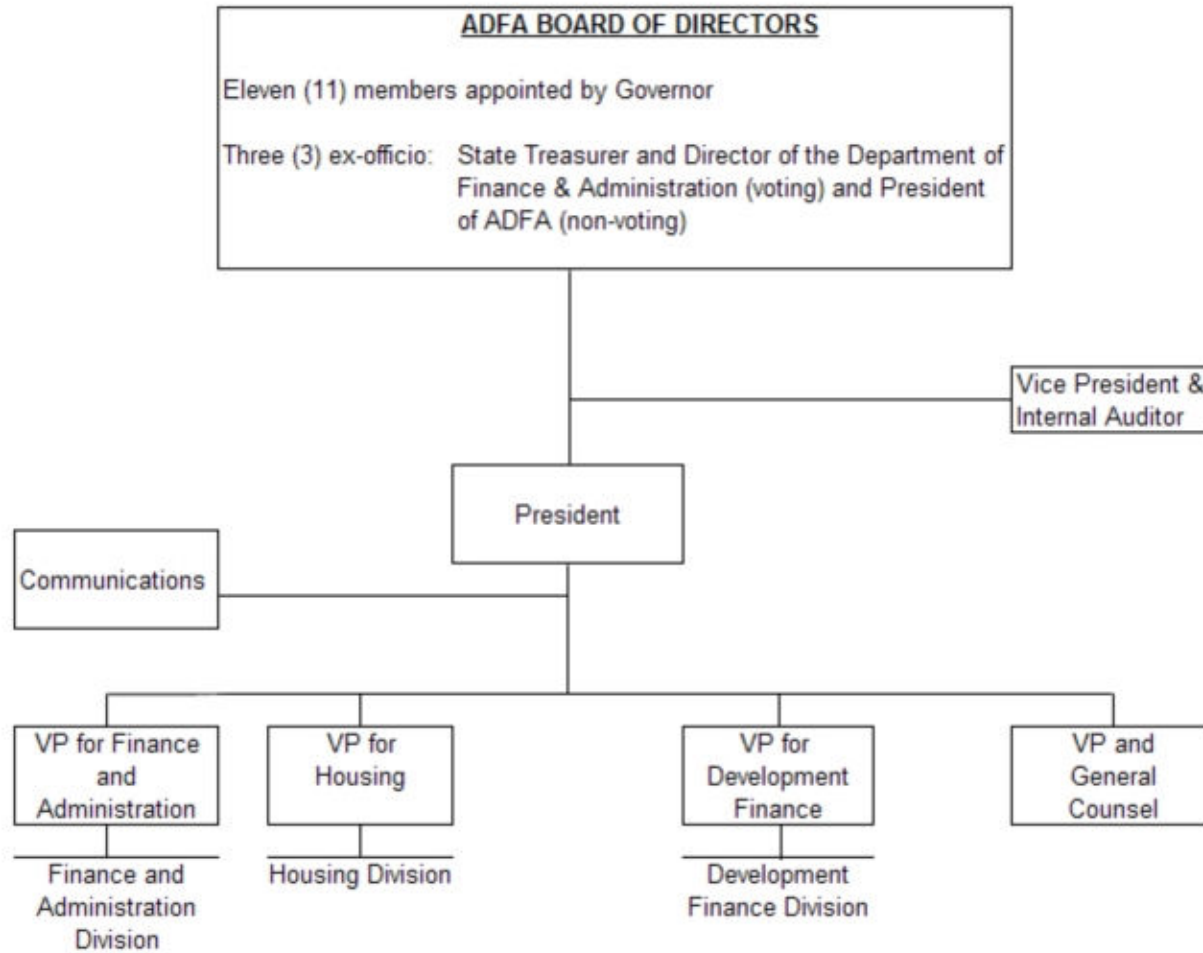
ADFA administers several different programs in each of these activity areas that further the cause of each goal. With the business-like flexibility afforded ADFA by its statutory charge and, under the guidance of a very active and professional Board of Directors, ADFA has added and discontinued programs 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:

- 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.
- 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.
- 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.
- In our housing division, ADFA administers various programs 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.

- 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 selected for auditing.
- As with all other state agencies that 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+', and in March 2010, upgraded to "AA-", and in February 2011, upgraded to "AA". 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.
- In the Development Finance Division, the agency has received one allocation of U.S. Department of Treasury funding for the State Small Business Credit Initiative (SSBCI). This allocation is subject to audit by the Federal Office of the Inspector General (OIG).



Agency Commentary

Appropriation A57 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 also 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 also requests an increase in Professional Fees and Services (Commitment 10) line item each year. The cost associated with ADFA's annual financial audit performed by BKD has increased over the years. The increase in cost is due to normal inflation along with additional audit work performed for new and existing programs.

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

The Grants and Aid Programs, budgeted at \$6,600,000 for each fiscal year, will be funded through unspecified special purpose federal grants. The Mediation Program will be funded by ADFA and from federal reimbursements for costs associated with the Loan Mediation Program.

A.C.A. 15-5-1704 established a special restricted fund, to be known as the Arkansas Housing Trust Fund on July 1, 2012. There was an initial "one time transfer" from unexpended balances of funds received by the Division of Check Cashing of the State Board of Collection Agencies under the Check-Cashers Act. Future funding for this program will depend on outside sources to be identified by the Arkansas Housing Trust Fund Advisory Committee.

Act 1519 of the 2013 Regular Session, cited as the "General Improvement Distribution Act of 2013" created and established the "89th Session Projects Account" within the "General Improvement Fund". There was an initial transfer of \$500,000 from the Special Projects Account to the Arkansas Housing Trust Fund. Future funding will be determined if monies are made available from the General Improvement Fund.

Audit Findings

DIVISION OF LEGISLATIVE AUDIT
AUDIT OF :
ARKANSAS DEVELOPMENT FINANCE AUTHORITY
FOR THE YEAR ENDED JUNE 30, 2013

Findings	Recommendations
The Authority did not comply with a requirement of a federal award program and failed to file the four quarterly federal financial reports on a timely basis. Policies and procedures appear to not be in place to ensure that reporting requirements are identified and met.	<p>Policies be implemented to ensure compliance with federal requirements and documented control activities be put in place to ensure policies are being followed.</p> <p><u>Agency Response:</u> Management agrees with the finding, and subsequent to year-end, the Authority filed all federal financial reports for the year. Management will implement policies and control activities to ensure compliance.</p>

DIVISION OF LEGISLATIVE AUDIT
AUDIT OF :
ARKANSAS DEVELOPMENT FINANCE AUTHORITY
FOR THE YEAR ENDED JUNE 30, 2013

Findings

Recommendations

Findings Covering Programs Audited by Other External Auditors

U.S. Department of Agriculture

Finding Number: 13-395-01
State/Educational Agency(s): Arkansas Development Finance Authority
CFDA Number(s) and Program Title(s): 10.415 - Rural Rental Housing Loans
Federal Award Number(s): Unknown
Federal Award Year(s): Unknown
Compliance Requirement(s) Affected: Reporting
Type of Finding: Material Noncompliance and Material Weakness

Criteria:

Management is responsible for establishing policies and procedures to ensure that reporting requirements for grants are met in a timely and accurate manner.

Condition and Context:

The Authority was unaware of their reporting requirement and failed to file the four quarterly federal financial reports on a timely basis.

Questioned Costs:

None

Cause:

Policies and procedures appear to not be in place to ensure the reporting requirements are identified and met.

Effect:

The Authority did not comply with a requirement of a federal award program.

Recommendation:

We recommend policies be implemented to ensure compliance with federal requirements and documented control activities be put in place to ensure policies are being followed.

Views of Responsible Officials and Planned Corrective Action:

As reported to other external auditors: Management agrees with the finding, and subsequent to year-end the Authority filed all federal financial reports for the year. Management will implement policies and control activities to ensure compliance.

Additional comments: Management made the Housing Department responsible for filing future federal financial reports. The Housing Department entered the reports in its tickler system. The Accounting Department serves as backup to the Housing Department. Therefore, the reports are also on Accounting's tickler system. Internal Audit was informed of the program and has included it on the Risk & Assessment for Annual Audit Plan. In addition, the program is audited by an external public accounting firm. Management is in the process of the annual review of policies and procedures for all housing programs.

Anticipated Completion Date:

1. Past due federal financial reports were filed on September 17, 2013.
2. The Semi-Annual report was timely filed on January 27, 2014.
3. The next report is due July 30, 2014.

Contact Person:

Cheryl Schluterman
VP for Finance & Administration
Arkansas Development Finance Authority
900 W. Capitol Ave, Ste 310
Little Rock, AR 72201
(501) 682-5995
Cheryl.schluterman@adfa.arkansas.gov

State Contracts Over \$50,000 Awarded To Minority Owned Businesses Fiscal Year 2014

None

Employment Summary

	Male	Female	Total	%
White Employees	13	30	43	77 %
Black Employees	3	10	13	23 %
Other Racial Minorities	0	0	0	0 %
Total Minorities			13	23 %
Total Employees			56	100 %

Cash Fund Balance Description as of June 30, 2014

Fund Account	Balance	Type	Location
1230200	\$81,792	Checking	Regions Banks, 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. 25-1-201 et seq.

Name	Statutory Authorization	Required for		# of Copies	Reason(s) for Continued Publication and Distribution	Unbound Black & White Copies Produced During the Last Two Years	Cost of Unbound Copies Produced During the Last Two Years
		Governor	General Assembly				
Annual Audit Report	A.C.A. 15-5-210	N	Y	2	Reporting of audited agency financials.	0	0.00
Bond Issuance Report	Act 36 of 1989	N	Y	1	Provides summary of bond transactions when executed	0	0.00
Bond Issues/Outstanding Report	Act 222 of 1987	N	N	0	Provides comprehensive list of bonds issued and outstanding.	0	0.00

Department Appropriation Summary

Historical Data							Agency Request and Executive Recommendation												
Appropriation		2013-2014		2014-2015		2014-2015		2015-2016						2016-2017					
		Actual	Pos	Budget	Pos	Authorized	Pos	Base Level	Pos	Agency	Pos	Executive	Pos	Base Level	Pos	Agency	Pos	Executive	Pos
A57	ADFA-Cash Operations	18,354,839	61	30,330,043	62	48,572,989	62	30,279,528	62	30,308,143	62	30,308,143	62	30,283,240	62	30,317,750	62	30,317,750	62
C57	AR Housing Trust Advisory Comm	2,281	0	45,977	0	49,000	0	45,718	0	45,718	0	45,718	0	45,718	0	45,718	0	45,718	0
Total		18,357,120	61	30,376,020	62	48,621,989	62	30,325,246	62	30,353,861	62	30,353,861	62	30,328,958	62	30,363,468	62	30,363,468	62

Funding Sources			%		%			%		%		%		%		%		%
Fund Balance	4000005	80,423	0.4	81,792	0.3		124,738	0.4	124,738	0.4	124,738	0.4	153,353	0.5	124,738	0.4	124,738	0.4
Federal Revenue	4000020	12,990,248	70.5	24,341,215	79.8		24,341,215	79.9	24,341,215	79.9	24,341,215	79.9	24,341,215	79.8	24,341,215	79.8	24,341,215	79.8
Cash Fund	4000045	5,368,241	29.1	6,077,751	19.9		6,012,646	19.7	6,012,646	19.7	6,012,646	19.7	6,022,253	19.7	6,022,253	19.8	6,022,253	19.8
Total Funds		18,438,912	100.0	30,500,758	100.0		30,478,599	100.0	30,478,599	100.0	30,478,599	100.0	30,516,821	100.0	30,488,206	100.0	30,488,206	100.0
Excess Appropriation/(Funding)		(81,792)		(124,738)			(153,353)		(124,738)		(124,738)		(187,863)		(124,738)		(124,738)	
Grand Total		18,357,120		30,376,020			30,325,246		30,353,861		30,353,861		30,328,958		30,363,468		30,363,468	

Agency Position Usage Report

FY2012 - 2013						FY2013 - 2014						FY2014 - 2015					
Authorized in Act	Budgeted			Unbudgeted Total	% of Authorized Unused	Authorized in Act	Budgeted			Unbudgeted Total	% of Authorized Unused	Authorized in Act	Budgeted			Unbudgeted Total	% of Authorized Unused
	Filled	Unfilled	Total				Filled	Unfilled	Total				Filled	Unfilled	Total		
62	56	6	62	0	9.68 %	62	56	6	62	0	9.68 %	62	57	5	62	0	8.06 %

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, State Treasurer, President of ADFA 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.

Base Level Regular Salaries and Personal Services Matching include the continuation of the previously authorized 2015 1% Cost of Living Adjustment and Career Service Payments for eligible employees. Personal Services Matching also includes a \$10 increase in the monthly contribution for State employee's health insurance for a total State match per budgeted employee of \$420 per month. Base Level salaries and matching do not include appropriation for Merit Pay Increases.

The Agency requests Base Level in addition to the following requests:

- Professional Fees of \$5,615 in FY16 and \$11,510 in FY17 and increased costs associated with ADFA's annual financial audit.
- Capital Outlay of \$23,000 to replace an existing vehicle in each fiscal year of the biennium due to excessive mileage and/or the age of the vehicle.

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		2013-2014	2014-2015	2014-2015	2015-2016			2016-2017		
		Actual	Budget	Authorized	Base Level	Agency	Executive	Base Level	Agency	Executive
Regular Salaries	5010000	3,394,208	3,543,282	3,591,634	3,512,730	3,512,730	3,512,730	3,515,530	3,515,530	3,515,530
#Positions		61	62	62	62	62	62	62	62	62
Extra Help	5010001	2,715	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000
#Extra Help		2	5	5	5	5	5	5	5	5
Personal Services Matching	5010003	1,066,618	1,098,561	1,093,155	1,101,598	1,101,598	1,101,598	1,102,510	1,102,510	1,102,510
Operating Expenses	5020002	588,495	825,458	825,458	825,458	825,458	825,458	825,458	825,458	825,458
Conference & Travel Expenses	5050009	67,179	81,715	81,715	81,715	81,715	81,715	81,715	81,715	81,715
Professional Fees	5060010	112,288	112,300	112,300	112,300	117,915	117,915	112,300	123,810	123,810
Data Processing	5090012	0	0	0	0	0	0	0	0	0
Grants and Aid	5100004	0	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	0	23,000	23,000	0	23,000	23,000	0	23,000	23,000
Data Processing Services	5900044	133,088	264,512	264,512	264,512	264,512	264,512	264,512	264,512	264,512
Hud Home Program	5900046	12,571,297	16,341,215	16,341,215	16,341,215	16,341,215	16,341,215	16,341,215	16,341,215	16,341,215
Federal Housing Programs	5900047	418,951	1,400,000	19,600,000	1,400,000	1,400,000	1,400,000	1,400,000	1,400,000	1,400,000
Total		18,354,839	30,330,043	48,572,989	30,279,528	30,308,143	30,308,143	30,283,240	30,317,750	30,317,750
Funding Sources										
Fund Balance	4000005	80,423	81,792		124,738	124,738	124,738	153,353	124,738	124,738
Federal Revenue	4000020	12,990,248	24,341,215		24,341,215	24,341,215	24,341,215	24,341,215	24,341,215	24,341,215
Cash Fund	4000045	5,365,960	6,031,774		5,966,928	5,966,928	5,966,928	5,976,535	5,976,535	5,976,535
Total Funding		18,436,631	30,454,781		30,432,881	30,432,881	30,432,881	30,471,103	30,442,488	30,442,488
Excess Appropriation/(Funding)		(81,792)	(124,738)		(153,353)	(124,738)	(124,738)	(187,863)	(124,738)	(124,738)
Grand Total		18,354,839	30,330,043		30,279,528	30,308,143	30,308,143	30,283,240	30,317,750	30,317,750

FY15 Budget amount in Personal Services Matching exceeds the authorized amount due to matching rate adjustments during the 2013-2015 Biennium.

Change Level by Appropriation

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

Agency Request

Change Level		2015-2016	Pos	Cumulative	% of BL	2016-2017	Pos	Cumulative	% of BL
BL	Base Level	30,279,528	62	30,279,528	100.0	30,283,240	62	30,283,240	100.0
C01	Existing Program	28,615	0	30,308,143	100.1	34,510	0	30,317,750	100.1

Executive Recommendation

Change Level		2015-2016	Pos	Cumulative	% of BL	2016-2017	Pos	Cumulative	% of BL
BL	Base Level	30,279,528	62	30,279,528	100.0	30,283,240	62	30,283,240	100.0
C01	Existing Program	28,615	0	30,308,143	100.1	34,510	0	30,317,750	100.1

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 also requests an increase in Professional Fees and Services - Commitment 10. The cost associated with ADFA's annual financial audit performed by BKD has increased over the years. The increase in cost is due to normal inflation along with additional audit work performed for new and existing programs.								
-----	--	--	--	--	--	--	--	--	--

Analysis of Budget Request

Appropriation: C57 - AR Housing Trust Advisory Comm

Funding Sources: 123 - Arkansas Development Finance Authority Cash

The Arkansas Housing Trust Fund Arkansas Housing Trust Fund Advisory Committee was established by Act 661 of 2009, as amended (A.C.A. §15-5-1701) to provide a source of funds for communities to address affordable housing needs. Act 661 of 2009 also created the Arkansas Housing Trust Fund Advisory Committee to provide advice to the Authority's Board of Directors on matters relating the Housing Trust Fund and its programs. Act 764 of 2012 provided a "one time transfer" from unexpended balances of funds received by the Division of Check Cashing of the State Board of Collections Agencies under the Check-Cashers Act. Program funding is contingent on the Arkansas Housing Trust Fund Advisory Committee securing a dedicated funding source.

The Authority uses this appropriation to provide for personal services and operating expenses for the Housing Trust Fund Advisory Committee.

The Authority's Request is for Base Level of \$45,718 each year of the 2015-2017 Biennium.

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

Appropriation Summary

Appropriation: C57 - AR Housing Trust Advisory Comm

Funding Sources: 123 - Arkansas Development Finance Authority Cash

Historical Data

Agency Request and Executive Recommendation

Commitment Item	2013-2014	2014-2015	2014-2015	2015-2016			2016-2017		
	Actual	Budget	Authorized	Base Level	Agency	Executive	Base Level	Agency	Executive
AR Housing Trust Fund Advisory 5900046	2,281	45,977	49,000	45,718	45,718	45,718	45,718	45,718	45,718
Total	2,281	45,977	49,000	45,718	45,718	45,718	45,718	45,718	45,718
Funding Sources									
Cash Fund 4000045	2,281	45,977		45,718	45,718	45,718	45,718	45,718	45,718
Total Funding	2,281	45,977		45,718	45,718	45,718	45,718	45,718	45,718
Excess Appropriation/(Funding)	0	0		0	0	0	0	0	0
Grand Total	2,281	45,977		45,718	45,718	45,718	45,718	45,718	45,718