ARKANSAS

Comprehensive Annual
Financial Report

Fiscal Year Ended June 30, 2004

Mike Huckabee
Governor

Richard A. Weiss
Director
Department of Finance & Administration

Prepared By
The Department of Finance & Administration
Office of Accounting

Governor Mike Huckabee

STATE OF ARKANSAS
OFFICE OF THE GOVERNOR
State Capitol
Little Rock 72201

Mike Huckabee
Governor

January 28, 2005

To the People of Arkansas and the Honorable Members of the Arkansas General Assembly:

I submit to you the Arkansas Comprehensive Annual Financial Report (CAFR). This annual publication is an important part of our efforts to ensure the State's finances are given a timely and accurate accounting. These financial statements and accompanying disclosures provide the detailed information of the State's financial status required by the national credit markets.

I am pleased to report that the Fiscal Year 2004 CAFR has obtained unqualified opinions on all of the State's reporting segments for the first time since the inception of the more restrictive governmental accounting standards required by Amendment 3 to the Governmental Auditing Standards. The unqualified opinions given by our auditors provide the necessary assurance of our financial condition expected by the citizens of our State. I am confident that the improvements made in the financial and managerial reporting structures within the State over the last three years will continue.

I appreciate the work performed by dedicated employees throughout the State who support the efforts of the Department of Finance and Administration to publish this report.

Sincerely,

Mike Huckabee

ACKNOWLEDGMENTS

Report prepared by the Department of Finance and Administration Office of Accounting:

Richard A. Weiss
Director

Tim Leathers
Deputy Director/Commissioner of Revenue

Paul Louthian, CPA
Administrator of Office of Accounting

Tom Smith
Assistant Administrator of Office of Accounting

Financial Reporting Staff:

Connie Honeycutt, CPA – Manager
David Kinnard, CPA – Assistant Manager
Brenda Horner, CPA – Support Manager
Teri Matthews, CPA – Support Manager
Deanna Richardson, CPA – Support Manager
Shirley Manning, CPA – Support Manager
Linda Parham, CPA
Bill Dull, CPA
Debbie Harper, CPA
Gary Puls, CPA
John Bata
Sheila Watts
Linda Hensley
Marnie Davidson

Special appreciation is given to staff members at the Arkansas Department of Parks and Tourism, who assisted in the design of the cover and divider pages and to all personnel throughout the State, whose extra effort to contribute accurate, timely financial data for their agencies, made this report possible.

STATE OF ARKANSAS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

TABLE OF CONTENTS

Page

INTRODUCTORY SECTION (TAB)


GREAT SEAL OF THE STATE OF ARKANSAS
REGNAT
POPULUS
MERCY
JUSTICE

STATE OF ARKANSAS
Department of Finance
and Administration

OFFICE OF THE DIRECTOR
1509 West Seventh Street, Suite 401
Post Office Box 3278
Little Rock, Arkansas 72203-3278
Phone: (501) 682-2242
Fax: (501) 682-1029
http://www.state.ar.us/dfa

January 28, 2005

The Honorable Mike Huckabee, Governor
The Honorable Members of the Arkansas General Assembly
The Citizens of Arkansas

It is my pleasure to transmit to you the Comprehensive Annual Financial Report of the State of Arkansas (the State) for the fiscal year ended June 30, 2004. The report has been prepared by the Department of Finance and Administration. Responsibility for the accuracy of agency level data that supports these financial statements is the responsibility of agency management. The completeness and fairness of the presentation, including all disclosures, rests with the Department of Finance and Administration. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position of the State. All disclosures necessary to enable the reader to gain an understanding of the State's financial activities have been included.

The report is presented in three sections. The introductory section includes this transmittal letter with narrative commentary on matters of interest to the reader, the State's organizational chart and a listing of principal officials; the financial section includes the independent auditors' report, management's discussion and analysis, basic financial statements, notes to the financial statements, required supplementary information (such as information regarding pension trust funds and budget vs. actual information for the general fund), and combining financial statements; and the statistical section includes selected financial, economic, and demographic data for the State on a multi-year basis.

All agencies, accounts, departments, boards and commissions that represent the State's reporting entity are included in this report. The criteria used in determining the State's reporting entity are fully discussed in Note 1. The State provides a full range of services including: education, health and human services, transportation, law, justice and public safety, recreation and resources development, general government, and regulation of business and professionals.

ECONOMIC CONDITION AND OUTLOOK

State Personal Income: Personal income consists of wages and salaries, dividends, interest, rent and transfer payments such as social security and other retirement incomes. Personal income does not include realized capital gains from the sale of assets. Personal income is measured in current dollars and reached a total of $68,278 million in FY 2004. This represented an increase of $3,747 million or 5.8 percent over FY 2003.

FY 2005 is estimated at $71,174 million (current dollars), an increase of $2,896 million or 4.2 percent over FY 2004.

Employment: In FY 2004, wage and salary employment rose to 1,146,300 jobs. This represented an increase of 1,900 jobs or 0.2 percent compared to FY 2003.

In FY 2005, wage and salary employment is estimated to grow to 1,159,700 jobs. This represents an increase of 13,400 jobs or 1.2 percent from FY 2004.

FY 2005 Gross General Revenues: The FY 2005 forecast for gross general revenue is $4,565 million, an increase of $230.5 million, or 5.3 percent over FY 2004.

FY 2004 Net Available General Revenues: Actual net available general revenues collected totaled $3,598.8 million, of which $3,526 million was distributed to State agencies and $72.8 million surplus was deposited to the General Revenue Allotment Reserve Fund for appropriation during the 2005 Legislative Session. This amount is $348.1 million or 10.7 percent above the net available distribution of FY 2003. The general revenue distribution included $40 million from a 3 percent income tax surcharge which will expire for tax years beginning January 1, 2005 and a one time transfer of $25.0 million from the Property Tax Relief Trust Fund.

FY 2005 net available general revenues collections are estimated at $3,748.4 million with distribution to State agencies of $3,629.9 million, an increase of $103.9 million or 2.9 percent over FY 2004. This would provide an estimated $118.5 million surplus to be deposited to the General Revenue Allotment Reserve Fund for appropriation in the 2007 Legislative Session. The net general revenues distributed for FY2005 are estimated to include $52.2 million from the final year of the 3 percent income tax surcharge, $25.0 million from the Property Tax Relief Trust Fund and $4.2 million in final collections of the Arkansas Estate Tax.

Selected Special Revenues: Act 107 of the Second Extraordinary Session of 2003 increased the sales and use tax rate by .875 percent effective March 1, 2004. These revenues are deposited to the Education Adequacy Fund to provide an adequate education system. In FY2004 $94.1 million was distributed to the Education Adequacy Fund, with the FY2005 distribution estimated to be $378.3 million.

FY 2005 Arkansas State Wage and Salary Disbursements are estimated at $36,649 million, an increase of $1,628 million or 4.6 percent.

FY 2004 U.S. Gross Domestic Product: During FY 2004, the United States produced final goods and services valued at $10,631 billion (2000 Dollars). This was an increase of $450 billion or 4.4 percent over FY 2003. In current dollars, the United States produced final goods and services valued at $11,379 billion, an increase of $681 billion or 6.4 percent.

During FY 2005, the United States economy is expected to produce final goods and services valued at $11,008 billion (2000 Dollars), an increase of $377 billion or 3.5 percent. In current dollars, the U.S. gross domestic product is expected to be $12,044 billion, an increase of $665 billion or 5.8 percent.

MAJOR INITIATIVES

Highways and Transportation

Arkansas State Highway and Transportation Department (AHTD) continue a high level of construction projects across the state. While AHTD continued to maintain over 16,000 miles of roadways, construction projects ranged from simple resurfacing of existing highways to replacing bridges, adding passing lanes and building new roads.

The fourth year of the five-year Interstate Rehabilitation Program for the State of Arkansas ended this summer. By mid-2004, fifty Interstate projects totaling over 350 miles and $970 million had been let to contract. Thirty-seven of these projects totaling 257 miles of new or resurfaced Interstate highway have been completed, while thirteen projects consisting of ninety-nine additional miles were under construction. Completed jobs include fifty-four miles on Interstate 30, 163 miles on Interstate 40, thirty four miles on Interstate 55, as well as six miles on Interstate 540.

An important project that was completed this year was the first section of the North Belt Freeway in Pulaski County, designated State Highway 440. The first section of the North Belt Freeway is five miles of a six-lane highway which extends from the I-40/440 Interchange northward to U.S. Highway 67/167. Total cost of the project was approximately $63.5 million.

As a result of ten statewide meetings held early in 2004, the Arkansas Highway Commission adopted the Arkansas Primary Highway Network (APHN). The network, which is a grid of significant routes that have been identified as being the major arties of the State's Highway System, was developed for long-range planning. Significant routes are identified on the basis of their characteristics and performance. The APHN accounts for approximately fifty percent of the total State Highway System, but carries ninety two percent of the traffic.

Arkansas Web Site

In a survey by the Center for Digital Government, Arkansas is ranked among the top ten states in the nation for effective use of Information Technology in government. The Center for Digital Government is a national research and advisory institute on information technology policies and best practices in state and local government. The Center's services, resources and special reports provide public and private-sector leaders with decision support, research and knowledge to help them effectively incorporate new technologies in the 21st century. The Digital States Survey is the nation's most recognized and respected study examining Information Technology applications in all 50 states.

Being ranked in the top ten is a very prestigious national honor for Arkansas. "It is important to note that this special recognition is not for any one project," said Governor Mike Huckabee. "It is acknowledgement of statewide efforts in Arkansas to effectively utilize Information Technology as a tool providing services for all our citizens," Huckabee added. Arkansas' State Executive Chief Information Officer Doug Elkins stated, "This national ranking demonstrates the great strides made in Arkansas government use of Information Technology over the past few years. The emphasis on collaboration, communication and cooperation at all levels of government in Arkansas is producing results."

Education

The National Assessment of Educational Progress (NAEP) is known as the Nation's Report Card. NAEP assesses a representative sample of students in grades 4, 8 and 12 in various subjects such as mathematics, science, reading, U.S. history, civics, art, writing and foreign language.

The No Child Left Behind Act of 2001 requires national and state assessments in reading and mathematics in Grades 4 and 8 at least once every two years. States that receive Title I funds are required to participate in biennial state-level assessments; however, Arkansas law also requires participation by any school selected for NAEP.

A total of 119 Arkansas school districts participated in the 2003 NAEP assessment for Grade 4 students, with 3,273 students testing in math and 3,162 students testing in reading. A total of 109 Arkansas school districts participated in the NAEP assessment at the Grade 8 level, with 3,582 students testing in math and 2,575 students testing in reading.

On November 13, 2003 the results of mathematics and reading assessments made in the first quarter of calendar year 2003 were released. Most participating groups in both Arkansas and the nation showed improvements in mathematics, however Arkansas' gains outpaced those of the nation in proficient and advanced achievement levels in Grade 4 by 2% and in Grade 8 by 5%. Scores across the nation were relatively unchanged in reading from the 2002 assessment, but the percentage of Arkansas' students assessed scoring proficient in reading statistically matched that of the nation for those students in Grade 4 for the first time. Arkansas has been one of only 18 states to show significant improvement in overall scale score on at least two of the Grade 4 reading assessments over the last ten years on NAEP.

Economic Development

The State of Arkansas operates the way businesses do, proactively anticipating opportunities and quickly responding to challenges in innovative ways. This approach, combined with the State's incentive programs, makes Arkansas a profitable choice for locating or expanding a business.

Income tax credits for research and development were expanded during the 2003 session of the Arkansas General Assembly. In addition to the thirty three percent income tax credit for taxpayers who pay for research performed at Arkansas universities, a 10 percent income tax credit, capped at $10,000 per year, was approved for eligible businesses performing in-house research. Targeted businesses may also earn transferable income tax credits equal to 33 percent of approved expenditures for in-house research.

On July 16, 2003, a Japan-based corporation announced it would build a thirty five million dollar manufacturing facility in Osceola, Arkansas to produce car air conditioners and heavy equipment radiators for its North American customers. This manufacturing facility will be the twenty third manufacturing facility in North America for this employer and is expected to employ 500 people by 2008.

"This is a great day for Arkansas, especially the Delta region of our state," said Governor Mike Huckabee. "We're thrilled that one of the top companies in the world has determined our state fits its needs. We've had some good news in Arkansas recently, such as being honored for having the No. 1 business climate in the South. This announcement proves that designation is correct."

On October 21, 2003, another Japan-based corporation announced the construction of a manufacturing facility in Wynne, Arkansas. The Wynne facility will produce decorative, functional, interior and exterior trim and other complex modular assemblies for the automotive industry. The company will start production with an estimated 75 employees and anticipates an eventual workforce of 250. The company's initial investment will be $15 million.

On May 5, 2004, Governor Mike Huckabee announced that a manufacturer of parts for Toyota would construct a plant in Marion, Arkansas. The manufacturer has held the top position in the Japanese market for medium- and heavy-duty diesel trucks for 30 years and is highly acclaimed for quality and technological excellence.

In November 2004, Arkansas voters overwhelmingly approved an amendment to the state constitution to help attract super projects. The state can now issue general obligation bonds for projects that create 500 jobs and have an investment of $500 million. Bonds issuance is limited to 5 percent of state general revenues during the most recent year – currently that would allow the state to issue approximately $180 million in bonds.

The Governor and General Assembly will decide to issue bonds, based on an economic impact analysis provided by the Arkansas Department of Economic Development (ADED) and the Arkansas Development Finance Authority (ADFA).

Health and Human Services

The Department of Human Services (Department) is the umbrella agency for the delivery of state-administered human services including Temporary Assistance to Needy Families (TANF), child welfare services and Medicaid for the State of Arkansas. In 2004, the department expended $3.4 billion and provided services to over 1,000,000 recipients. Local service delivery was provided through 10 major divisions from 85 service outlets.

In July 2003, the Alcohol and Drug Abuse Prevention (ADAP) Program joined the Department of Human Services, having previously been associated with the Department of Health. With the addition of the ADAP program, the Division of Mental Health was renamed the Division of Behavioral Health. In November 2003, the

Department obtained a grant of $3.5 million for integrated care for patients with dual diagnosis of mental illness and addiction making Arkansas one of only seven states awarded grants from the Substance Abuse and Mental Health Services Administration.

The Department, in partnership with the University of Arkansas for Medical Sciences and the Arkansas Medical Society, launched a new service for obstetrical care providers in August 2003. The Antenatal and Neonatal Guidelines, Education and Learning System (ANGELS) service is the first of its kind in the nation. The ANGELS service received $9.5 million in annual funding from the federal Medicaid program through the Department.

In May 2004, Governor Mike Huckabee launched Healthy Arkansas to assist Arkansas in becoming one of the healthiest states in the country. The elimination of tobacco use, obesity, and physical inactivity are the primary targets to assist Arkansans in reducing the high rates of chronic disease experienced by many Americans. To achieve this, the Healthy Arkansas Blueprint (for changing the culture of health) was developed to focus on strategies to reduce and/or eliminate these three primary behavior-related causes of diabetes, cancer, stroke and lung and heart disease.

The Arkansas Health Department (ADH) is developing criteria and an application process for a Healthy Community Award; developing criteria for a Healthy Restaurant Recognition; developing a Worksite Wellness Pilot Program; drafting a Worksite Wellness Toolkit for interested state agencies and private businesses; assisting with the Body Mass Index Assessment; and developing promotional and educational material related to nutrition and physical activity. Health Department employees at the local level have been working with school districts to establish the local nutrition and physical activity advisory committees required by Act 1220 of 2003 and leading the development of local Healthy Arkansas plans for all 75 counties.

The Tobacco Prevention and Education Program (TPEP) utilizes a blend of advertising, public relations and community partnerships to educate the public about the dangers of tobacco and provide cessation assistance. The program awarded community grants so that local coalitions can provide programs to prevent initiation of tobacco use among youth, promote smoking cessation, eliminate exposure to secondhand smoke, and community programs to fight the dangers of smoking. The most recent poll from the Gallup Organization indicated that Arkansas has made substantial gains in implementing statewide and local tobacco control program activities.

In 2004, ADH expanded its Hometown Health Improvement (HHI) project into 10 more communities, for a total of 55 sites statewide. HHI is designed to assist local coalitions in assessing, planning, implementing and evaluating public health initiatives such as assisting a community with efforts to fluoridate their water system, aid individuals in locating free or reduced cost prescription medications, and obtaining a grant to develop a regional diabetes self-management center.

The ADH Public Health Preparedness/Bio-terrorism Preparedness efforts continued to strengthen the State’s ability to respond to potential public health threats such as bio-terrorism or infectious diseases. In 2004, many counties tested their plans to make vaccines available quickly by using flu immunization clinics to simulate a mass response to a bio-terrorism event. ADH intranet access for 40 acute care hospitals was established to improve preparedness and response capabilities to an emergency. The Arkansas Laboratory Response Network was expanded by training laboratory personnel in 70 hospitals to perform Centers for Disease Control and Prevention testing protocol to rule out bio-terrorism agents.

The passage of Act 1723 of 2003 authorized the construction of a state-of-the-art laboratory building and renovation of existing laboratory space. ADH annually performs over 800,000 analyses on nearly 500,000 specimens for programs that protect the public’s health. The new facility will improve the ability to manage emerging public health threats such as SARS, West Nile virus, and terrorist threats involving biological agents. The project is scheduled for completion near the end of 2005.

FINANCIAL MANAGEMENT

As explained in greater depth in the Management's Discussion and Analysis (MD&A), the Governmental Accounting Standards Board (GASB) issued new financial reporting guidelines, GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, which were implemented for the fiscal year ending June 30, 2002. Basic financial statements and required supplementary information (RSI), for the State consist of the following presentations:

MD&A introduces the basic financial statements and provides an analytical overview of the government's financial activities. The MD&A should be an objective and easily readable analysis of the State's financial activities based on currently known facts, decisions, or conditions. It should provide an analysis of the State's overall financial position and results of operations to assist users in assessing whether the State's financial position has improved or deteriorated as a result of the year's activities.

Basic financial statements include: Government-wide financial statements, Fund financial statements and Notes to the financial statements.

Government-wide financial statements consist of a statement of net assets and a statement of activities. The statements, as explained in the Notes to the financial statements, are prepared using the economic resources measurement focus and the accrual basis of accounting. Included are all assets, liabilities, revenues, expenses, and gains and losses of the State. A distinction is made between the governmental and business-type activities of the primary government and between the total primary government and its discretely presented component units. An important change is the requirement to compute depreciation expense for the capital assets of the State.

Fund financial statements consist of information about the three fund types, including blended component units. The three fund types are Governmental, Proprietary, and Fiduciary. Governmental funds are the traditional reporting funds such as general, special revenue, capital projects, debt service, and permanent funds. The State of Arkansas presents these governmental funds as the general fund. Proprietary funds include enterprise funds. Fiduciary funds primarily consist of the State's pension trust funds.

Notes to the financial statements consist of notes that provide information that is essential to a user's understanding of the basic financial statements.

Required supplementary information (RSI) are budget comparison schedules as well as various pension trend data required by previous GASB pronouncements.

Internal Controls

The management of the State is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the State are protected from loss, theft or misuse and that adequate accounting data is compiled to allow the preparation of the financial statements in conformity with GAAP. The internal control structure has been designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against loss from unauthorized use or disposition, the reliability of financial records for preparing financial statements, and maintaining accountability for assets. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Budgetary Control

Budgetary control is maintained through legislative appropriation. Agencies submit budgetary requests to the Department of Finance and Administration. The Department of Finance and Administration compiles the executive budget on behalf of the Governor who submits it to the Legislature. The Department of Finance and Administration maintains control over the spending patterns of the State, after the approval of the budget, through control at the line-item level. See Note to RSI (Budgetary Basis Reporting – Budgetary Process) for further discussion of budgetary controls.

Debt Administration

The Constitution of the State of Arkansas does not limit the amount of general obligation bonds which may be issued by the State; however, no such bonds may be issued unless approved by the voters of the State at a general election or special election held for that purpose. The total outstanding general obligation bonded indebtedness, including special obligation and other debt instruments, of the governmental fund types of the State as of June 30, 2004, was approximately $923 million. Arkansas currently has a rating of Aa2 from Moody's Investors Service and a rating of AA from Standard and Poors for General Obligation Bonds.

Cash Management

State funds are invested by the Treasurer and also by various state agencies, including the retirement systems and institutions of higher education. Permissible investments include those guaranteed by the United States of America, its agencies and instrumentalities (U.S. Government Obligations); repurchase agreements; corporate debt and equity obligations; and state and local government securities.

Risk Management

The State manages risk with a combination of self-insurance and commercial policies. The State established the Risk Management Office in accordance with State law for the purpose of analyzing and making recommendations as to cost effective loss control and safety programs for the various State agencies.

The State also established the State and Public Schools Safety and Health Insurance Board (the Board) by Arkansas Code 21-5-40 and allowed the Board to pursue self-funding activities. The Board provides comprehensive major medical care, prescription drug and life insurance for employees of the State and its participating component units, as well as their dependents, through the establishment of a variety of self-insured plans. The Board also makes medical coverage available to retirees should they elect to continue such coverage at their own expense.

Audit

The firm of KPMG LLP in coordination with the State of Arkansas Division of Legislative Audit performed the audit for the fiscal year ended June 30, 2004. Auditing standards generally accepted in the United States of America were used by the auditors in conducting the engagement. The auditors' report on the basic financial statements is included in the financial section of this report.

Acknowledgments

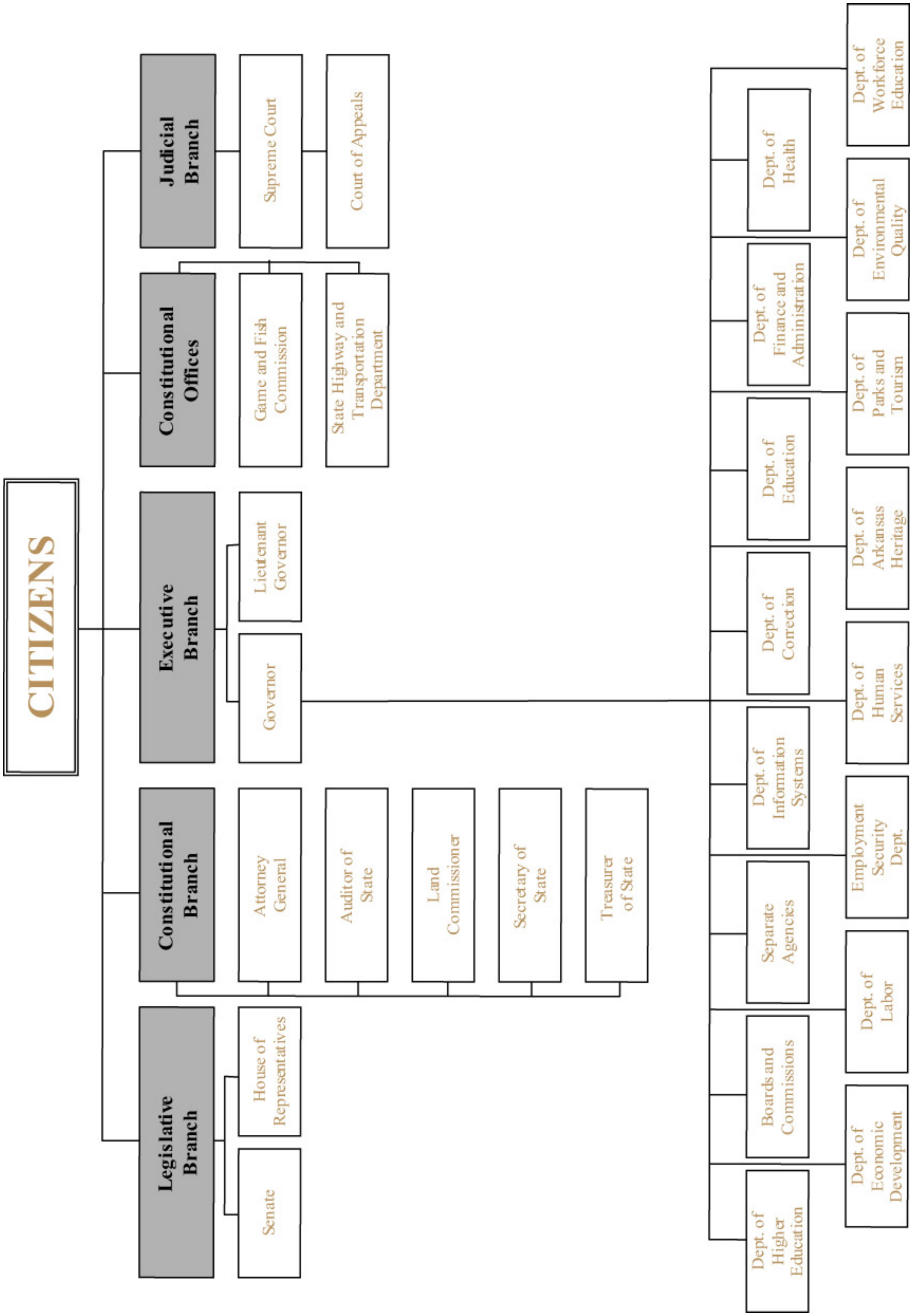
The result of Governor Mike Huckabee's vision of building a state reporting structure that is capable of producing accurate and timely financial reports is reflected in the FY2004 CAFR. The challenges faced with the new reporting requirements of Amendment 3 of the Governmental Auditing Standards and Governmental Accounting Standards Board Statement 34 were met and solutions were provided to the State's financial management staff. The changes made in the last three years have resulted in more accurate information being provided to market analysts, potential investors, and other users of this financial information of the State of Arkansas. Agency directors and the General Assembly will have more complete and accurate information to fund and operate agencies than ever before. The Governor's commitment and direction have demonstrated his firm belief that State government must continually improve its services to its citizenry.

The hard work and support of all State agency personnel builds the foundation from which the financial data of Arkansas State government is derived. Their efforts are appreciated by all of the people responsible for preparing the CAFR.

Sincerely,

Richard A. Weiss, Director

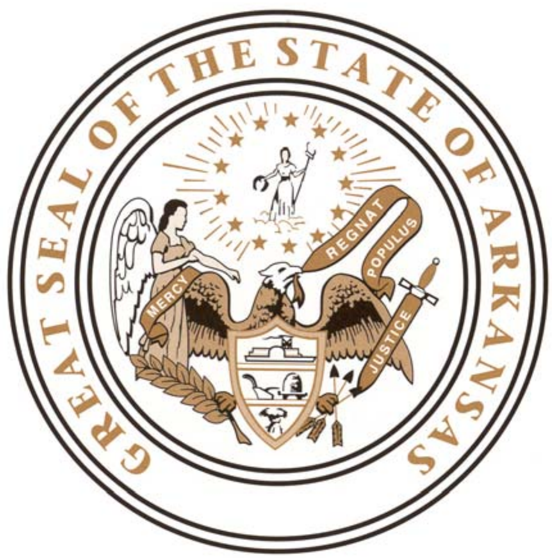
Organizational Chart



Principal Officials

Elected Officials	Legislative Branch	Supreme Court
Governor	**President Pro Tempore**	**Chief Justice**
Mike Huckabee	Jim Argue	Jim Hannah
Lieutenant Governor	**Speaker of the House**	**Associate Justice**
Winthrop P. Rockefeller	Bill Stovall III	Robert U. Brown
Treasurer of State		**Associate Justice**
Gus Wingfield		Annabelle Clinton Imber
Auditor of State		**Associate Justice**
Jim Wood		Betty Dickey
Secretary of State		**Associate Justice**
Charlie Daniels		Donald L. Corbin
Attorney General		**Associate Justice**
Mike Beebe		Tom Glaze
Land Commissioner		**Associate Justice**
Mark Wilcox		Jim Gunner

FINANCIAL SECTION (TAB)


GREAT SEAL OF THE STATE OF ARKANSAS
REGNAT POPULUS
MERCY
JUSTICE

KPMG LLP
Suite 3100
717 North Harwood Street
Dallas, TX 75201-6585

Independent Auditors' Report

The Honorable Mike Huckabee, Governor
Legislative Joint Auditing Committee
Members of the Senate and the House of Representatives
State of Arkansas:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Arkansas, as of and for the year ended June 30, 2004, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Arkansas' management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component units, which represent 100% of the assets and revenues of the aggregate discretely presented component units opinion unit. We did not audit the Higher Education Fund or Workers' Compensation Commission Fund, which collectively represent 88% of the assets and 77% of the revenues of the business-type activities opinion unit and 100% of the assets and revenues of the Higher Education and Workers' Compensation Commission major enterprise fund opinion units. We did not audit the Arkansas Public Employees Retirement System, Arkansas Highway and Transportation Retirement Plan, Arkansas Judicial Retirement Plan, or the Arkansas State Police Retirement System (pension trust funds), which on a combined basis represent 39% of the assets and 31% of the revenues of the aggregate remaining fund information opinion unit. We did not audit the War Memorial Stadium Commission Fund, Construction Assistance Revolving Loan Fund or the Other Revolving Loan Funds (non-major enterprise funds), which on a combined basis represent 2% of the assets of the aggregate remaining fund information opinion unit and 8% of the assets of the business-type activities opinion unit. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the aforementioned entities, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

KPMG LLP, a U.S. limited liability partnership, is the U.S.
member firm of KPMG International, a Swiss cooperative.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Arkansas, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 1(c), the State adopted the provisions of Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations are Component Units an amendment of GASB Statement 14*, as of July 1, 2003.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2005 on our consideration of the State of Arkansas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is 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 internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Audit Standards*, and should be considered in assessing the results of our audit.

The management's discussion and analysis, and the budgetary information and schedules of funding progress on pages 3 through 15 and pages 101 through 105, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Arkansas' basic financial statements. The introductory section, combining financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining financial statements have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements, and, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements, taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements, and accordingly, we express no opinion on them.

KPMG LLP

January 28, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS (TAB)


GREAT SEAL OF THE STATE OF ARKANSAS
REGNAT POPULUS
MERCY
JUSTICE

MANAGEMENT'S DISCUSSION AND ANALYSIS (Introduction)

Management of the State of Arkansas (the State) provides this *Management's Discussion and Analysis* of the State of Arkansas' Comprehensive Annual Financial Report (CAFR) for readers of the State's financial statements. This narrative, overview and analysis of the financial activities of the State of Arkansas, is for the fiscal year ended June 30, 2004. The State's June 30, 2004, financial statements received an unqualified "clean" opinion (see Independent Auditors' Report for more information). We encourage readers to consider this information in conjunction with the additional information that is furnished in the letter of transmittal that can be found preceding this narrative, and with the State's financial statements that follow this narrative. The first section of Management's Discussion and Analysis is intended to familiarize readers with the accounting terminology and methods relevant to reporting financial information for the State of Arkansas. The second section of the Management's Discussion and Analysis is a summary of financial and statistical information that should be more meaningful because the readers have been exposed to the accounting terminology and methods used by the State of Arkansas.

Financial Highlights

Government-Wide Highlights

Net Assets – Primary Government – Net assets may serve over time as a useful indicator of a government's financial position. The assets of the State of Arkansas exceeded its liabilities for the fiscal year ended June 30, 2004, by $11.5 billion (presented as "total net assets"). The net assets of the State increased $819.7 million during the year. Net assets of the governmental activities increased by $660.6 million while those of business-type activities increased by $159 million.

Of the "total net assets," $2.1 billion (18%) is reported as "unrestricted net assets." Unrestricted net assets represent the amount available to meet the State's ongoing obligations to citizens and creditors. An additional portion of the State's net assets, $881 million (8%), represents resources that are subject to external restrictions on how they may be used and are therefore termed "restricted."

The largest portion of the State's net assets, $8.5 billion (74%), reflects its investment in capital assets such as land, buildings, equipment, and infrastructure (road, bridges, and other immovable assets), less any related outstanding debt used to acquire these assets.

Long-term debt payable for bonds, capital lease and notes as of June 30, 2004, was $1.9 billion. Additional debt totaling $142.8 million was entered into during the year.

Fund Highlights

As of the close of business on June 30, 2004, the State's general fund reported a fund balance of $2.1 billion. Of this balance, $713 million or 34% of the total fund balance is reserved and $1.4 billion or 66% of the total fund balance is unreserved. The fund balance in the General Fund increased $356 million during the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the detailed financial information contained within the State's CAFR. One section of the CAFR is the State's basic financial statements, which include the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the financial statements
- Required supplemental information (schedule of funding progress and budgetary schedule)

The components of the basic financial statements and the supplemental information are described below.

Basic Financial Statements

Government-Wide Financial Statements

The *government-wide financial statements* provide a broad view of the State's operations in a manner similar to a private sector business. The statements provide both short-term and long-term information about the State's financial position, which assist in assessing the State's economic condition at the end of the fiscal year. The government-wide financial statements are prepared using the full accrual basis of accounting. This basically means methods used are similar to the methods used by most businesses. All assets, liabilities, revenues and expenses associated with the fiscal year are accounted for even if the cash involved was not received or paid by the end of the fiscal year.

The government-wide financial statements include the following two statements:

- Statement of Net Assets
- Statement of Activities

The statement of net assets presents all of the government's assets and liabilities; the difference between the assets and liabilities is reported as "net assets". Over time, increases or decreases in the State's net assets may serve as a useful indicator of whether the overall financial position of the State is improving or deteriorating.

The statement of activities presents information showing how the State's net assets changed during the most recent fiscal year and a comparison between program revenues and direct expenses for each function of the State.

The statement of net assets and the statement of activities have separate sections for the three different types of state programs or activities:

- Governmental activities
- Business-type activities
- Discretely presented component units

Governmental activities are primarily supported by taxes and intergovernmental revenues, also known as federal grants. Most services normally associated with State government fall into this category and include the following:

- Education (elementary and secondary)
- Health and human services
- Transportation
- Law, justice and public safety
- Recreation and resources development
- General government
- Regulation of business and professionals

Business-type activities are the functions that operate more like those of commercial enterprises. These activities normally intend to recover all or a significant portion of their costs through user fees and charges to external users of goods and services and operate with minimal assistance from the governmental activities of the State. The business-type activities of the State include the following:

- Higher Education
- Workers' Compensation Commission
- Employment Security Department
- War Memorial Stadium Commission
- Construction Assistance Revolving Loan Fund
- Other Revolving Loan Funds

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State of Arkansas, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The fund financial statements focus on individual parts of the State government and report the State's operations in more detail than the government-wide financial statements. All of the funds of the State can be divided into three categories, which are as follows:

- Governmental Funds
- Proprietary Funds
- Fiduciary Funds

Governmental Fund Financial Statements are used to show essentially the same functions reported as governmental activities in the government-wide financial statements. However, the focus of the governmental fund financial statements is the short-term information about the State's financial position rather than both, short-term and long-term information that is the focus of the government-wide financial statements. Therefore, the governmental fund financial statements are prepared on the modified accrual basis of accounting as compared to the full accrual basis of accounting used for the government-wide financial statements. The governmental fund financial statements include a balance sheet and a statement of revenues, expenditures, and changes in fund balances.

The State of Arkansas has one governmental fund, which is the General Fund. A reconciliation is provided that facilitates a comparison of the financial statement for the General Fund with the government-wide financial statement and can be found on the page immediately following the governmental fund financial statement.

Proprietary Funds' Financial Statements are used to show the activities of the State that operate more like those of a commercial business, essentially the same functions reported as business-type activities. Proprietary funds charge fees for services provided to outside customers including local governments. Proprietary funds report the same type of information as the government-wide financial statements. However, the proprietary funds' financial statements report the net assets and the revenues, expenditures and changes in fund net assets for each significant proprietary fund rather than report a combined amount of all the proprietary funds as is done for the government-wide financial statements. Proprietary fund financial statements, like the government-wide financial statements, use the full accrual basis of accounting. Therefore, reconciliation is not necessary for the information contained in the government-wide financial statements and the proprietary fund financial statements.

The State of Arkansas has six proprietary funds:

- Higher Education Fund
- Workers' Compensation Commission
- Employment Security Department
- War Memorial Stadium Commission
- Construction Assistance Revolving Loan Fund
- Other Revolving Loan Funds (Safe Drinking Water and Community/Technical College Revolving Loan)

Fiduciary Funds' Financial Statements show the activity of the funds used to account for resources held for the benefit of parties outside the State government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the State's own program. Fiduciary funds, like proprietary funds, use the full accrual basis of accounting. The State's fiduciary funds include:

- Pension Trust Funds for the Judicial, Highway, State Police, Teacher and Arkansas Public Employees Retirement Systems
- State Insurance Department and Other Agency Funds

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential for a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the financial statements can be found immediately following the component units' financial statements.

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information. This section includes a schedule of funding progress and a budgetary comparison schedule, which includes a reconciliation between the statutory fund balance for budgetary purposes and the fund balance for the General Fund as presented in the governmental fund financial statements.

Other Supplementary Information

Combining Financial Statements

The combining financial statements for proprietary funds and fiduciary funds are presented following the required supplementary information.

GOVERNMENT-WIDE HIGHLIGHTS & ANALYSIS

The following charts present a summary of the government-wide financial statements.

Primary Government
Net Assets
(Expressed in thousands)

	Governmental Activities		Business-Type Activities		Totals	
	2004	2003	2004	2003	2004	2003
Current Assets	$ 2,696,025	$ 2,355,204	$ 1,046,673	$ 1,086,451	$ 3,742,698	$ 3,441,655
Noncurrent Assets	215,569	182,429	1,487,554	1,301,142	1,703,123	1,483,571
Capital Assets	8,268,565	7,950,199	1,762,860	1,613,517	10,031,425	9,563,716
Total Assets	11,180,159	10,487,832	4,297,087	4,001,110	15,477,246	14,488,942
Current Liabilities	666,748	682,786	277,599	299,255	944,347	982,041
Long-Term Liabilities	1,265,369	1,217,652	1,798,133	1,639,575	3,063,502	2,857,227
Total Liabilities	1,932,117	1,900,438	2,075,732	1,938,830	4,007,849	3,839,268
Net Assets:						
Invested in Capital Assets, Net of Related Debt	7,375,246	7,009,304	1,159,058	1,106,738	8,534,304	8,116,042
Restricted	231,314	178,871	649,458	567,056	880,772	745,927
Unrestricted	1,641,482	1,399,219	412,839	388,486	2,054,321	1,787,705
Total Net Assets	$ 9,248,042	$ 8,587,394	$ 2,221,355	$ 2,062,280	$ 11,469,397	$ 10,649,674

The net assets of the governmental activities increased $660.6 million while the net assets of the business-type activities increased $159 million. The increase in net assets relative to the governmental and business-type activities were primarily attributable to increases in tax and other revenue increases that were greater than expense increases during fiscal 2004.

The book value of capital assets as of June 30, 2004, was $8.3 billion for governmental activities and $1.8 billion for business-type activities.

The State uses these capital assets to provide services to citizens; consequentially, these assets are not available for future spending. Although the State's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be liquidated to fund these liabilities.

Primary Government
Changes in Net Assets
(Expressed in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Program Revenues:						
Charges for services	$ 712,645	$ 719,961	$ 993,047	$ 916,577	$ 1,705,692	$ 1,636,538
Operating grants and contributions	3,805,225	3,802,814	549,004	544,918	4,354,229	4,347,732
Capital grants and contributions	454,668	15,419	56,889	88,396	511,557	103,815
General Revenues:						
Personal and corporate taxes	1,920,448	1,722,167			1,920,448	1,722,167
Sales and use tax	1,956,032	1,788,327			1,956,032	1,788,327
Motor fuel taxes	449,960	439,483			449,960	439,483
Other taxes	695,623	638,469	318,555	265,911	1,014,178	904,380
Total Revenues	9,994,601	9,126,640	1,917,495	1,815,802	11,912,096	10,942,442
Expenses:						
Education	2,342,543	2,326,970			2,342,543	2,326,970
Health and human services	4,100,830	3,785,582			4,100,830	3,785,582
Transportation	606,900	624,404			606,900	624,404
Law, justice and public safety	529,693	442,189			529,693	442,189
Recreation and resources development	189,406	267,946			189,406	267,946
General government	1,071,734	1,050,936			1,071,734	1,050,936
Regulation of business and professionals	130,349	115,854			130,349	115,854
Business-type expenses			2,471,725	2,516,385	2,471,725	2,516,385
Interest expense	56,906	55,677			56,906	55,677
Total Expenses	9,028,361	8,669,558	2,471,725	2,516,385	11,500,086	11,185,943
Other:						
Unrestricted investment earnings	36,651	46,139	40,237	48,295	76,888	94,434
Miscellaneous Income	295,706	292,716	35,119	58,436	330,825	351,152
Transfers-internal activities	(637,949)	(596,261)	637,949	596,261		
Total Other	(305,592)	(257,406)	713,305	702,992	407,713	445,586
Increase (decrease) in net assets	660,648	199,676	159,075	2,409	819,723	202,085
Net assets - Beginning	8,587,394	8,387,718	2,062,280	2,059,871	10,649,674	10,447,589
Net assets - Ending	$ 9,248,042	$ 8,587,394	$ 2,221,355	$ 2,062,280	$ 11,469,397	$ 10,649,674

Typical for governmental activities, program expenses exceeded program revenues. The excess program expenses of $4 billion were funded by normal State taxing activities.

FUND HIGHLIGHTS & ANALYSIS

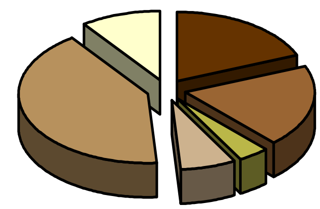
General Government Functions

Most State functions are financed through the general fund. The State's most significant sources of revenues in the general fund (GAAP basis) are taxes and intergovernmental. The State's most significant areas of expenditures from the general fund are the areas of public and higher education and health and human services. The following charts present actual general fund revenues and expenditures for the fiscal years ended June 30, 2004 and 2003 (expressed in thousands). The information presented includes Revenue by Source for the General Fund, Expenditures by Function for the General Fund, and Changes in Fund Balance for the General Fund. The fund financial statements provide greater detail than is presented in this overview.

Revenues by Source - General Fund

Revenues	2004	2003	Increase Percent
Personal and corporate income tax	$ 1,914,067	$1,714,603	11.63%
Consumer sales tax	1,951,475	1,770,946	10.19%
Gas and motor carrier tax	450,444	439,614	2.46%
Other taxes	694,802	638,510	8.82%
Intergovernmental	4,249,189	3,823,171	11.14%
Other revenues	1,067,695	1,047,577	1.92%
Total	$10,327,672	$9,434,421	9.47%

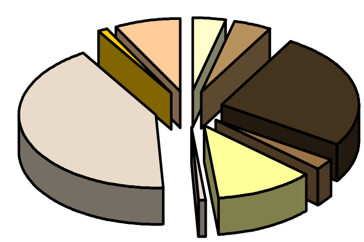
General Fund Revenue by Source



Expenditures by Function

Expenditures	2004	2003	Increase (Decrease) Percent
Education	$ 2,336,813	$ 2,324,631	0.52%
Health and human resources	4,065,745	3,772,155	7.78%
Transportation	312,688	346,282	(9.70%)
Law, justice and public safety	496,109	416,353	19.16%
Recreation and resource development	159,895	221,987	(27.97%)
General government	1,029,316	1,044,164	(1.42%)
Regulation of businesses and professionals	125,968	108,378	16.23%
Debt Service	94,772	91,031	4.11%
Capital outlay	755,373	692,898	9.02%
Total	$9,376,679	$ 9,017,879	3.98%

General Fund Expenditures - 2004



Governmental revenues increased by 9.47%. The increase was due to higher personal and corporate income taxes as well as consumer sales tax. These increases are attributable to increases in per capita income and increases in taxable sales. Additionally, the State levied an income tax surcharge on personal income taxes for the 2003 calendar year and an increases sales tax rate went into effect on March 1, 2004. Intergovernmental revenue increased because the State qualified for additional grant funding.

Expenditures increased 3.98%. This increase was primarily attributable to increased personnel related expenditures and increased expenditures associated with additional grant funding received in the current year.

General Fund – Fund Balance

The focus of the State's general fund is to provide information on near-term inflows, outflows, and balances of resources that can be spent. Such information is useful in assessing the State's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of fiscal year 2004, the State's general fund reported an ending fund balance of $2.1 billion, which is an increase of $356 million in comparison to fiscal year 2003.

$1.385 billion or 66% of the total fund balance is the unreserved fund balance, which is available for spending in the coming year. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed for certain items. $713 million or 34% of the total fund balance is reserved.

Capital Assets & Debt Administration

Capital Assets

The investment in capital assets includes land, buildings, improvements, equipment, infrastructure and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the State, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The investment in capital assets for the governmental and business-type activities was $15.3 billion and the accumulated depreciation was $5.6 billion at June 30, 2004. The net book value is $10 billion. Depreciation expense was $382 million for the governmental activities and $111 million for the business-type activities.

Additional information on the State's capital assets can be found in Note 8 of the notes to the financial statements of this report.

Debt Administration

Governmental Activities

The State's governmental activities had $1,092 million in bonds, notes payable, and capital leases outstanding at June 30, 2004, versus $1,101 million at June 30, 2003. The net decrease is approximately $9 million.

The Soil and Water Conservation Commission issued $20 million of Series 2003C Water, Waste and Pollution Revenue Bonds. Notes payable and capital leases increased $9.9 million during the year. Bonds payable decreased $21.7 million while notes payable and capital leases decreased $18.7 million representing principal payments made during the year.

The State's governmental activities has approximately $140 million of claims and judgments outstanding at June 30, 2004, compared to $104 million at June 30, 2003. Other obligations include accrued sick leave and vacation pay.

Business-type Activities

The State's business-type activities had $802 million in bonds and capital leases outstanding at June 30, 2004, versus $779 million at June 30, 2003. The net increase is $23 million.

New debt resulted primarily from the issuance of revenue and special obligation bonds. Significant increases and decreases in bonds, notes payable and capital leases follow. $45 million in revenue bonds were issued by Arkansas State University – Jonesboro. Other revenue bonds were issued by Henderson State University, $4.7 million and Arkansas Tech University, $4 million, as well as other colleges and universities, $4.5 million. Additionally, Special Obligation Bonds, issued on behalf of the Construction Assistance Revolving Loan Fund, increased bonds payable by $35.9 million. The colleges and universities also entered into capital leases totaling $14.9 million as well as notes payable totaling $3.3 million. Bonds and capital leases decreased $89.1 million primarily by principal payments made during the year.

The State's business-type activities has approximately $204 million of claims and judgments outstanding at June 30, 2004, compared to $196 million at June 30, 2003. Other obligations include accrued sick leave and vacation pay.

The following table outlines the bonds issued by the State's various agencies and their current ratings by Moody's Investor Service:

General Obligation Bonds	
Highway and Transportation (2000 - 2002)	Aa2
Soil and Water Conservation (1995 - 2003)	Aa2
Department of Higher Education (1991 - 1998)	Aa2
Special Obligation Bonds	
Department of Workforce Education (1992)	Not rated
Colleges and Universities	
Henderson State University	Not rated
South Arkansas Univ - Magnolia	Aaa
South Arkansas Univ Tech - Camden	Not rated
Arkansas State University - Beebe	Aaa
Arkansas State University - Jonesboro	Aaa
Arkansas State Univ - Mountain Home	Aaa
Arkansas State University - Newport	Aaa
Arkansas Tech University	Aaa
Univ of Arkansas at Fayetteville	Aa3
Univ of Arkansas at Little Rock	Aa3
Univ of Arkansas for Med Sciences	Aa3
Univ of Arkansas at Monticello	A1
Univ of Arkansas at Pine Bluff	Aa3
Univ of Central Arkansas	A2
Univ of Ark Comm College at Hope	Aa3
Univ of Ark Comm Coll at Batesville	Aa3
Univ of Ark Comm Coll at Morrilton	Aa3
Univ of Arkansas at Fort Smith	Aaa
Cossatot Comm Coll at the Univ of Ark	Aa3
Phillips Comm Coll of Univ of Arkansas	Aa3
East Arkansas Comm College	Not rated
National Park Comm College	Not rated
Mid-South Community College	Not rated
Arkansas Northeast College	Aaa
North Arkansas College	Not rated
Rich Mountain Comm College	Not rated
Northwest Arkansas Comm College	Not rated
Ozarka College	Not rated
Pulaski Technical College	Aaa
South Arkansas Comm College	A2
Black River Comm College	Not rated
Component Units	
Arkansas Student Loan Authority Revenue Bonds (1992 - 2002)	Aaa
Arkansas Development Finance Authority Bonds	Aaa

More detailed information about the State's liabilities is presented in Note 9 of the notes to the financial statements.

GENERAL FUND BUDGETARY HIGHLIGHTS

Schedule of Significant Expenditures - Budget vs. Actual
(Expressed in thousands)

Functions	Budgeted amounts Original	Budgeted amounts Final	Actual amounts
General government	$ 5,444,970	$ 4,918,032	$ 1,203,557
Education	2,625,323	2,664,973	2,366,827
Health and human resources	4,248,822	4,154,598	3,725,681
Law, justice, and public safety	716,636	721,913	515,484
Recreation and resource development	749,242	497,479	247,170
Regulation of business and professionals	198,272	212,734	127,608
Transportation	659,394	281,725	281,268
Debt service	130,892	124,991	69,166
Capital outlay	1,114,109	790,716	756,215
Total	$ 15,887,660	$ 14,367,161	$ 9,292,976

The amounts reported as budgeted reflect appropriations made by the General Assembly of the State. The original appropriation may be adjusted by several items subsequent to the appropriation act. The adjustment items may be: Supplemental appropriations or subsequent legislative acts, revisions to the forecast of revenues, restrictions on spending by Executive Order and carryforward provisions.

The rate of spending of appropriations is controlled by DF&A. DF&A utilizes quarterly allotment which restricts spending to a certain percentage of the annual appropriation. The percentage is established to coincide with the expected actual rate of revenue collections, thereby ensuring adequate cash flow throughout the year. The funded portion of the quarterly allotment is then made available for expenditure, and the remainder is blocked.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the State of Arkansas' finances for all of Arkansas' citizens, taxpayers, customers, and investors and creditors. This financial report seeks to demonstrate the State's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: State of Arkansas, Department of Finance and Administration, PO Box 3278, Little Rock, Arkansas, 72203.


GREAT SEAL OF THE STATE OF ARKANSAS
REGNAT
POPULUS
MERCY
JUSTICE

BASIC FINANCIAL STATEMENTS

Statement of Net Assets

June 30, 2004
(In thousands)

Assets	Primary Government: Governmental Activities	Primary Government: Business-type Activities	Primary Government: Total	Component Units: Arkansas Student Loan Authority	Component Units: Arkansas Development Finance Authority
Current assets:					
Cash and cash equivalents	$ 369,742	$ 407,405	$ 777,147	$ 78	$ 185,379
Investments	1,472,239	209,698	1,681,937	26,432	
Receivables, net:					
Accounts	120,390	303,846	424,236		1,064
Taxes	415,997		415,997		
Medicaid	130,787		130,787		
Loans	13,136	13,660	26,796	6,383	13,993
Interest	21,383	2,620	24,003	5,862	5,999
Agency and trust funds	4,032		4,032		
Other	25,800		25,800		
Internal balances	2,466	(2,466)			
Due from other governments	66,453	19,388	85,841		
Prepaid expenses	6,727	2,217	8,944		64
Inventories	46,731	17,158	63,889		
Deposits with bond trustee		67,651	67,651		
Current deferred charges	142		142		
Other current assets		5,496	5,496		
Total current assets	2,696,025	1,046,673	3,742,698	38,755	206,499
Noncurrent assets:					
Cash and cash equivalents, restricted		67,566	67,566		
Deposit with component unit	28,285	15	28,300		
Deposits with bond trustee		51,960	51,960		
Investments	2,412	328,998	331,410	96,904	1,001,055
Accounts receivable, net	409		409		
Loans and mortgages receivable	158,756	260,736	419,492	290,999	147,319
Loans and capital leases receivable from primary government					135,580
Capital leases receivable					79,401
External portion of investment pool		783,569	783,569		
Net pension asset	13,220		13,220		
Internal balances	10,653	(10,653)			
Other noncurrent assets	1,834	5,363	7,197	5,405	8,940
Total noncurrent assets	215,569	1,487,554	1,703,123	393,308	1,372,295
Capital assets (net of accumulated depreciation):					
Land	411,499	89,495	500,994		
Land improvements	76,623		76,623		
Infrastructure	5,022,479	64,379	5,086,858		
Buildings	431,475	1,253,356	1,684,831		
Equipment	213,432	126,261	339,693	9	198
Improvements other than building		5,260	5,260		
Leasehold improvements	532	173	705		
Assets under construction	2,106,205	178,252	2,284,457		
Other depreciable assets	6,320	45,684	52,004		
Total capital assets, net of depreciation	8,268,565	1,762,860	10,031,425	9	198
Total noncurrent assets and capital assets	8,484,134	3,250,414	11,734,548	393,317	1,372,493
Total assets	$ 11,180,159	$ 4,297,087	$ 15,477,246	$ 432,072	$ 1,578,992

The notes to the financial statements are an integral part of this statement.

Statement of Net Assets

June 30, 2004
(In thousands)

	Primary Government			Component Units	
Liabilities	Governmental Activities	Business-type Activities	Total	Arkansas Student Loan Authority	Arkansas Development Finance Authority
Current liabilities:					
Accounts payable	$ 72,004	$ 82,149	$ 154,153	$ 3,072	$ 3,828
Accrued interest	12,120	3,218	15,338		
Accrued and other current liabilities	62,225	80,659	142,884		23,572
Medicaid payable	175,153		175,153		
Income tax refunds payable	201,138		201,138		
Due to other governments	41,898	3,424	45,322		
Workers' compensation benefits payable		11,968	11,968		
Funds held in trust for others		5,303	5,303		
Bonds, notes, and leases payable	40,883	41,028	81,911		228,053
Claims, judgments, and compensated absences	34,168	20,687	54,855		
Deferred revenue	27,159	29,163	56,322		
Total current liabilities	666,748	277,599	944,347	3,072	255,453
Long-term liabilities:					
Workers' compensation benefits payable		179,204	179,204		
External portion of investment pool		783,569	783,569		
Bonds, notes, and leases payable	1,051,732	761,435	1,813,167	403,533	1,131,846
Claims, judgments, and compensated absences	213,637	53,729	267,366		
Deposits held on behalf of primary government					28,300
Other noncurrent liabilities		17,178	17,178		20,375
Deferred revenue		3,018	3,018		7,646
Total long-term liabilities	1,265,369	1,798,133	3,063,502	403,533	1,188,167
Total liabilities	1,932,117	2,075,732	4,007,849	406,605	1,443,620
Net Assets					
Net assets:					
Invested in capital assets, net of related debt	7,375,246	1,159,058	8,534,304	9	198
Restricted for:					
Unemployment compensation		152,134	152,134		
Debt service	25,441	22,189	47,630		
Other capital projects	56,503	38,031	94,534		
Bond and resolution program					71,545
Program requirements	149,370	228,411	377,781		
Non-expendable		71,874	71,874		
Expendable-capital projects, debt service, loans, and other		136,819	136,819	25,458	
Unrestricted	1,641,482	412,839	2,054,321		63,629
Total net assets	9,248,042	2,221,355	11,469,397	25,467	135,372
Total liabilities and net assets	$ 11,180,159	$ 4,297,087	$ 15,477,246	$ 432,072	$ 1,578,992

The notes to the financial statements are an integral part of this statement.

University of Arkansas Foundation, Inc.
Discretely Presented Component Units
Consolidated Statement of Financial Position

June 30, 2004
(In thousands)

Assets		
Cash	$	12,413
Contributions receivable, net of allowance for doubtful accounts of $270		43,313
Interest receivable		2,261
Notes and other receivables		278
Cash value of life insurance		443
Land		2,556
Buildings and equipment, net of accumulated depreciation of $624		132
Investments		402,392
Total assets	$	463,788
Liabilities and Net Assets		
Liabilities:		
Accounts payable	$	3,168
Annuity obligations		15,376
Total liabilities		18,544
Net Assets:		
Unrestricted		54,477
Temporarily restricted		104,079
Permanently restricted		286,688
Total net assets		445,244
Total liabilities and net assets	$	463,788

The notes to the financial statements are an integral part of this statement.

University of Arkansas Fayetteville
Campus Foundation, Inc.
Discretely Presented Component Units
Consolidated Statement of Financial Position

June 30, 2004
(In thousands)

Assets		
Investments	$	384,991
Liabilities and Net Assets		
Liabilities:		
Refundable advance	$	105,700
Net assets:		
Temporarily restricted		8,045
Permanently restricted		271,246
Total net assets		279,291
Total liabilities and net assets	$	384,991

The notes to the financial statements are an integral part of this statement.

Statement of Activities

For the year ended June 30, 2004
(In thousands)

		Program revenues		
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Primary government:				
Governmental activities:				
Education	$ 2,342,543	$ 4,617	$ 436,639	$ 306
Health and human services	4,100,830	124,321	3,011,719	
Transportation	606,900	122,873		448,483
Law, justice, and public safety	529,693	61,163	98,454	4,929
Recreation and resources development	189,406	52,597	24,626	
General government	1,071,734	279,902	226,252	950
Regulation of business and professionals	130,349	67,172	7,535	
Interest on long-term debt	56,906			
Total governmental activities	9,028,361	712,645	3,805,225	454,668
Business-type activities:				
Higher Education	2,121,960	991,698	461,833	49,425
Workers' Compensation	31,829			
Employment Security	310,539		72,048	
War Memorial Stadium	1,726	1,349	815	
Revolving loans	5,671		14,308	7,464
Total business-type activities	2,471,725	993,047	549,004	56,889
Total primary government	$ 11,500,086	$ 1,705,692	$ 4,354,229	$ 511,557
Component units:				
Arkansas Student Loan Authority	$ 12,962	$ 15,902	$	$
Arkansas Development Finance Authority	110,593	45,488		12,864
Total component units	$ 123,555	$ 61,390	$	$ 12,864

General revenues:
Taxes:
Personal and corporate income
Consumer sales and use
Gas and motor carrier
Other
Total taxes
Investment earnings
Miscellaneous income
Transfers-internal activities
Total general revenues and transfers
Change in net assets
Net assets-beginning
Net assets-ending

The notes to the financial statements are an integral part of this statement.

Statement of Activities

For the year ended June 30, 2004
(In thousands)

Net revenue (expense)				
Primary government			Component Units	
Governmental Activities	Business-type Activities	Total	Arkansas Student Loan Authority	Arkansas Development Finance Authority
$ (1,900,981)	$	$ (1,900,981)		
(964,790)		(964,790)		
(35,544)		(35,544)		
(365,147)		(365,147)		
(112,183)		(112,183)		
(564,630)		(564,630)		
(55,642)		(55,642)		
(56,906)		(56,906)		
(4,055,823)		(4,055,823)		
	(619,004)	(619,004)		
	(31,829)	(31,829)		
	(238,491)	(238,491)		
	438	438		
	16,101	16,101		
	(872,785)	(872,785)		
(4,055,823)	(872,785)	(4,928,608)		
			$ 2,940	$
				(52,241)
			2,940	(52,241)
1,920,448		1,920,448		
1,956,032		1,956,032		
449,960		449,960		
695,623	318,555	1,014,178		
5,022,063	318,555	5,340,618		
36,651	40,237	76,888		
295,706	35,119	330,825		
(637,949)	637,949			
4,716,471	1,031,860	5,748,331		
660,648	159,075	819,723	2,940	(52,241)
8,587,394	2,062,280	10,649,674	22,527	187,613
$ 9,248,042	$ 2,221,355	$ 11,469,397	$ 25,467	$ 135,372

The notes to the financial statements are an integral part of this statement.

University of Arkansas Foundation, Inc.
Discretely Presented Component Units
Consolidated Statement of Activities

For the year ended June 30, 2004
(In thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other support:				
Contributions	$ 14,095	$ 44,578	$ 26,943	$ 85,616
Sponsored programs	1,635	314		1,949
Interest and dividends	5,221	5,721	427	11,369
Net realized and unrealized gains (losses) on long-term investments	(104)	6,933	21,101	27,930
Other	258	58		316
Net assets released from restrictions	30,495	(30,495)		
Total revenues, gains, and other support	51,600	27,109	48,471	127,180
Expenses and losses:				
Program services:				
Construction	7,804			7,804
Research	5,039			5,039
Faculty/staff support	10,117			10,117
Scholarships and awards	8,696			8,696
Public/staff relations	2,455			2,455
Equipment	1,502			1,502
Sponsored programs	1,772			1,772
Other	11,358			11,358
Total program services	48,743			48,743
Supporting services:				
Management and general	472			472
Fund raising	1,273			1,273
Change in value of split-interest agreements			(7)	(7)
Provision for loss on uncollectible pledges	11	167	126	304
Total supporting services	1,756	167	119	2,042
Total expenses and losses	50,499	167	119	50,785
Change in net assets	1,101	26,942	48,352	76,395
Net assets, beginning	53,376	77,137	238,336	368,849
Net assets, ending	$ 54,477	$ 104,079	$ 286,688	$ 445,244

The notes to the financial statements are an integral part of this statement.

University of Arkansas Fayetteville
Campus Foundation, Inc.
Discretely Presented Component Units
Statement of Activities

For the year ended June 30, 2004
(In thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other support				
Contributions	$	$	$ 80,800	$ 80,800
Interest and dividends		1,727	3,791	5,518
Net realized and unrealized gains (losses) on long-term investments		3,311	41,824	45,135
Net assets released from restrictions	6,774	(6,038)	(736)	
Total revenues, gains, and other support	6,774	(1,000)	125,679	131,453
Expenses and losses:				
Program services:				
Research	308			308
Faculty/staff support	26			26
Scholarships and awards	2,952			2,952
Equipment and technology	3,398			3,398
Other	11			11
Total program services	6,695			6,695
Supporting services:				
Management and general	79			79
Total supporting services	79			79
Total expenses and losses	6,774			6,774
Change in net assets		(1,000)	125,679	124,679
Net assets, beginning		9,045	145,567	154,612
Net assets, ending	$	$ 8,045	$ 271,246	$ 279,291

The notes to the financial statements are an integral part of this statement.

Balance Sheet – Governmental Fund

June 30, 2004
(In thousands)

Assets		**General Fund**
Cash and cash equivalents	$	369,742
Investments		1,474,651
Receivable, net:		
Accounts		120,799
Taxes		415,997
Medicaid		130,787
Loans		171,892
Interest		21,383
Other		25,800
Due from other funds		9,894
Due from other governments		66,453
Prepaid expenses		6,727
Inventories		46,731
Advances to other funds		10,653
Deposits with component unit		28,285
Total assets	$	2,899,794
Liabilities and Fund Balance		
Liabilities:		
Accounts payable	$	72,004
Accrued and other current liabilities		62,225
Deferred revenue		229,532
Income tax refunds payable		201,138
Due to other governments		41,898
Due to other funds		3,396
Advances from other funds		16,667
Medicaid claims payable		175,153
Total liabilities		802,013
Fund balance:		
Reserved for:		
Prepaids		6,727
Inventories		46,731
Debt service		37,561
Loans		171,892
Advances		10,653
Grant programs		133,142
Capital projects		102,408
Transportation programs		168,965
Tobacco Settlement		34,785
Unreserved		1,384,917
Total fund balance		2,097,781
Total liabilities and fund balance	$	2,899,794

The notes to the financial statements are an integral part of this statement.

Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Assets

June 30, 2004
(In thousands)

Total fund balances:		
Governmental funds		$ 2,097,781
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:		
Land and land improvements	$ 523,086	
Infrastructure assets	8,517,972	
Other capital assets	3,525,369	
Accumulated depreciation	(4,297,862)	
Total capital assets		8,268,565
Bonds issued by the State have associated costs that are paid from current available financial resources of governmental funds. However, these costs are deferred on the statement of activities.		1,976
The Arkansas Judicial and State Police Retirement Plans have been funded in excess of annual required contributions, creating net pension assets. These assets are not current available financial resources and are not reported in the funds.		13,220
Some of the State's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.		202,373
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:		
Bonds, notes, and leases payable	$ (1,061,620)	
Claims, judgments, and compensated absences	(247,805)	
Loss of early retirement	1,011	
Unamortized bond issue premium	(16,272)	
Accrued interest on bonds	(12,120)	
Unamortized bond issue discounts	933	
Total long-term liabilities		(1,335,873)
Net assets of governmental activities		$ 9,248,042

The notes to the financial statements are an integral part of this statement.

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Fund

For the year ended June 30, 2004
(In thousands)

		General Fund
Revenues:		
Taxes:		
Personal and corporate income	$	1,914,067
Consumers sales and use		1,951,475
Gas and motor carrier		450,444
Other		694,802
Intergovernmental		4,249,189
Licenses, permits, and fees		717,092
Investment earnings		36,651
Miscellaneous		313,952
Total revenues		10,327,672
Expenditures:		
Current:		
Education		2,336,813
Health and human services		4,065,745
Transportation		312,688
Law, justice, and public safety		496,109
Recreation and resources development		159,895
General government		1,029,316
Regulation of business and professionals		125,968
Debt service:		
Principal retirement		36,809
Interest expense		56,769
Bond issuance costs		1,194
Capital outlay		755,373
Total expenditures		9,376,679
Excess of revenues over expenditures		950,993
Other financing sources (uses):		
Proceeds from long-term obligations		24,974
Bond discounts/premiums		620
Capital leases		4,961
Sale of capital assets		2,296
Transfers in		49,099
Transfer out		(677,381)
Total other financing sources and uses		(595,431)
Net change in fund balances		355,562
Fund balance-beginning		1,742,219
Fund balance-ending	$	2,097,781

The notes to the financial statements are an integral part of this statement.

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of the Governmental Fund to the Statement of Activities

For the year ended June 30, 2004
(In thousands)

Net change in fund balance-governmental fund		$ 355,562
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:		
Capital outlay	$ 755,373	
Depreciation expense	(381,966)	
Excess of capital outlay over depreciation expense		373,407
Capital assets donated are treated as revenue in the statement of activities.		1,303
Bond proceeds provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the statement of net assets.		(24,974)
Bonds issued at a premium provide current financial resources to governmental funds, but increase the long-term liabilities in the statement of net assets.		(845)
Bonds issued at a discount reduce current financial resources to governmental funds, but decrease the long-term liabilities in the statement of net assets.		224
Bond issuance costs are expenditures to governmental funds, but are current deferred charges in the statement of net assets.		1,194
Contributions to certain pension plans use current financial resources to governmental funds, but decrease the net pension obligation or increase the net pension asset.		1,607
Some capital additions were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net assets, the lease obligation is reported as a liability.		(4,961)
Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. In the current year, these amounts consist of:		
Bond principal retirement		36,809
Because some revenues will not be collected for several months after the state's fiscal year-end, they are not considered "available" revenues and are deferred in the governmental funds. Deferred revenues decreased by this amount this year.		17,829
Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:		
Lease cancellation recorded only in the statement of net assets	$ 11	
Interest accreted on capital appreciation debt	(1,871)	
Increase in claims, judgments, and compensated absences	(55,873)	
Amortization of bond premium, discount and issuance costs	1,821	
Loss on sale of capital assets	(27,604)	
Capital assets transferred to Higher Education Fund from General Fund	(9,913)	
Long term debt transferred to Higher Education Fund from General Fund	247	
Liability transferred from Agency Fund	(3,238)	
Increase in accrued interest	(87)	
Total additional expenditures		(96,507)
Change in net assets of governmental activities		$ 660,648

The notes to the financial statements are an integral part of this statement.

Statement of Net Assets
Proprietary Fund

June 30, 2004
(In thousands)

	Enterprise Funds			
Assets	Higher Education	Workers' Compensation Commission	Non-Major Enterprise Funds	Total
Current assets:				
Cash and cash equivalents	$ 210,437	$ 25,330	$ 171,638	$ 407,405
Investments	64,659	128,085	16,954	209,698
Receivables, net:				
Accounts	215,071	8,419	80,356	303,846
Loans	9,689		3,971	13,660
Interest	1,812	300	508	2,620
Due from other funds	1,181	393	1,440	3,014
Other governments	8,188		11,200	19,388
Prepaid expenses	2,217			2,217
Inventories	17,129		29	17,158
Deposits with bond trustee	67,651			67,651
Other current assets	5,458	38		5,496
Total current assets	603,492	162,565	286,096	1,052,153
Noncurrent assets:				
Cash and cash equivalents				
Restricted	67,368		198	67,566
Investments				
Restricted	88,504	5,600	18,233	112,337
Unrestricted	216,661			216,661
Loans receivables, net	47,208		213,528	260,736
External portion of investment pool	783,569			783,569
Deposit with component unit	15			15
Deposits with bond trustee	51,960			51,960
Other noncurrent assets	3,483		1,880	5,363
Total noncurrent assets	1,258,768	5,600	233,839	1,498,207
Capital assets:				
Land	85,942	580	2,973	89,495
Infrastructure	120,450			120,450
Buildings	2,040,041	2,272	18,116	2,060,429
Equipment	435,959	1,411	6,148	443,518
Improvements other than building	13,054			13,054
Leasehold improvements			245	245
Construction in progress	177,201		1,051	178,252
Other depreciable assets	123,821	99		123,920
Less accumulated depreciation	(1,251,081)	(2,148)	(13,274)	(1,266,503)
Total capital assets, net of depreciation	1,745,387	2,214	15,259	1,762,860
Total assets	$ 3,607,647	$ 170,379	$ 535,194	$ 4,313,220

The notes to the financial statements are an integral part of this statement.

Statement of Net Assets
Proprietary Fund

June 30, 2004
(In thousands)

	Enterprise Funds			
	Higher Education	Workers' Compensation Commission	Non-Major Enterprise Funds	Total
Liabilities				
Current liabilities:				
Accounts payable	$ 47,904	$ 6	$ 34,239	$ 82,149
Accrued interest payable	2,737		481	3,218
Accrued and other current liabilities	79,662	219	778	80,659
Due to other funds	4,403	23	1,054	5,480
Due to other governments			3,424	3,424
Funds held in trust for others	5,303			5,303
Workers' compensation benefits payable		11,968		11,968
Bonds, notes, and leases payable	36,243	165	4,620	41,028
Claims, judgments, and compensated absences	20,480	35	172	20,687
Deferred revenue	27,833		1,330	29,163
Total current liabilities	224,565	12,416	46,098	283,079
Noncurrent liabilities:				
Workers' compensation benefits payable		179,204		179,204
External portion of investment pool	783,569			783,569
Advances from other funds	10,653			10,653
Bonds, notes, and leases payable	671,293	1,515	88,627	761,435
Claims, judgments, and compensated absences	50,496	552	2,681	53,729
Other noncurrent liabilities	10,897	6,088	193	17,178
Deferred revenue	593		2,425	3,018
Total noncurrent liabilities	1,527,501	187,359	93,926	1,808,786
Total liabilities	1,752,066	199,775	140,024	2,091,865
Net Assets				
Net assets:				
Invested in capital assets, net of related debt	1,143,799		15,259	1,159,058
Restricted:				
Unemployment compensation			152,134	152,134
Debt service	22,189			22,189
Capital projects	37,276		755	38,031
Program requirements	2,073		226,338	228,411
Nonexpendable	71,874			71,874
Expendable - capital projects, debt service, loans and other	136,819			136,819
Unrestricted	441,551	(29,396)	684	412,839
Total net assets (deficit)	1,855,581	(29,396)	395,170	2,221,355
Total liabilities and net assets	$ 3,607,647	$ 170,379	$ 535,194	$ 4,313,220

The notes to the financial statements are an integral part of this statement.

Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds

Year ended June 30, 2004
(In thousands)

	Enterprise Funds			
	Higher Education	Workers' Compensation Commission	Non-Major Enterprise Funds	Total
Operating revenues:				
Charges for sales and services	$ 991,698	$	$ 1,349	$ 993,047
Grants and contributions	346,252			346,252
Investment earnings			9,319	9,319
Miscellaneous	34,076	182	130	34,388
Total operating revenues	1,372,026	182	10,798	1,383,006
Operating expenses:				
Cost of sales and services			420	420
Compensation and benefits	1,325,262	8,187	29,131	1,362,580
Supplies and services	552,405	868	8,985	562,258
General and administrative expenses		22,533	9,000	31,533
Scholarships and fellowships	106,095	20		106,115
Employment Security Division benefit and aid payments			264,048	264,048
Depreciation	110,074	162	898	111,134
Amortization			248	248
Interest			5,042	5,042
Total operating expenses	2,093,836	31,770	317,772	2,443,378
Operating income (loss)	(721,810)	(31,588)	(306,974)	(1,060,372)
Nonoperating revenues (expenses):				
Investment earnings	22,383	1,758	6,777	30,918
Taxes	18,942		281,310	300,252
Insurance tax		18,303		18,303
Grants and contributions	118,133		87,171	205,304
Additions to endowments	7,114			7,114
Interest and amortization expense	(25,799)	(58)	(53)	(25,910)
Loss on sale of capital assets	(2,325)	(1)	(52)	(2,378)
Other nonoperating revenue (expense)	732		(59)	673
Total nonoperating revenues (expenses)	139,180	20,002	375,094	534,276
Income (loss) before transfers and contributions	(582,630)	(11,586)	68,120	(526,096)
Transfer in	676,620	124	637	677,381
Transfer out	(44,100)	(1)	(4,998)	(49,099)
Capital grants and contributions	49,425		7,464	56,889
Change in net assets	99,315	(11,463)	71,223	159,075
Total net assets (deficit) - beginning	1,756,266	(17,933)	323,947	2,062,280
Total net assets (deficit) - ending	$ 1,855,581	$ (29,396)	$ 395,170	$ 2,221,355

The notes to the financial statements are an integral part of this statement.

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2004
(In thousands)

	Enterprise Funds			
	Higher Education	Workers' Compensation Commission	Non-major Enterprise Funds	Total
Cash flows from operating activities:				
Cash received from customers	$ 718,683	$	$ 1,211	$ 719,894
Cash received from other government agencies	332,748		109	332,857
Auxiliary enterprise charges	148,131			148,131
Payments to employees	(1,048,180)	(8,063)	(27,995)	(1,084,238)
Payments of benefits	(182,744)	(6,490)	(320,810)	(510,044)
Payments to suppliers	(515,119)	(2,792)	(18,012)	(535,923)
Interest received (paid)	230		4,077	4,307
Loan administration received (paid)	(3,427)		(4,822)	(8,249)
Other receipts (payments)	(96,096)	182	125	(95,789)
Net cash used in operating activities	(645,774)	(17,163)	(366,117)	(1,029,054)
Cash flows from noncapital financing activities:				
Gifts and grants	144,593			144,593
Direct lending receipts	122,166			122,166
Direct lending payments	(120,111)			(120,111)
Taxes	13,833	10,588	269,342	293,763
Operating grants and contributions	526,228		92,719	618,947
Other receipts	63,852			63,852
Net transfers to other funds	15,126	123	(5,632)	9,617
Net cash provided by noncapital financing activities	765,687	10,711	356,429	1,132,827
Cash flows from capital and related financing activities:				
Principal paid on capital debts and leases	(30,208)	(160)	(46,939)	(77,307)
Interest paid on capital debts and leases	(24,483)	(58)	(47)	(24,588)
Acquisition and construction of capital assets	(205,050)	(10)	(846)	(205,906)
Proceeds from governmental sources	12,995		830	13,825
Proceeds from long-term borrowings	9,867		37,018	46,885
Other receipts (payments)	83,786			83,786
Net cash used in capital and related financing activities	(153,093)	(228)	(9,984)	(163,305)
Cash flows from investing activities:				
Purchase of investments	(120,632)	(4,673)	(7,113)	(132,418)
Proceeds from sale and maturities of investments	161,851		878	162,729
Interest and dividends on investments	9,253	1,723	6,757	17,733
Loan repayments (disbursements)	(48)		(339)	(387)
Net cash provided by (used in) investing activities	50,424	(2,950)	183	47,657
Net increase (decrease) in cash and cash equivalents	17,244	(9,630)	(19,489)	(11,875)
Cash and cash equivalents-beginning	260,561	34,960	191,325	486,846
Cash and cash equivalents-ending	$ 277,805	$ 25,330	$ 171,836	$ 474,971
Reconciliation of operating loss to net cash used in operating activities:				
Operating loss	$ (721,810)	$ (31,588)	$ (306,974)	$ (1,060,372)
Adjustments to reconcile operating loss to net cash used in operating activities:				
Depreciation	110,074	162	898	111,134
Amortization	416		(153)	263
Bad debt expense	72			72
Loan principal and interest canceled	54			54
Accrued interest paid on new bond issuance			(45)	(45)
Premium paid on bond redemption			18	18
Net appreciation (depreciation) of investments	(3,414)		115	(3,299)
Other operating activities	45			45
Net changes in assets and liabilities:				
Accounts receivable	(61,433)		1,321	(60,112)
Loans receivable	(1,323)		(5,118)	(6,441)
Inventory	64		2	66
Other current assets	(82)	213	15	146
Current liabilities	(115)		57	(58)
Accounts payable and other accrued liabilities	28,004	13,987	(57,589)	(15,598)
Compensated absences	1,078	63	911	2,052
Deferred revenue	2,596		425	3,021
Net cash used in operating activities	$ (645,774)	$ (17,163)	$ (366,117)	$ (1,029,054)

Non-cash investing, capital, and financing activities:

The notes to the financial statements are an integral part of this statement.

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2004
(In thousands)

Assets		**Pension Trust Funds**		**Agency Funds**
Cash and cash equivalents	$	655,593	$	43,294
Receivables:				
Employee		12,873		
Employer		4,562		
Interest and dividends		33,246		45
Due from other funds				583
Advances to other funds		16,667		
Other		315,917		6,047
Total receivables		383,265		6,675
Investments at fair value:				
Certificates of deposit				55,205
Bonds, notes, mortgages, and preferred stock		1,862,768		395,826
Common stock		4,096,118		
Real estate		333,523		
International investments		2,200,798		
Mutual funds		931,980		
Pooled investment funds		15,695		
Corporate obligations		429,573		
Asset backed securities		60,144		
Other		3,176,846		
Total investments		13,107,445		451,031
Securities lending collateral		1,309,164		
Fixed assets		579		
Other assets		4,782		
Total assets		15,460,828		501,000
Liabilities				
Accounts payable and other liabilities		8,360		6,861
Obligations under securities lending		1,309,164		
Investment principle payable		428,304		
Due to other governments				85,057
Due to other funds		219		4,396
Due to third parties				404,686
Total liabilities		1,746,047		501,000
Net Assets				
Held in trust for employee's pension benefits		13,714,781		
Total net assets	$	13,714,781	$	

The notes to the financial statements are an integral part of this statement.

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

June 30, 2004
(In thousands)

		Pension Trust Funds
Additions:		
Contributions:		
Members	$	88,668
Employers		364,050
Supplemental contributions		3,481
Court fees		2,167
Reinstatement fees		976
Total contributions		459,342
Investment income:		
Net increase in fair value of investments		887,874
Interest, dividends, and other		981,279
Real estate operating income		10,871
Securities lending income		18,055
Total investment income		1,898,079
Less investment expense		73,146
Net investment income		1,824,933
Capital share and individual account transactions:		
Miscellaneous		6,923
Total additions		2,291,198
Deductions:		
Benefits paid to participants or beneficiaries		668,565
Refunds of employee contributions		4,997
Administrative expense		13,084
Total deductions		686,646
Change in net assets held in trust for employee's pension benefits		1,604,552
Net assets, beginning		12,110,229
Net assets, ending	$	13,714,781

The notes to the financial statements are an integral part of this statement.

Notes to the Financial Statements – Table of Contents

June 30, 2004

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2004

(1) Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements of the State of Arkansas (the State) conform with accounting principles generally accepted in the United States of America (GAAP) for governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for governmental accounting and financial reporting.

The basic financial statements have been prepared primarily from accounts maintained by the Department of Finance and Administration and the State Treasurer. Additional data has been derived from the audited financial statements of certain entities and from reports and data prescribed by the Department of Finance and Administration Office of Accounting. These prescribed reports and data were prepared by various State agencies and departments based on independent or subsidiary accounting records maintained by them.

The Reporting Entity

For financial reporting purposes, the State of Arkansas' primary government includes all funds, departments and agencies, boards, commissions, and authorities that make up the State's legal entity. The State's reporting entity also is comprised of its component units.

Component Units

GAAP defines component units as those entities which are legally separate organizations for which the State's elected officials are financially accountable or other organizations for which the nature and significance of their relationship with the State are such that exclusion would cause the State's financial statements to be misleading and incomplete. GAAP details two methods of presentation: blending the financial data of the component units' balances and transactions in a manner similar to the presentation of the State's balances and transactions (the State has no blended component units); or discrete presentation of the component units' financial data in columns separate from the State's balances and transactions.

Component units are presented discretely when the entities are legally separate from the State, but are financially accountable to the State, or whose relationships with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. Arkansas Student Loan Authority (ASLA) and Arkansas Development Finance Authority (ADFA) meet the criteria of discretely presented component units because they are legally separate and the State is financially accountable. The State appoints a voting majority of the organization's governing body and is able to impose its will on ASLA and ADFA. The financial statements of the following component units have been "discretely presented" in the accompanying report because (1) their governing boards are not substantially the same as the State, or (2) the component unit provides services entirely or almost entirely to the citizenry and not the State.

Arkansas Student Loan Authority – ASLA was established pursuant to Act 873 of 1977, as amended. The purpose of ASLA is to make loans directly to students and purchase qualified student loans from Arkansas lending institutions or loans made by non-Arkansas institutions to Arkansas residents. The students attend qualified Arkansas educational institutions or are Arkansas residents who attend qualified institutions located outside the State of Arkansas.

Arkansas Development Finance Authority – ADFA provides financing through the issuance of taxable and tax-exempt bonds for housing, industry, local governments, education, agricultural enterprises, healthcare, infrastructure projects, jails, and prisons. ADFA also offers direct loans for housing, small minority businesses, agriculture, and exporting.

Complete financial statements of each of the discretely presented component units can be obtained by contacting their respective administrative office.

Arkansas Student Loan Authority 101 East Capitol, Suite 401 Little Rock, AR 72201 (501) 682-2952	Arkansas Development Finance Authority 423 Main Street, Suite 500 Little Rock, AR 72201 (501) 682-5900

Component Units Relating to Higher Education – In May 2002, GASB issued Statement No. 39, *Determining Whether Certain Organizations are Component Units*, which amends GASB No. 14 to provide additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with a primary government. Under the standard, which became effective with the fiscal year ending June 30, 2004, the financial activities of qualifying legally separate, tax-exempt entities are to be included in the financial statements of the primary government, through discrete presentations. There were two qualifying foundations for the State of Arkansas: the University of Arkansas Foundation, Inc. and the University of Arkansas Fayetteville Campus Foundation, Inc. (the Foundations). Although the State does not control the timing or amount or receipts from either of these Foundations, the majority of resources, or income thereon, which the Foundations hold and invest are restricted to the activities of the State by the donors. Because these restricted resources held by the Foundations can only be used by, or for the benefit of, the State, the Foundations are considered component units of the State and are discretely presented following the government-wide financial statements.

The University of Arkansas Foundation, Inc. (the U of A Foundation) operates for charitable, educational purposes, including administering and investing gifts and other amounts received directly or indirectly for the benefit of the University of Arkansas. The board of directors of the Foundation includes one member who is also a member of the University of Arkansas Board of Trustees.

The University of Arkansas Fayetteville Campus Foundation, Inc. was established by the Walton Family Charitable Support Foundation, Inc., for the exclusive benefit of the University of Arkansas, Fayetteville campus. The Foundation was established on March 11, 2003, and exists primarily to support the Honors College, the Graduate School and the University's library. The board of trustees of the Foundation is made up of seven members, including three members who are also employees of the University of Arkansas at Fayetteville.

Complete financial statements for each of the discretely presented component units of higher education can be obtained by contacting their respective administrative office.

The University of Arkansas Foundation, Inc. 700 Research Center Boulevard Fayetteville, AR 72701	The University of Arkansas Fayetteville Campus Foundation, Inc. 700 Research Center Boulevard Fayetteville, AR 72701

The Foundations are private, nonprofit organizations that report under FASB standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the foundations financial information for these differences.

Measurement Focus and Basis of Accounting

The accrual basis of accounting, with a flow of economic resources measurement focus, is utilized in the government-wide financial statements, proprietary funds, pension trust funds, and discretely presented component units. Under this accounting basis, revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of the related cash flows. For the pension trust funds, employee contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Contributions from employees and employers for service through June 30 are accrued. These contributions are considered to be fully collectible and, accordingly, no allowance for uncollectible receivables is reflected in the financial statements. Benefits and refunds are recognized when due and payable in accordance with provisions set forth in the Arkansas Code.

Governmental funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become both measurable and available. "Available" means expected to be collected within the current period or soon enough thereafter to be used to pay liabilities of the current period (i.e., 45 days). Significant revenues susceptible to accrual include individual income, sales, corporate income and other taxes, federal grants, federal reimbursements, and other reimbursements for use of materials and services. Revenues from federal grants are recognized when all applicable eligibility requirements have been met, and the availability criteria of 45 days, except for Medicaid revenues, which are recognized using a one-year availability criteria, have been met. Revenues from other sources are recognized when received. Expenditures are recorded at the time fund liabilities are incurred except (1) inventories generally are recorded as expenditures when consumed; and (2) principal and interest on long-term debt, claims and judgments, and compensated absences are recorded when payment is due.

Private-sector standards of accounting and financial reporting, published by the Financial Accounting Standards Board (FASB) which were issued on or before November 30, 1989, are followed in the government-wide and proprietary fund financial statements to the extent that such standards do not conflict with standards issued by GASB. As permitted by GASB, the State has elected not to adopt FASB guidance issued after November 30, 1989, unless GASB specifically adopts such FASB Statements or Interpretations.

As a general rule, the effect of interfund activity has been eliminated from the government-wide statements. Exceptions to this rule are: 1) activities between funds reported as governmental activities and funds reported as business-type activities and 2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct costs and program revenues for the functions concerned.

In the fund financial statements, transfers represent flows of cash or assets (such as goods or cash) without equivalent flows of assets in return or a requirement for repayment. In addition, transfers are recorded when a fund receiving revenue provides the revenue to the fund which expends the resources.

In the government-wide statement of activities, revenues and expenses are segregated by activity (governmental or business-type), then further by function (e.g.; general government, education, health and human services, etc). In general, tax revenue is recognized on the government-wide statement of activities when assessed or levied and in the governmental fund financial statements to the extent that it is both measurable and available. Additionally, revenues are classified between program and general revenues. Program revenues include 1) charges to customers for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues, rather than as program revenue. General revenues include all taxes. Certain indirect costs are included in the program expenses reported for individual functions.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods. All other revenues and expenses are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the State's policy to use restricted resources first, then unrestricted resources as they are needed.

Government-Wide Financial Statements

The statement of net assets and statement of activities report information on all non-fiduciary activities of the primary government and its component units. Primary government activities are distinguished between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The statement of net assets presents the State's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

- Invested in apital assets, net of related debt, consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.
- Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, or the like, or imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net assets consist of net assets which do not meet the definition of the two preceding categories and are generally available for government purposes.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the definition of a particular function. Taxes and other items not meeting the definition of program revenues are instead reported as general revenue.

Fund Financial Statements

Separate financial statements are provided for the governmental fund (i.e., the general fund), proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide statements. The major individual governmental fund (General Fund) and the major individual proprietary funds (i.e., the Higher Education Fund and Workers' Compensation Commission) are reported as separate columns in the fund financial statements, with non-major funds being combined into a single column for the proprietary funds.

The following describes the major funds and categories used in the accompanying financial statements:

Governmental Fund

The focus of Governmental Fund measurement (in the Fund Financial Statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income.

The General Fund is the major Governmental Fund of the State. As the general operating fund of the State, it is used to account for all financial resources obtained and spent for those services normally provided by the State, which are not accounted for in other funds.

Proprietary Funds

The focus of Proprietary Fund measurement is upon determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. These funds are used to report any activity for which a fee is charged to external users for goods or services. Activities are required to be reported as enterprise funds if the activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges, laws, or regulations that require that the activity's costs of producing services, including capital costs, be recovered with fees and charges, rather than with taxes or similar revenues, or the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs. The following is a description of the major proprietary funds of the State:

Higher Education Fund – The financial statements of the Higher Education Fund, which accounts for the activities of the state's Higher Education System, have been prepared as a "business-type" activity with the accounting guidance and reporting practices applicable to colleges and universities.

Workers' Compensation Commission Fund – The Workers' Compensation Commission Fund accounts for the activities of the Workers' Compensation Commission (WCC), which is responsible for providing a prompt and equitable system of compensation for injury or illness sustained during the course of employment.

Non-Major Enterprise Funds – The non-major enterprise funds consist of the Employment Security Department, which is responsible for promoting employment security in the State of Arkansas; War Memorial Stadium Commission, which is responsible for the operation of the War Memorial Stadium; the Construction Assistance Revolving Loan Fund, which is responsible for providing a perpetual fund for financing the construction of waste water treatment facilities for municipalities and other public entities; and the Other Revolving Loan Funds, which is responsible for the planning, design, acquisition, construction, expansion, equipping, and/or rehabilitation for water systems and for the financing of capitalizable educational and general projects for community and technical colleges.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the State. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the State's own programs. These funds include pension trust and agency funds. The Pension Trust Funds account for the activities of the Arkansas Judicial Retirement Plan, the Arkansas Highway and Transportation Retirement Plan, the Arkansas State Police Retirement Plan, the Arkansas Teacher Retirement Plan and the Arkansas Public Employee Retirement Plan, which accumulate resources required to be held in trust for members and beneficiaries of the respective plans. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement or results of operations.

Assets, Liabilities, and Net Assets or Equity

Cash and Cash Equivalents

Cash and cash equivalents include demand accounts, imprest accounts, cash on hand, all certificates of deposit with maturities at purchase of 90 days or less, and all short-term instruments with maturities at purchase of 90 days or less. Short-term investments are stated at fair value.

Investments

Investments include U.S. Government and government agency obligations, repurchase agreements, state and local government obligations, and corporate debt and equity obligations. Investments are reported at fair value.

Investments in the pension trust funds are reported at fair value as determined by the custodial agents. The agents' determination of fair value includes, among other things, using pricing services or prices quoted by independent brokers at current exchange rates. Securities on loan for cash collateral are reported in the statement of net assets.

Liabilities resulting from security lending transactions are also reported. Additional disclosures regarding security lending transactions are provided in note 4.

Unrealized gains and losses on investments are included in investment earnings on the respective operating statements.

The University of Arkansas System (the System) has established an investment pool (the Pool). The investments in the Pool are governed by the System Investment Policy, which was established by the University of Arkansas board of trustees. The Pool is exempt from registration with the SEC. The University of Arkansas board of trustees and the University of Arkansas Foundation board of trustees are the sponsors of this investment pool and are responsible for the operation and oversight of the pool. Participation in the Pool is voluntary. At June 30, 2004, five universities and three foundations participated in the Pool. These foundations hold approximately $783.6 million (external portion) of the investments in the Pool, which are reported separately along with the related liability in the Higher Education Fund and in the business-type activities column of the government-wide financial statements. Participation in or withdrawal from the Pool is based on the daily market value of the units within the Pool. Income from the Pool is allocated to the participants in the Pool based on the market value per unit from the previous day. The Pool issues a publicly available financial report, which may be obtained by writing or calling the University of Arkansas System, 2404 North University Avenue, Little Rock, Arkansas, 72207-3608, (501) 686-2500.

Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (current portion) or "advances to/from other funds" (noncurrent portion). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in the general fund to indicate that they are not available for appropriation and are not expendable available financial resources.

Inventories and Prepaid Items

Inventories of materials and supplies are valued at cost, principally using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the government-wide and fund financial statements. Inventory and prepaid balances as reported in the general fund financial statements are recorded as a reserve of fund balance indicating that they do not constitute "available spendable financial resources." The balances for food stamps an d related inventory on the balance sheet are measured at fair value as of fiscal year-end.

Capital Assets

Methods Used to Value Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure items (e.g., roads, bridges, ramps, and similar items), are reported in the applicable governmental or business-type activity columns of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at fair value at the date of donation.

Capitalization Policies

All land and other nondepreciable assets are capitalized, regardless of cost. All other capital assets, including equipment, are capitalized when the individual item's cost exceeds $2,500 and the estimated useful life exceeds one year.

The cost of normal maintenance and repairs that do not significantly add to the value of assets or materially extend asset lives are not capitalized.

Items not Capitalized and Depreciated

The State possesses certain capital assets that have not been capitalized and depreciated because the assets cannot be reasonably valued and/or the assets have inexhaustible useful lives. These assets include works of art and historical treasures, such as; statues, monuments, historical documents, paintings, rare library books, miscellaneous capital-related artifacts and furnishings, and the like. GASB Statement No. 34 does not require these items to be capitalized because: 1) the items are held for reasons other than financial gain; 2) the items are protected, kept unencumbered, cared for, and preserved; and 3) the items are subject to a State policy requiring that the proceeds from sales of collection items be used to acquire other items for collections. The State also acts as an agent for the tracking and disbursement of federal surplus property. The assigned value of this property at June 30, 2004, is $66.2 million and is not reflected in the financial statements.

Depreciation and Useful Lives

Applicable capital assets are depreciated using the straight-line method, with a half-month depreciation charged in the month of acquisition and in the month of disposal. Assets were assigned estimated useful lives most suitable for the particular assets. Estimated useful lives generally assigned are as follows:

	Years
Assets:	
Equipment	5-20
Buildings	30-50
Infrastructure	10-30
Land improvements	10-20
Leasehold improvements	10-50
Other depreciable assets	4-20

Accrued and Other Current Liabilities

The State has established a liability for both reported and unreported insured events in the government-wide financial statements, which includes estimates of future payments of claims and related claim adjustment expenses, based on the estimated ultimate cost of settling claims. In estimating its liability for incurred but unpaid claims, the State considers prior experience, industry information, and currently recognized trends affecting data specific to the State. Actual claim costs depend upon such factors as duration of worker disability, medical cost trends, occupational disease, and inflation. The process used in computing the ultimate cost of settling claims and expense for administering claims is necessarily based on estimates. In addition, the Internal Revenue Code of 1986 establishes rules and regulations for arbitrage rebates. The Construction Assistance Revolving Loan Fund, ADFA, and ASLA have made provisions for revenues above the rebate limit, which must be remitted to the Federal Government.

Income Tax Refunds Payable

Income tax refunds are accounted for as a reduction in the appropriate tax revenue category. The amounts reported as income tax refunds payable at June 30, 2004, is related to projected refund estimates attributable to fiscal year 2004 tax revenues.

Compensated Absences

In the government-wide and proprietary fund financial statements, the State accrues liabilities for compensated absences as services are incurred and benefits accrue to employees.

In the governmental fund financial statements, liabilities for compensated absences are accrued only if they have matured and are recorded in the fund only for separations or transfers that occur before year-end.

Deferred Revenue

In the government-wide financial statements and proprietary fund financial statements deferred revenue is recognized when cash or other assets are received prior to their being earned. In the governmental fund statements deferred revenue is recognized when revenue is unearned or unavailable. Also included in deferred revenue is the undistributed food stamp inventory of $5.2 million.

Bond-Related Items

In the government-wide financial statements and proprietary fund financial statements, long-term debt and long-term liabilities are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, bond premiums and discounts, as well as bond issuance costs are recognized in the period of issuance. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds, are reported as debt service expenditures.

Net Assets/Fund Balance

The difference between total assets and total liabilities is "Net Assets" on the government-wide, proprietary and fiduciary fund financial statements, and "Fund Balance" on the governmental fund financial statements. In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or legally segregated for a specific future use.

Restricted Assets/Net Assets

Assets and net assets are reported as restricted when constraints placed on the asset or net asset use are either (1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or (2) imposed by law through constitutional provisions or enabling legislation. Restricted assets primarily consist of unemployment compensation, bond resolution programs, transportation programs, debt service, capital projects, and various other purposes and may only be used for the legally restricted purposes as allowed by law.

Donor-Restricted Endowments

The State has donor-restricted endowments with net appreciation of $26 million on investments which are available for expenditure by the respective governing board. Such amounts are included in Restricted Net Assets in accordance with the restrictions of the gift instrument. Arkansas Annoted Code §28-69-603 states "The governing board may expend so much of the endowment fund or an aggregation of the endowment fund as the governing body determines to be prudent under the standard established by Section 28-69-607 for the uses and purposes for which an endowment fund is established. This section does not limit the authority of the governing board to expend funds as permitted under other law, the terms of the applicable gift instrument, or the charter of the institution." The State's donor-restricted endowments primarily utilize spending-rate policies with target distribution rates ranging between 4-5%.

Reclassifications

Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year presentation.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenue and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncements Not Yet Required to be Adopted

GASB Statement No. 40, Deposit and Investment Risk Disclosures – an Amendment of GASB Statement No. 3, revises the required deposit and investment disclosures. The new standard enhances the deposit and investment risk disclosures by updating the custodial credit risk disclosure requirements of Statement 3 and addressing other common risks, including concentrations of credit risk, interest rate risk, and foreign currency risk. This statement is effective for periods beginning after June 15, 2004 (i.e., fiscal year 2005).

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, requires governments to report the effects of capital asset impairment in their financial statements when it occurs. All governments must account for insurance recoveries in the same manner. The Statement requires governments to evaluate major events affecting capital assets to determine whether they are impaired. Those events include physical damage, changes in legal or environmental factors, technological changes or obsolescence, changes in manner or duration of use, and construction stoppage. Impairment will be measured using methods that are designed to isolate the cost of the capital asset's service capacity that has been rendered unusable by impairment. Statement 42 is effective for fiscal years beginning after December 15, 2004 (i.e., fiscal year 2006).

GASB Statement No. 43, *Financial Reporting for Postretirement Benefit Plans Other Than Pension Plans,* establishes consistent financial reporting standards for other postemployment benefit plans; examples of such plans include plans that provide postemployment healthcare, healthcare insurance, life insurance other types of postemployment benefits. The standards established in Statement 43 are generally consistent with standards established for defined benefit pension plans. This Statement is effective for the State in periods beginning after December 15, 2005. (i.e., fiscal year 2007)

GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section*, clarifies the objectives of the statistical section accompanying a state or local government's basic financial statements. The statement also expands the types of information to be included and revises the statistical section to make the information more consistent with comprehensive government-wide financial information reported as required by GASB Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, implemented in fiscal year 2002. Statement 44 is effective for periods beginning after June 15, 2005. (i.e., fiscal year 2006).

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* establishes standards for accounting and reporting costs and obligations related to postemployment healthcare and other nonpension benefits. When implemented, the statement will generally require accounting and reporting for the annual cost of other postemployment benefits and the related outstanding obligations and commitments in a manner consistent with the accounting and reporting for the annual cost as well as the outstanding obligations and commitments of pensions. Statement 45 is effective for then State in periods beginning after December 15, 2006. (i.e., fiscal year 2008)

(2) Deposits and Investments

Cash

Arkansas Code requires that all cash fund agencies, other than the institutions of Higher Education, abide by the cash management and investments standards and procedures promulgated by the State Board of Finance. The stated primary goal of State cash management is the protection of principal, while maximizing investment earnings and minimizing non–interest bearing balances.

The reported amount of total deposits at June 30, 2004, is as follows (expressed in thousands):

		Primary government	Component units
Carrying value of deposits	$	866,344	31,688
Bank balance of deposits		915,022	32,389
Amount insured or collateralized with securities held by the State or its agent in the State's name (Category 1)		753,837	32,389
Amount collateralized with securities held by the pledging financial institution's trust department or agent in the State's name (Category 2)		111,257	
Uncollateralized, or collateralized with securities held by the pledging financial institution, or its trust department or agent but not in the State's name (Category 3)		49,928	

The following schedule reconciles the reported amount of deposits as disclosed above to the statement of net assets (expressed in thousands):

		Primary government	Component units
Reported amount of deposits	$	866,344	31,688
Undeposited receipts/cash on hand		45,469	
Cash held at U.S. Treasury		37,686	
Investments disclosed as cash for GASB 3		(4,552)	
Cash equivalents disclosed as investments for GASB 3		506,605	153,769
Cash and cash equivalents not categorized		92,048	
Cash and cash equivalents as reported on the statement of net assets	$	1,543,600	185,457
Governmental activities	$	369,742	
Business-type activities		474,971	
ASLA			78
ADFA			185,379
Pension Trust Funds		655,593	
Agency Funds		43,294	
Total	$	1,543,600	185,457

The Higher Education Component Units are not included in the above referenced cash and cash equivalents. The Foundations are private nonprofit organizations that report under FASB standards and are not required to report under GASB standards. As such, the Foundations are not required to report bank their balance and the related collateralization of cash.

Investments

State funds are invested by the Treasurer, as well as various State agencies, including the Retirement Systems, institutions of higher education, and discretely presented component units. Permissible investments include those guaranteed by the United States of America, its agencies, and instrumentalities (U.S. government obligations); repurchase agreements; corporate debt and equity obligations; and state and local government securities. Additionally, the Retirement Systems are allowed to invest in real estate and mortgage loans.

Purchased and donated investments as well as investments held in an agency capacity are stated at fair value. In accordance with GASB Statement No. 3, the State's investments are categorized to give an indication of the level of risk assumed. Category 1 includes investments that are insured or registered, or for which the securities are held by the State or its agent in the State's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the State's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent but not in the State's name.

Primary Government

Investments for the Primary Government, including fiduciary funds, at June 30, 2004, by security type and level of risk are as follows (expressed in thousands):

	Custodial Credit Risk			Reported
Security type	1	2	3	amount/ fair value
Categorized:				
Cash equivalents (CD's & MM's)	$ 627,941	40,520	16,018	684,479
Government securities	1,415,562	529	8,646	1,424,737
Corporate stocks	5,881,313	15,685	565	5,897,563
Bonds	473,627	340	4,956	478,923
Securities lending collateral	719,811			719,811
Other asset-backed securities	21,237			21,237
International securities	386,690			386,690
Mortgage obligations	30,364			30,364
Repurchase agreements	63,797			63,797
Investments purchased with security lending collateral:				
Corporate securities			283,136	283,136
Repurchase agreements			118,225	118,225
Bank obligations			64,496	64,496
Asset-backed securities			11,000	11,000
Certificates of deposit			112,496	112,496
Other categorized investments	55,293	5,485	9,426	70,204
Total investments categorized by security type	$ 9,675,635	62,559	628,964	10,367,158
Uncategorized:				
Mutual funds				$ 1,201,914
Pooled funds				3,229,392
External investment pool				1,010,524
Guaranteed investment contract				6,513
Investments held by counterparty under securities loaned:				
Government securities				115,590
Corporate securities				427,269
International securities				33,323
Limited partnership				1,136,311
Private placements				2,324
Real estate investments				333,523
Mortgage loans				149,695
Other investments				62,504
Total				$ 18,076,040

The following schedule reconciles the carrying amount of investments as disclosed above to the financial statements (expressed in thousands):

Reported amount of investments	$	18,076,040
Investments disclosed as cash for GASB 3		4,552
Cash equivalents disclosed as investments for GASB 3		(506,605)
Deposits and Funds held in Trust by Others		113,687
Investments not categorized		96,493
Investments as reported on the statement of net assets	$	17,784,167
Investments as reported in the accompanying financial statements (by reporting unit):		
Governmental activities	$	1,474,651
Business-type activities		1,441,876
Pension trust funds		14,416,609
Agency Funds		451,031
Total	$	17,784,167

Component Units

Investments for the Discretely Presented Component Units at June 30, 2004, by security type and level of risk are as follows (expressed in thousands):

Security type		Custodial Credit Risk 1	2	3		Reported amount/ fair value
Categorized:						
Government securities	$	722,662	18,961			741,623
Money market accounts			7,471			7,471
Commercial paper						
Guaranteed investment contracts				96,904		96,904
Repurchase agreements		1,386				1,386
Total investments categorized by security type	$	724,048	26,432	96,904		847,384
Uncategorized:						
Mutual funds						184,817
Investment agreements						245,959
Total					$	1,278,160

The following schedule reconciles the carrying amount of investments as disclosed above to the statement of net assets (expressed in thousands):

Reported amount of investments	$	1,278,160
Cash equivalents disclosed as investments for GASB 3		(153,769)
Investments as reported on the statement of net assets	$	1,124,391
Investments as reported on the statement of net assets (by reporting unit):		
ASLA	$	123,336
ADFA		1,001,055
Total	$	1,124,391

The Higher Education Component Units are not included in the categorization of investments above. The Foundations are private nonprofit organizations that report under FASB standards and are not required to report under GASB standards. As such, the Foundations are not required to categorize the credit risk of their investments.

The market values of the Foundation's portfolios of investments, consisting primarily of marketable securities as of June 30, 2004, (expressed in thousands) are as follows:

	U of A Foundation	U of A Fayetteville Campus Foundation
U.S. equity funds	$214,800	$207,125
International equity funds	44,717	43,119
Fixed income funds	96,221	92,783
Money market funds	18,765	18,095
Real estate and other	24,754	23,869
Equity securities	3,098	
Corporate obligations	37	
Total	$402,392	$384,991

The Foundations provide for investments in various investment securities, which are in general exposed to various risks, such as interest rate, credit and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term, and that such changes could materially affect the amounts reported in their respective statement of activities.

(3) Derivatives

Primary Government

Forward Currency Contracts –

Arkansas Public Employees Retirement System (APERS) and Arkansas Teacher Retirement System (Teacher) enter into forward-exchange contracts to manage exposure of foreign portfolio holdings to changes in foreign currency exchange rates. A forward-exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. Risks associated with such contracts include movement in the value of the foreign currency related to the U.S. dollar and the ability of the counterparty to perform. The contracts are valued at forward exchange rates, and the changes in the value of open contracts are recognized as unrealized appreciation/depreciation in the statement of changes in plan net assets. The realized gain or loss on closed forward currency contracts represents the difference between the value of the original contracts and the closing value of such contracts and is included in net increase (decrease) in fair value of investments in the statement of changes in plan net assets. At June 30, 2004, the retirement systems referred to above were party to outstanding forward exchange currency contracts to purchase foreign currencies with contract amounts of $161.3 million, collectively. Market values of these outstanding contracts were $160.9 million resulting in an unrealized net loss of approximately $0.4 million. The retirement systems also had outstanding forward currency contracts to sell foreign currency with contract amounts of $187.4 million at June 30, 2004. Market values of these contracts were $187.0 million resulting in an unrealized net gain of approximately $0.4 million.

Mortgage-Backed Securities –

APERS, State Police Retirement System, Arkansas Judicial Retirement System, Teacher, and Arkansas State Highway Employees Retirement System (ASHERS) invest in various asset-backed securities, mortgage-backed securities, and structured corporate debt. These securities are reported at fair value in the balance sheet. They are also included in the totals of government securities and corporate securities, depending on the issuer, in the disclosure of custodial credit risk (see note 2 on Deposits and Investments). The retirement systems referred to above invest in these securities to enhance yields on investments. Changes in market interest rates 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.

Pooled Funds –

APERS and Arkansas State Police Retirement System had approximately $395 and $41 million, respectively, invested in international pooled funds. These entities could be indirectly exposed to credit and market risks associated with forward currency contracts to the extent that these pooled funds hold forward currency contracts for purposes of managing exposure to fluctuations in foreign exchange rates.

Component Units

Mortgage-Backed Securities

ADFA invests in various asset and mortgage-backed securities. These securities are reported at fair value in the statement of net assets. They are also included in the totals of U.S. Government and Agency securities in the disclosure of custodial credit risk. ADFA invests in these securities to enhance yields on investments. Changes in market interest rates 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.

(4) Securities Lending Transactions

State Police, Teacher, and APERS participate in security lending programs, as authorized by Arkansas Code Annotated Title 24, Chapter 3, Subchapter 4, Section 12, whereby investment securities are transferred to an independent broker or dealer in exchange for collateral in the form of cash and cash equivalents or other securities guaranteed by the U.S. Government or an agency thereof equal to at least 102% of the full market value of the security loaned. At all times during the term of each loan, the total value of the collateral is not to be less than 95% of the full market value of all securities on loan. The program is administered by custodial agent banks. The code does not specify the types of securities that may be loaned. The type of securities on loan at June 30, 2004, includes domestic and international equities, domestic and international corporate fixed income securities, U.S. Treasury securities, governmental agency securities, and non-U.S. sovereigns. Securities on loan at fiscal year-end for cash collateral are uncategorized in the preceding summary of deposits and investments (note 2); securities on loan for noncash collateral are classified by category of custodial credit risk based on the categorization appropriate for the collateral. With the exception of cash collateral, the pensions do not have the ability to pledge or sell the collateral unless there is borrower default. The pensions invest cash collateral received; accordingly, investments made with cash collateral received appear as assets on the statement of plan net assets. As the pensions must return the cash collateral to the borrower upon expiration of the loan, a corresponding liability is recorded as obligations under securities lending. At June 30, 2004, cash collateral and investments made with cash collateral was approximately $1.31 billion. These securities have also been classified in the preceding summary of deposits and investments (see note 2). The weighted average maturity of collateral investments generally does not match the maturity of the loans. The custodial agents provide the pensions with an indemnification if an insolvency causes the borrower to fail to return the securities lent. However, in the history of the pensions' participation in such programs, no losses resulting from default have occurred. Total securities on loan at June 30, 2004, were $1.31 billion and total collateral received from these securities on loan was $1.31 billion. At June 30, 2004, the pension systems have no credit risk exposure to borrowers because the amounts the pension systems owe the borrowers exceed the amounts the borrowers owe the pension systems.

(5) Short Sales of Securities

Teacher participates in short sales of securities, as allowed under the prudent investor rule as set forth by Arkansas Code Annotated Title 24, Chapter 3, Subchapter 4, Section 17, whereby investment securities are borrowed and sold in anticipation of a price decline. If the price declines, the short seller generates a gain and closes out the short position with a purchase of like securities at a cost that is less than the obligation created by the initial borrowing. Because short sale borrowings represent obligations to deliver securities, they are not investments. The code does not specify the types of securities that can participate in such sales. Short sale obligations are marked-to-market and are recorded as a liability as of June 30, 2004, at a fair value of $7.8 million. The short sale transactions are administered by a custodial agent bank.

(6) Receivables

Receivables at June 30, 2004, consisted of the following (expressed in thousands):

Primary Government –

	Accounts	Taxes	Employee/ Employer	Medicaid	Loans	Investment Related	Other receivables	Allowance for uncollectibles	Total
General Fund	$ 207,164	627,792 (2)		130,787	208,234	21,383	29,832 (1)	(334,502)	890,690
Higher Education Fund	958,636				61,100	1,812		(747,768)	273,780
WCC	8,419					300			8,719
Non-major Enterprise Funds	80,356				217,499	508			298,363
Pension Trust			17,435			33,246	315,917		366,598
Agency						45	6,047		6,092
Total	$ 1,254,575	627,792	17,435	130,787	486,833	57,294	351,796	(1,082,270)	1,844,242

(1) $4,032 of this total is reflected as "due from other funds" in general fund and "receivables-agency funds" in government-wide.
(2) Receivable balances of $65,178 are not expected to be collected within one year of the date of the financial statements.

Component Units –

	Accounts	Loans	Capital lease receivable	Investment-related	Contributions	Allowance for uncollectibles	Net receivable by component unit
ASLA	$	299,107		5,862		(1,725)	303,244
ADFA	1,064	238,040	151,913	5,999		(13,660)	383,356
U of A Foundation[(3)]		278		2,261	43,583	(270)	45,852
Total	$ 1,064	537,425	151,913	14,122	43,583	(15,655)	732,452

(3) Five pledges approximate 61% of total contributions receivable at June 30, 2004.

(7) Intergovernmental Activity (expressed in thousands)

Interfund Receivables and Payables –

Due To	General Fund	Higher Education Fund	Due From Workers' Compensation Commission	Non-major Enterprise Funds	Agency Funds	Pension Trust	Total
General Fund	$	4,208	23	1,049	4,396	218	9,894
Higher Education Fund	1,181						1,181
Workers' Compensation Commission	192	195		5		1	393
Non-major Enterprise Fund	1,440						1,440
Agency Funds	583						583
Total	$ 3,396	4,403	23	1,054	4,396	219	13,491

Interfund receivables and payables include $1 million due from the Employment Security Division to the General Fund for computer services; $3.8 million due from the Employee Benefits Division Agency Fund to the General Fund for FICA savings and forfeited cafeteria plan withholding, which will be deposited in the Employee Health Plan Fund; $2.9 million due from the Higher Education Fund to the General Fund for worker's compensation and unemployment contributions, $1.4 million due from the General Fund to the Employment Security Department for unemployment insurance program contributions, and $1.2 million due from the General Fund to the Higher Education Fund for financial aid, payroll reimbursement, and training contract with the Department of Human Services. All amounts are expected to be repaid within one year.

Advances To/From Other Funds – Primary Government –

Advances From		Advances to		
		General Fund	Higher Education Fund	Total
General Fund	$		10,653	10,653
Pension Trust		16,667		16,667
Total	$	16,667	10653	27,320

Advances include: (1) an outstanding balance of $16,667 loaned to the General Fund, i.e., Department of Education, by the Teacher's Pension Trust Fund for the purchase of accounting software to be repaid over 15 years at 8% interest maturing in fiscal year 2012; and (2) advances in the amount of $10,653 to the Higher Education Fund for the construction of a biomedical research building. Repayment terms are based upon tax revenue from the 4% additional mixed drink tax collected each fiscal year. Interest is charged at 2.5% annually.

Transfers –

Transfers Out		Transfers In				
		General Fund	Higher Education Fund	Workers' Comp Commission	Non-Major Enterprise Funds	Total
General Fund	$		676,620	124	637	677,381
Higher Education Fund		44,100				44,100
Workers' Compensation Commission		1				1
Non-Major Enterprise Funds		4,998				4,998
Total	$	49,099	676,620	124	637	726,480

The transfer from the General Fund to the Higher Education Fund was for State funding of colleges and universities. The transfer from the Higher Education Fund to the Department of Human Services within the General Fund was for the transfer of a portion of the State funding provided to University of Arkansas Medical School to be used for the Medicaid Program. The transfer to the Workers' Compensation Commission Fund from the General Fund was to correct an error. The transfer from the Employment Security Department to the General Fund was for grant reimbursements. The transfer from the Construction Assistance Revolving Loan Fund to the General Fund was a grant from the Environmental Protection Agency to reimburse the Arkansas Soil and Water Conservation Commission for assistance in building clean drinking water facilities. The transfer from the Other Revolving Loan Funds to the General Fund ($1,819 to Arkansas Department of Health and $322 to Arkansas Soil and Water Conservation Commission) was also a grant from the Environmental Protection Agency for reimbursement of administrative expenses and monitoring of public drinking water facilities to ensure compliance with federal guidelines.

On the Government-wide financial statements additional transfers from the General Fund to the Higher Education Fund of $9,667 are reported which represent capital assets and long-term debt transferred due to the Higher Education Fund absorbing several state agencies previously reported in the General Fund.

(8) Capital Assets

Primary Government –

Capital asset activity for the year ended June 30, 2004, was as follows (expressed in thousands):

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 127,619	284,733	(853)	411,499
Construction in progress	1,915,875	238,660	(48,330)	2,106,205
Other non-depreciable assets	251,159	2,975	(250,930)	3,204
Total capital assets, not being depreciated	2,294,653	526,368	(300,113)	2,520,908
Capital assets, being depreciated:				
Land improvements	105,454	6,627	(494)	111,587
Infrastructure	8,103,046	418,825	(3,899)	8,517,972
Leasehold improvements	878	88	(83)	883
Buildings	786,435	18,840	(21,466)	783,809
Equipment	627,839	56,967	(57,691)	627,115
Other depreciable assets	1,349	2,935	(131)	4,153
Total capital assets, being depreciated	9,625,001	504,282	(83,764)	10,045,519
Subtotal	11,919,654	1,030,650	(383,877)	12,566,427
Less accumulated depreciation for:				
Land improvements	(17,365)	(17,886)	287	(34,964)
Infrastructure	(3,215,449)	(283,943)	3,899	(3,495,493)
Leasehold improvements	(219)	(267)	135	(351)
Buildings	(321,954)	(36,358)	5,978	(352,334)
Equipment	(413,492)	(59,299)	59,108	(413,683)
Other depreciable assets	(976)	(102)	41	(1,037)
Total accumulated depreciation	(3,969,455)	397,855	69,448	(4,297,862)
Governmental activities capital assets, net	$ 7,950,199	632,795	(314,429)	8,268,565

		Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
Business-type activities:					
Capital assets, not being depreciated:					
Land	$	70,754	19,488	(747)	89,495
Construction in progress		162,412	143,392	(127,552)	178,252
Total capital assets, not being depreciated		233,166	162,880	(128,299)	267,747
Capital assets, being depreciated:					
Improvements other than building		46,655	2,069	(35,670)	13,054
Leasehold improvements		2,815		(2,570)	245
Buildings		1,888,735	173,466	(1,772)	2,060,429
Equipment		416,187	59,802	(32,471)	443,518
Other depreciable assets		104,191	23,647	(3,918)	123,920
Infrastructure		80,466	40,057	(73)	120,450
Total capital assets, being depreciated		2,539,049	299,041	(76,474)	2,761,616
Less accumulated depreciation for:					
Improvements other than building		(14,467)	(3,011)	9,684	(7,794)
Leasehold improvements		(1,949)	(8)	1,885	(72)
Buildings		(723,567)	(84,553)	1,047	(807,073)
Equipment		(295,115)	(55,881)	33,739	(317,257)
Other depreciable assets		(64,322)	(15,931)	2,017	(78,236)
Infrastructure		(59,278)	(17,467)	20,674	(56,071)
Total accumulated depreciation		(1,158,698)	(176,851)	69,046	(1,266,503)
Total capital assets, being depreciated, net		1,380,351			1,495,113
Business-type activities capital assets, net	$	1,613,517			1,762,860

		Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
Major Enterprise Funds:					
Higher Education:					
Capital assets, not being depreciated:					
Land	$	67,202	19,487	(747)	85,942
Construction in progress		162,323	142,430	(127,552)	177,201
Total capital assets, not being depreciated		229,525	161,917	(128,299)	263,143
Capital assets being depreciated:					
Improvement other than building		46,655	2,069	(35,670)	13,054
Leasehold improvements		2,570		(2,570)	
Buildings		1,868,387	173,426	(1,772)	2,040,041
Equipment		408,363	59,761	(32,165)	435,959
Other depreciable assets		104,097	23,642	(3,918)	123,821
Infrastructure		80,466	40,057	(73)	120,450
Total capital assets, being depreciated		2,510,538	298,955	(76,168)	2,733,325
Less accumulated depreciation for:					
Improvement other than building		(14,467)	(3,011)	9,684	(7,794)
Leasehold improvements		(1,885)		1,885	
Buildings		(714,930)	(84,006)	1,047	(797,889)
Equipment		(289,339)	(55,321)	33,486	(311,174)
Other depreciable assets		(64,242)	(15,928)	2,017	(78,153)
Infrastructure		(59,278)	(17,467)	20,674	(56,071)
Total accumulated depreciation		(1,144,141)	(175,733)	68,793	(1,251,081)
Total capital assets, being depreciated, net		1,366,397			1,482,244
Higher Education: capital assets, net	$	1,595,922			1,745,387

		Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
Workers' Compensation Commission:					
Capital assets, not being depreciated:					
Land	$	580			580
Total capital assets, not being depreciated		580			580
Capital assets being depreciated:					
Buildings		2,272			2,272
Equipment		1,423	5	(17)	1,411
Other depreciable assets		94	5		99
Total capital assets, being depreciated		3,789	10	(17)	3,782
Less accumulated depreciation for:					
Buildings		(735)	(76)	0	(811)
Equipment		(1,129)	(142)	16	(1,255)
Other depreciable assets		(80)	(2)	0	(82)
Total accumulated depreciation		(1,944)	(220)	16	(2,148)
Total capital assets, being depreciated, net		1,845			1,634
Workers' Compensation Commission capital assets, net	$	2,425			2,214

Discretely Presented Component Units –

Activity for ASLA for the year ended June 30, 2004, was as follows (expressed in thousands):

		Balance July 1, 2003	Additions/ Deletions	Balance June 30, 2004
ASLA:				
Capital assets being depreciated:				
Equipment	$	345		345
Less accumulated depreciation for:				
Equipment		(325)	(11)	(336)
ASLA capital assets, net	$	20	(11)	9

Activity for ADFA for the year ended June 30, 2004, was as follows (expressed in thousands):

		Balance July 1, 2003	Additions/ Deletions	Balance June 30, 2004
ADFA:				
Capital assets being depreciated:				
Equipment	$	595	78	673
Less accumulated depreciation for:				
Equipment		(362)	(113)	(475)
ADFA capital assets, net	$	233	(35)	198

Activity for U of A Foundation, Inc. for the year ended June 30, 2004, was as follows (expressed in thousands):

		Balance July 1, 2003	Additions/ Deletions	Balance June 30, 2004
U of A Foundation:				
Capital assets not being depreciated:				
Land	$	2,617	(61)	2,556
Capital assets being depreciated:				
Buildings and equipment		705	51	756
Less accumulated depreciation for:				
Buildings and equipment		(545)	(79)	(624)
Total Assets being depreciated, net		160	(28)	132
Total Assets U of A Foundation	$	2,777		2,688

Capital Assets

Depreciation expense was charged to functions/programs of the primary government as follows (expressed in thousands):

Governmental Activities:		
Education	$	4,733
Health and human services		17,532
Transportation		287,578
Law, justice, and public safety		35,102
Recreation and resources development		21,069
General government		14,312
Regulation of business and professionals		1,640
Total depreciation expense – governmental	$	381,966
Business-type Activities:		
Enterprise Funds	$	111,134
Total depreciation expense – business-type activities	$	111,134
Component Units:		
ASLA	$	12
ADFA		75
U of A Foundation		79
Total depreciation expense – component units	$	166

(9) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2004, are summarized as follows (expressed in thousands):

	Balance, July 1, 2003	Additions	Accretion on capital appreciation bonds	Reductions	Transfer to business type activities	Balance, June 30, 2004	Due within one year	Due greater than one year
Governmental Activities:								
Bonds payable:								
General obligation	$ 920,986	20,000	1,871	19,684		923,173 *	21,137 **	902,036
Special obligation	585			125		460	90	370
Add (deduct):								
Deferred bond refunding loss	(1,064)			(53)		(1,011)		(1,011)
Issuance premium (discount)	16,709	621		1,991		15,339	2,012	13,327
Total bonds payable	937,216	20,621	1,871	21,747		937,961	23,239	914,722
Other debt instruments	25			25				
Notes payable to component unit	56,331	4,974		4,157		57,148	5,269	51,879
Note payable to pension trust fund	18,118			1,451		16,667	1,567	15,100
Notes payable to healthcare financing administration	1,131			410		721	538	183
Capital leases	11,862	802		3,026	102	9,536	2,810	6,726
Capital leases with component unit	76,041	4,161		9,620		70,582	7,460	63,122
Total notes and leases payable	163,508	9,937		18,689	102	154,654	17,644	137,010
Subtotal bonds, notes, and leases payable	1,100,724	30,558	1,871	40,436	102	1,092,615	40,883	1,051,732
Claims and judgments	104,172	338,584		302,466		140,290	20,450	119,840
Compensated absences	88,006	19,509				107,515	13,718	93,797
Subtotal claims, judgments, and compensated absences	192,178	358,093		302,466		247,805	34,168	213,637
Net pension obligation	1,168			1,168				
Governmental activity total	$ 1,294,070	388,651	1,871	344,070	102	1,340,420	75,051	1,265,369

* includes accretion on capital appreciation bonds of $69,125.
** includes accretion on capital appreciation bonds of $1,310.

	Balance, July 1, 2003	Additions	Reductions	Balance, June 30, 2004	Due within one year	Due Greater than one year
Business-type Activities:						
Bonds payable:						
Special obligation:						
War Memorial	$ 940		940			
Construction Assistance Revolving Loan Fund	103,275	35,855	45,600	93,530	4,620	88,910
College and University Revenue Bonds	637,229	58,167	32,834	662,562	26,389	636,173
Add (deduct) Issuance Premiums (discounts)	(1,124)		(1,001)	(123)	7	(130)
Total bonds payable	740,320	94,022	78,373	755,969	31,016	724,953
Notes payable	22,281	3,336	4,453	21,164	4,163	17,001
Notes payable with component unit	6,349		429	5,920	457	5,463
Total notes payable	28,630	3,336	4,882	27,084	4,620	22,464
Capital leases	8,114	14,905	5,539	17,480	5,077	12,403
Capital leases with component unit	2,240		310	1,930	315	1,615
Total leases payable	10,354	14,905	5,849	19,410	5,392	14,018
Subtotal bonds, notes and leases payable	779,304	112,263	89,104	802,463	41,028	761,435
Claims and judgments	195,553	96,367	87,611	204,309	25,105	179,204
Compensated absences	57,622	14,187	10,530	61,279	7,550	53,729
Business-type activity total	$ 1,032,479	222,817	187,245	1,068,051	73,683	994,368

	Balance, July 1, 2003	Additions	Reductions	Balance, June 30, 2004	Due within one year	Due Greater than one year
Major Enterprise Funds:						
Higher Education Fund:						
Bonds payable:						
College and University Revenue Bonds	$ 637,229	58,167	32,834	662,562	26,389	636,173
Add insurance premiums	167		7	160	7	153
Total bonds payable	637,396	58,167	32,841	662,722	26,396	636,326
Notes payable	22,281	3,336	4,453	21,164	4,163	17,001
Notes payable with component unit	6,349		429	5,920	457	5,463
Total notes payable	28,630	3,336	4,882	27,084	4,620	22,464
Capital leases	8,114	14,905	5,539	17,480	5,077	12,403
Capital leases with component unit	400		150	250	150	100
Total lease payable	8,514	14,905	5,689	17,730	5,227	12,503
Subtotal bonds, notes and leases payable	674,540	76,408	43,412	707,536	36,243	671,293
Claims and judgments	11,802	75,097	73,762	13,137	13,137	
Compensated absences	55,157	10,785	8,103	57,839	7,343	50,496
Higher Education total	$ 741,499	162,290	125,277	778,512	56,723	721,789
Worker's Compensation Commission Fund:						
Capital leases with component unit	$ 1,840		160	1,680	165	1,515
Claims and benefits	183,751	21,270	13,849	191,172	11,968	179,204
Compensated absences	525	62		587	35	552
Worker's Compensation Commission total	$ 186,116	21,332	14,009	193,439	12,168	181,271

	Balance, July 1, 2003	Additions	Reductions	Balance, June 30, 2004	Due within one year	Due greater than one year
Component units:						
Arkansas Student Loan Authority:						
Bonds payable:						
Revenue	$ 313,780	135,000	44,130	404,650		404,650
Less: Issuance discounts	(10)		(10)			
Deferred bond refunding loss		(1,481)	(364)	(1,117)		(1,117)
Subtotal bonds payable ASLA	313,770	133,519	43,756	403,533		403,533
Notes payable:	6,860	11,530	18,390			
Total bonds and notes payable ASLA	320,630	145,049	62,146	403,533		403,533
Arkansas Development Finance Authority:						
Bonds payable:						
Special Obligation	1,418,162	350,493	406,658	1,361,997	228,053	1,133,944
Less: Issuance discounts	(1,715)	(724)	(341)	(2,098)		(2,098)
Total bonds payable ADFA	1,416,447	349,769	406,317	1,359,899	228,053	1,131,846
U of A Foundation Annuity Obligations	14,748	2,317	1,689	15,376	1,035	14,341
Component units total	$ 1,751,825	497,135	470,152	1,778,808	229,088	1,549,720

Primary Government –

Governmental Activities

General Obligation Bonds – The Constitution of the State does not limit the amount of general obligation bonds which may be issued by the State; however, no such bonds may be issued unless approved by the voters of the State at a general election or a special election held for that purpose.

General obligation bonds outstanding at June 30, 2004, were as follows (expressed in thousands):

	Final maturity date	Interest Rates	Balance
Federal Highway Grant Anticipation and Tax Revenue G.O. Bonds:			
2000A Series Federal Highway G.O. Bonds	2012	5.25-5.50	$ 175,000
2001A Series Federal Highway G.O. Bonds	2013	4.00-5.25	185,000
2002 Series Federal Highway G.O. Bonds	2014	3.50-5.00	215,000
Soil and Water Conservation Bonds:			
1995A Series Water Resources G.O. Bonds	2024	4.80-5.60	4,300
1995B Series Water Resources G.O. Bonds	2025	4.40-5.75	6,190
1994A Series Waste Disposal G.O. Bonds	2008	4.80-5.50	3,825
1995A Series Waste Disposal G.O. Bonds	2025	4.25-5.50	2,080
1998A Series Waste Disposal G.O. Bonds	2027	4.50-5.05	8,905
2000A Series Water, Waste, and Pollution	2033	4.75-5.75	4,930
2001A Series Water, Waste, and Pollution	2011	4.65-6.30	7,310
2001B Series Water, Waste, and Pollution	2011	3.25-4.45	2,655
2002A Series Water, Waste, and Pollution	2026	4.00-5.00	13,260
2002B Series Water, Waste, and Pollution	2025	4.25-5.00	6,515
2002C Series Water, Waste, and Pollution	2020	3.50-5.00	7,785
2002D Series Water, Waste, and Pollution	2017	3.00-4.75	8,550
2002E Series Water, Waste, and Pollution	2012	2.75-5.80	2,200
2002F Series Water, Waste, and Pollution	2012	2.00-4.20	2,270
2002G Series Water, Waste, and Pollution	2035	2.85-4.95	5,000
2002H Series Water, Waste, and Pollution	2017	4.50-5.35	1,930
2002I Series Water, Waste, and Pollution	2026	3.00-4.75	10,650
2002J Series Water, Waste, and Pollution	2008	3.00	3,265
2002K Series Water, Waste, and Pollution	2026	3.00-4.875	8,575
2003A Series Water, Waste, and Pollution	2020	2.25-5.30	2,295
2003B Series Water, Waste, and Pollution	2027	2.00-4.65	6,180
2003C Series Water, Waste, and Pollution	2033	2.50-4.75	20,000
College Savings Bonds:			
1991A Series, G.O. Bonds	2011	6.40-7.00	11,151
1991B Series, G.O. Bonds	2012	6.45-7.00	18,012
1991C Series, G.O. Bonds	2013	6.25-6.90	12,236
1993 Series, G.O. Bonds	2014	5.15-5.95	15,564
1995 Series, G.O. Bonds	2015	4.60-5.90	16,340
1996A Series, G.O. Bonds	2016	4.00-5.65	18,865
1996B Series, G.O. Bonds	2016	4.65-6.30	14,036
1996C Series, G.O. Bonds	2016	4.40-6.00	21,059
1997A Series, G.O. Bonds	2017	4.70-6.05	24,327
1997B Series, G.O. Bonds	2017	4.15-5.60	23,934
1998A Series, G.O. Bonds	2017	4.00-5.35	33,979
Total			$ 923,173

Future amounts required to pay principal and interest on general obligation bonds at June 30, 2004, including accrued accreted interest of approximately $69 million on capital appreciation bonds, were as follows (expressed in thousands):

		Principal	Interest	Total
Year ending June 30:				
2005	$	19,827	46,372	66,199
2006		66,175	45,044	111,219
2007		67,527	43,624	111,151
2008		70,292	40,772	111,064
2009		70,390	38,693	109,083
2010-2014		390,755	147,289	538,044
2015-2019		124,147	52,429	176,576
2020-2024		24,780	8,730	33,510
2025-2029		13,445	3,064	16,509
2030-2034		6,405	936	7,341
2035-2039		305	15	320
Total	$	854,048	426,968	1,281,016

Details of general obligation bonds outstanding are as follows:

Federal Highway Grant Anticipation and Tax Revenue General Obligation Bonds – Act 1027 of 1999 and a statewide election conducted June 15, 1999, authorized the State to issue Federal Highway Grant Anticipation and Tax Revenue General Obligation Bonds. All bonds issued under the authority of this act are general obligations of the State and are secured by irrevocable pledge of the full faith, credit, and resources of the State. The act limited the total principal amount to $575 million to be issued in several series of various principal amounts. The bonds were issued to pay the cost of constructing and renovating improvements to interstate highways and related facilities in the State of Arkansas. The bonds are payable primarily by revenues derived from the tax on diesel fuel at the rate of $.04 cents per gallon.

State Water, Waste Disposal, and Pollution Abatement Facilities General Obligation Bonds – Act 607 of 1997, authorized the State Soil and Water Conservation Commission to issue Water, Waste Disposal, and Pollution Abatement Facilities General Obligation Bonds. All bonds issued under the authority of this act are general obligations of the State and are secured by an irrevocable pledge of the full faith, credit, and resources of the State. The act limited the total principal amount to approximately $300 million with no more than $60 million being issued during any fiscal biennium for nonrefunding purposes unless the General Assembly by law authorizes a greater amount to be issued. The bonds were issued to provide financing for the development of water, waste disposal, pollution abatement, drainage and flood control, irrigation and wetland preservation facilities projects in the State. The bonds are payable from the general revenues of the State. Repayment of financial assistance provided for the development of the projects is first used to repay the bonds, any remaining debt service requirement is paid from general revenues.

State Water Resources Development General Obligation Bonds – Act 496 of 1981, as amended, authorized the State Soil and Water Conservation Commission to issue State Water Resources Development General Obligation Bonds. All bonds issued under the authority of this Act are general obligations of the State of Arkansas and are secured by an irrevocable pledge of the full faith, credit, and resources of the State. The bonds were issued to provide financing for the development of water resources projects in the State of Arkansas approved and implemented by the Arkansas Soil and Water Conservation Commission. Repayment of financial assistance provided for the development of the projects is first used to repay the bonds, any remaining debt service requirement is paid from general revenues.

State Waste Disposal and Pollution Abatement Facilities General Obligation Bonds – Act 686 of 1987, as amended, authorized the State Soil and Water Conservation Commission to issue Waste Disposal and Pollution Abatement Facilities General Obligation Bonds. All bonds issued under the authority of this act are general obligations of the State and are secured by an irrevocable pledge of the full faith, credit, and resources of the State. The act limited the total principal amount to $250 million with no more than $50 million being issued during any fiscal biennium unless the General Assembly by law authorizes a greater amount to be issued. The bonds are issued to provide financing for the development of waste disposal and pollution abatement facilities projects in the State of Arkansas. Repayment of financial assistance provided for the development of the projects is first used to repay the bonds, any remaining debt service requirement is paid from general revenues. No bonds were issued under this act in the 2004 fiscal year.

College Savings General Obligation Bonds – Act 683 of 1989, as amended, authorized the State to issue College Savings General Obligation Bonds. All bonds issued under the authority of this act are direct general obligations of the State and are secured by an irrevocable pledge of the full faith, credit, and resources of the State. The act provides that no more than $100 million may be issued in any fiscal biennium unless the General Assembly of the State shall, by law, authorize a greater principal amount thereof to be issued. The College Series bonds were issued to provide funds to finance capital improvements projects at State institutions of higher education. The bonds are payable from the net general revenues of the State and investment earnings on the proceeds of the bonds.

Special Obligation Bonds – Special obligation bonds are issued by various State departments, agencies, and authorities which are part of the primary government. Special obligation bonds are issued pursuant to specific statutory provisions enacted by the Legislature. Principal and interest payments are made from specifically dedicated fees and other revenues generated by the appropriate program. Special obligation bonds do not constitute general debt of the State.

Special obligation bonds outstanding at June 30, 2004, were as follows (expressed in thousands):

	Final maturity date	Interest rate(s) %	Balance
Vocational and Technical Education – Capital Improvements – 1992A Series	2012	5.80-6.38	$ 460

Future amounts required to pay principal and interest on special obligation bonds at June 30, 2004, were as follows (expressed in thousands):

	Principal	Interest	Total
Year ending June 30:			
2005	$ 90	29	119
2006	95	23	118
2007	100	17	117
2008	105	11	116
2009	70	5	75
Total	$ 460	85	545

Details of special obligation bonds outstanding are as follows:

Vocational and Technical Education – The capital improvement revenue bonds were issued under the authority of Act 6 of the First Extraordinary Session of 1968, as amended. The bonds are special obligations of the Department of Workforce Education and are payable from and secured solely by pledged revenues and investment earnings on the proceeds of the bonds. The proceeds from the sale of the bonds were used to finance various capital improvements at vocational technical schools.

Notes Payable to Component Units – Notes payable to component units consist of notes issued to ADFA for construction and renovation of various State agency facilities. Principal and interest payments are made from specifically dedicated fees and other revenue sources.

Future amounts required to pay principal and interest on notes payable to component units at June 30, 2004, were as follows (expressed in thousands):

	Principal	Interest	Total
Year ending June 30:			
2005	$ 5,269	5,098	10,367
2006	5,002	4,940	9,942
2007	2,892	3,769	6,661
2008	2,647	2,317	4,964
2009	2,777	2,182	4,959
2010-2014	16,202	8,581	24,783
2015-2019	15,704	3,828	19,532
2020-2024	2,585	1,426	4,011
2025-2029	3,315	648	3,963
2030-2035	755	20	775
Total	$ 57,148	32,809	89,957

Note Payable to Pension Trust Fund – The note payable to the pension trust fund consists of a note issued to the Arkansas Teacher's Retirement System from the Department of Education for a statewide computer system capable of linking all public school district systems and the Department of Education's computer system. The note payable provides that interest for the loan(s) for this project shall be at the rate of eight percent (8%). The Agency borrowed $24.8 million in nine (9) installments between November 24, 1992 and July 17, 1996, to fund the project. Accrued interest totaled $5.0 million at June 30, 1997 and was paid on August 26, 1997.

The Agency signed a promissory note dated July 1, 1997, in which repayment of the loan was scheduled to begin on June 30, 1998 with an annual payment of $2.9 million. These annual payments are to continue for fourteen (14) years. A final payment of the unpaid principal and accrued interest is to be made on June 30, 2012. The Agency made its first annual payment on August 18, 1997.

Future amounts required to pay principal and interest on notes payable to pension trust fund at June 30, 2004, were as follows (expressed in thousands):

		Principal	Interest	Total
Year ending June 30:				
2005	$	1,567	1,333	2,900
2006		1,692	1,208	2,900
2007		1,828	1,072	2,900
2008		1,974	926	2,900
2009		2,132	768	2,900
2010-2014		7,474	1,228	8,702
Total	$	16,667	6,535	23,202

Notes Payable to Medicare-Medicaid Health Care Financing Administration – The note payable to Medicare-Medicaid Health Care Financing Administration consist of a note issued to the Department of Health for Home Health's additional Periodic Interim Payment System (PIP) payments. The Medicare Home Health Prospective Payment System (HH PPS) became effective on October 1, 2000; under the Balanced Budget Act of 1997. To help alleviate the transition from the PIP, legislation was enacted under the Medicare, Medicaid and SCHIP Benefits Improvement and Protection Act of 2000 (BIPA). This allowed home health providers who received PIP payments in September 2000 to receive an additional PIP payment equal to four times the last full PIP payment made to the agency.

Home Health providers that received the additional PIPs were to add the payments to their cost reports, reflecting their final period including cost-based payments that ended September 30, 2000 or later. The full amount of the PIP payment was to be included in the cost report even if some or all of it was applied to reduce or recover existing over payments. Arkansas Department of Health's filing date for the fiscal year ending June 30, 2001 was submitted August 2, 2002. Any resulting overpayment was to be recovered at the tentative settlement according to normal cost reporting settlement procedures.

Arkansas Department of Health Home Health's additional PIP payment was $2,153,970. On November 15, 2002, ADH was granted an extended repayment schedule for the repayment of the one time PIP payment. Repayment of the loan was scheduled to begin on December 16, 2002 with monthly payments of $46,845. These monthly payments are to continue for 36 months. A final payment of the unpaid principal and accrued interest is to be made on October 1, 2005.

Future amounts required to pay principal and interest on the note payable to the Medicare-Medicaid Health Care Financing Administration at June 30, 2004, were as follows (expressed in thousands):

		Principal	Interest	Total
Year ending June 30:				
2005	$	538	58	596
2006		183	5	188
Total	$	721	63	784

(a)

Business-Type Activities

Special obligation bonds outstanding at June 30, 2004, issued pursuant to specific statutory provisions enacted by the legislature and paid from specifically dedicated fees and other revenues generated by a particular program and do not constitute general debt of the State were as follows (expressed in thousands):

	Final maturity date	Interest rate(s) %	Balance
Construction Assistance Revolving Loan Fund	2022	2.0 – 5.5	$ 93,530
Total			$ 93,530

Details of the Special Obligation Bonds outstanding are as follows:

Construction Assistance Revolving Loan Fund (the Fund) – ADFA issues special obligation bonds on behalf of the Fund. The Fund uses the proceeds to support operations. The Fund is responsible for providing a perpetual fund for financing the construction of wastewater treatment facilities for municipalities and other public entities. The bonds are payable solely from loan repayments, interest on investments, and financing fees generated by the Fund. The State is not obligated to pay the bonds, and neither the faith and credit nor the taxing power of the State is pledged to the payment of principal or redemption price of or interest on the bonds.

Future amounts required to pay principal and interest on the special obligation bonds at June 30, 2004, were as follows (expressed in thousands). The principal amount shown differs from the amount on the combined statement of net assets due to unamortized discounts of approximately $283:

	Principal	Interest	Total
Year ending June 30:			
2005	$ 4,620	4,377	8,997
2006	4,955	4,093	9,048
2007	5,180	3,893	9,073
2008	5,810	3,678	9,488
2009	6,525	3,426	9,951
2010-2014	36,210	12,659	48,869
2015-2019	25,610	3,841	29,451
2020-2022	4,620	340	4,960
Total	$ 93,530	36,307	129,837

Higher Education Fund

Colleges and Universities – The boards of trustees of State-sponsored colleges and universities are authorized to issue revenue bonds and notes for the purpose of financing all or part of the acquisition of land, the construction or renovation of buildings, and the acquisition of furnishings or equipment for any such buildings of all State colleges and universities. The bonds, which are not general debt of the State, are payable from student tuition and other fees.

At June 30, 2004, college and university revenue bonds and notes payable outstanding were as follows (expressed in thousands). The principal amount shown differs from the amount on the combined statement of net assets due to unamortized premiums of approximately $160:

	Final maturity date	Interest rate(s) %		Balance
Henderson State University	2026	1.80-7.46	$	17,000
Southern Arkansas University – Magnolia	2028	1.40-5.35		11,415
Southern Arkansas University Tech – Camden	2015	2.05-6.25		966
Arkansas State University – Beebe	2023	3.00-6.61		4,823
Arkansas State University – Jonesboro	2034	Variable		93,419
Arkansas State University – Mountain Home	2019	3.81-5.38		6,426
Arkansas State University - Newport	2028	1.30-4.63		4,922
Arkansas Tech University	2031	1.1-6.375		23,977
University of Arkansas at Fayetteville	2032	Variable		228,096
University of Arkansas at Little Rock	2015	1.00-4.89		21,833
University of Arkansas for Medical Sciences	2019	Variable		73,200
University of Arkansas at Monticello	2018	Variable		5,182
University of Arkansas at Pine Bluff	2027	Variable		10,181
University of Central Arkansas	2033	2.00-7.75		50,890
University of Arkansas at Hope Community College	2021	2.05-6.00		6,824
University of Arkansas Community College at Batesville	2018	Variable		5,060
University of Arkansas at Morrilton	2022	2.25-5.25		4,910
University of Arkansas at Fort Smith	2023	1.00-6.50		48,403
University of Arkansas at Cossatot	2008	2.05		300
East Arkansas Community College	2013	3.50-6.00		1,160
National Park Community College	2017	3.50-4.50		3,075
Mid-South Technical College	2033	4.00-5.25		13,090
Arkansas Northeastern College	2031	4.00-5.35		5,075
North Arkansas Community Technical College	2006	3.00-5.10		2,385
Phillips Community College of the Univ. of Arkansas	2017	3.90-5.00		5,265
Rich Mountain Community College	2022	2.25-5.00		1,875
Northwest Arkansas Community College	2020	1.50-5.85		9,270
Black River Technical College	2028	1.35-4.25		3,240
Pulaski Technical College	2028	1.70-5.15		23,640
South Arkansas Community College	2018	2.05-6.37		873
Ozarka College	2027	3.00-7.24		2,871
Total			$	689,646

Future amounts required to pay principal and interest on college and university revenue bonds and notes payable as of June 30, 2004, were as follows (expressed in thousands):

		Principal	Interest	Total
Year ending June 30:				
2005	$	31,007	29,844	60,851
2006		29,308	28,831	58,139
2007		29,353	27,772	57,125
2008		29,834	26,677	56,511
2009		30,796	25,495	56,291
2010-2014		160,792	105,523	266,315
2015-2019		155,625	74,517	230,142
2020-2024		124,557	39,580	164,137
2025-2029		59,693	17,993	77,686
2030-2034		38,681	4,640	43,321
Total	$	689,646	380,872	1,070,518

Component Units –

Arkansas Student Loan Authority – Pursuant to Act 873 of 1977 revenue bonds are issued by ASLA to make loans directly to students and purchase qualified student loans from Arkansas lending institutions or loans made by non-Arkansas institutions to Arkansas residents. Principal and interest payments are made from specifically dedicated revenues generated by ASLA. Revenue bonds do not constitute general debt of the State.

Revenue bonds outstanding at June 30, 2004, were as follows (expressed in thousands). The principal amount shown differs from the amount on the balance sheet due to a deferred refunding bond loss of $1,117:

	Final maturity date	Interest rate(s) %		Balance
Student Loan Revenue Bonds, Series 1994A	2009	1.35	$	34,800
Student Loan Revenue Bonds, Series 1994B	2009	7.25		6,600
Student Loan Revenue Refunding Bonds, Series 1996A	2010	1.29		42,900
Student Loan Revenue Bonds, Series 1997A	2014	1.30		31,150
Student Loan Revenue Refunding Bonds, Series 1997B	2014	9.75		17,400
Student Loan Revenue Refunding Bonds, Series 2000A-1	2030	1.35		55,000
Student Loan Revenue Refunding Bonds, Series 2000A-2	2030	1.36		20,000
Student Loan Revenue Refunding Bonds, Series 2002A-1	2036	1.26		56,000
Student Loan Revenue Refunding Bonds, Series 2002A-2	2009	1.25		5,800
Student Loan Revenue Refunding Bonds, Series 2004 A-1	2038	1.50		119,500
Student Loan Revenue Refunding Bonds, Series 2004 A-3	2038	1.50		15,500
Total			$	404,650

Future amounts required to pay principal and interest on revenue bonds at June 30, 2004, were as follows (expressed in thousands):

		Principal	Interest	Total
Year ending June 30:				
2005	$		21,373	21,373
2006		24,100	21,373	45,473
2007			21,373	21,373
2008			21,373	21,373
2009		62,900	21,373	84,273
2010-2014		110,250	107,000	217,250
2015-2019			56,800	56,800
2020-2024			56,800	56,800
2025-2029			56,800	56,800
2030-2034		65,000	56,800	121,800
2035-2038		142,400	57,846	200,246
Total	$	404,650	498,911	903,561

Arkansas Development Finance Authority – Pursuant to Act 1062, ADFA 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, healthcare facilities, housing developments, and industrial enterprises.

Bonds and other debt instruments issued by ADFA are special obligations of ADFA payable solely from and collateralized by a first lien on the proceeds, monies, revenues, rights, interests, and collections pledged therefore under the resolutions authorizing the particular issues. The State 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. ADFA has no taxing power.

Conduit debt issued by the Authority is recorded on the Authority’s balance sheet if either (a) the Authority has a vested interest in the residual value of the bond issue after its retirement or (b) the Authority guarantees the debt obligations of entities that are included in the State of Arkansas reporting entity on its statement of net assets.

During the normal course of business, Arkansas Development Finance Authority issues economic development revenue bonds and multi-family housing revenue bonds on behalf of private companies within the State of Arkansas. The bonds are payable solely from and secured by a pledge of revenues from the private companies to which the bond proceeds were remitted and accordingly, are not obligations of the Arkansas Development Finance Authority or the State of Arkansas. At June 30, 2004 the bonds outstanding issued under these programs aggregated $435.0 million.

Bonds and notes payable at June 30, 2004, were as follows (expressed in thousands):

	Final maturity date	Interest rate(s) %		Balance
Single Family Bonds Payable	2034	1.15-10.00	$	855,971
Multi-Family Bonds Payable	2035	2.40-9.75		140,144
Development Finance Programs Bonds Payable	2029	1.00-8.48		280,457
Tobacco Bond Payable	2041	2.80-5.50		58,900
General Fund Note Payable	2003	1.02-1.69		24,427
Total			$	1,359,899

Future amounts required to pay principal and interest on ADFA debt at June 30, 2004, were as follows (expressed in thousands). The principal amount shown differs from the amount on the balance sheet due to unamortized discounts of approximately $2,098:

		Principal	Interest	Total
Year ending June 30:				
2005	$	228,053	65,063	293,116
2006		80,044	61,003	141,047
2007		48,319	57,765	106,084
2008		48,322	54,751	103,073
2009		44,938	51,849	96,787
2010-2014		218,850	222,581	441,431
2015-2019		212,161	164,058	376,219
2020-2024		176,680	111,030	287,710
2025-2029		186,300	60,592	246,892
2030-2034		106,080	16,291	122,371
2035-2039		9,800	1,356	11,156
2040-2044		2,450	197	2,647
Total	$	1,361,997	866,536	2,228,533

U of A Foundation – The U of A Foundation receives gifts in return for lifetime annuities from some of its contributors. The terms of these annuities vary depending upon the life expectancy of the recipients. The quarterly payments as of June 30, 2004, were $466,921 including interest ranging from 5% to 12%.

Aggregate annual maturities of annuity obligations at June 30, 2004, (expressed in thousands) were as follows:

		Principal
Year ending June 30:		
2005	$	1,035
2006		995
2007		932
2008		796
2009		755
Thereafter		10,863
Total	$	15,376

The U of A Foundation is a private nonprofit organization that reports under FASB standards and is not required to report under GASB standards. As such, the U of A Foundation is not required to report future amounts related to interest on long-term liabilities.

Prior Defeasances

Primary Government –

In prior years, the State defeased certain bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments of old bonds. Accordingly, these trust account assets and the liability for the defeased bonds are not included in these financial statements. Bonds with total outstanding amounts of approximately $76.3 million are considered defeased at June 30, 2004.

Component Units –

In prior years, ADFA defeased certain bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments of old bonds. Accordingly, these trust account assets and the liability for the defeased bonds are not included in these financial statements. Bonds with total outstanding amounts of approximately $42.7 million are considered defeased at June 30, 2004.

Higher Education –

In prior years, the University of Arkansas at Little Rock defeased certain bonds by placing the amounts necessary for defeasance in irrevocable trusts with the escrow agents to provide for all debt service payments. Accordingly, these trust account assets and the liability for the defeased bonds are not included in these financial statements. Bonds with total outstanding amounts of approximately $18.4 million are considered defeased at June 30, 2004.

In prior years, the University of Arkansas at Fort Smith defeased certain bonds by placing a portion of the proceeds of new bonds in an irrevocable trusts to provide for all future debt service payments of the old bonds. Accordingly, the trust account assets and liability for the defeased bonds are not included in these financial statements. Bonds with total outstanding amounts of approximately $ 31.7 million are considered defeased at June 30, 2004.

Current Refundings

Component Units

Arkansas Student Loan Authority - In January of 2004, ASLA issued Series 2004 Bonds in the aggregate principal amount of $135,000,000. This issue consisted of: Student Loan Revenue and Refunding Bonds Series 2004A-1 Bonds, Student Loan Revenue Bonds Senior Series 2004A-2, and Taxable Student Loan Revenue Refunding Bonds Series 2004A-3. The Bonds were issued to refund and defease certain obligations of the Authority as follows: (1) Refund the Authority's $2,310,000 Interim Note dated May 23, 2003; refund the Interim Note of $11,350,000 dated August 7, 2003; refund the November 27, 2002, Interim Note of $4,550,000; (2) refund, at no corresponding gain or loss, $18,600,000 of the Authority's Series 1994A Bonds; and (3) advance refunding, by the defeasance method, of $14,000,000 of the Authority's Series 1996B Bonds with a deferred loss of $1,481,000 to be amortized over the remaining life of the old debt. The amount recognized during the year ended June 30, 2004, was $364,315.

(10) Leases

The State has entered into various lease agreements with the private sector, primarily for buildings and equipment. These agreements are for various terms with most containing clauses indicating that their continuation is subject to continuing appropriation by the Legislature.

The State has lease agreements for buildings and equipment which are accounted for as operating leases. The lease payments are recorded as expenditures or expenses over the life of the lease.

The State also has lease agreements for buildings and equipment which are accounted for as capital leases. FASB Statement No. 13, *Accounting for Leases*, requires a lease that transfers substantially all of the benefits and risks of ownership to the lessee to be accounted for as the acquisition of a capital asset and the incurrence of an obligation by the lessee. Capital leases in the government-wide and proprietary fund statements are reported as a long-term obligation in those funds along with the related assets. Capital leases for the Governmental Funds are reported as other financing sources and expenditures.

The State also has direct-financing lease agreements with ADFA. These leases and the related assets are reported separately from other capital leases in the notes to the government-wide financial statements.

Most of these leases contain a fiscal funding addendum stating that the lease shall terminate on the last day of the fiscal year if appropriated funds for the ensuing fiscal year are insufficient. However, these leases are accounted for as capital leases and are considered noncancelable for financial reporting purposes.

Assets acquired through capital leases (expressed in thousands) were as follows:

		Governmental activities	Business-type activities	Higher Education Fund	Workers' Compensation Commission
Assets:					
Buildings	$	142,473	3,767	1,495	2,272
Machinery and equipment		3,530	27,986	27,986	
Less Accumulated depreciation		(67,757)	(11,956)	(11,145)	(811)
Total	$	78,246	19,797	18,336	1,461

Future minimum commitments under operating and capital leases by fund type as of June 30, 2004, were as follows (expressed in thousands):

	Capital leases		
	Governmental activities	Business-type activities	Higher Education Fund
Year ending June 30:			
2005	$ 3,437	5,268	5,268
2006	2,855	4,372	4,372
2007	1,749	3,624	3,624
2008	1,187	2,820	2,820
2009	942	731	731
2010-2014	1,061	805	805
2015-2019		575	575
2020-2024		115	115
Total minimum lease payments	11,231	18,310	18,310
Less interest	1,695	830	830
Present value of future minimum lease payments	$ 9,536	17,480	17,480

	Capital leases with component unit			
	Governmental activities	Business-type activities	Higher Education Fund	Workers' Compensation Commission
Year ending June 30:				
2005	$ 9,998	357	130	227
2006	9,990	368	140	228
2007	9,974	234	10	224
2008	9,965	228		228
2009	7,210	227		227
2010-2014	26,013	900		900
2015-2019	13,325			
2020-2024	2,489			
Total minimum lease payments	88,964	2,314	280	2,034
Less interest	18,382	384	30	354
Present value of future minimum lease payments	$ 70,582	1,930	250	1,680

		Operating leases			
		Governmental activities	Business-type activities	Higher Education Fund	Non-major enterprise funds
Year ending June 30:	$				
2005		19,141	10,024	9,442	582
2006		12,964	5,268	5,061	207
2007		8,923	2,696	2,686	10
2008		1,814	1,770	1,770	
2009		1,333	1,471	1,471	
2010-2014		1,253	1,478	1,478	
Total minimum lease payments	$	45,428	22,707	21,908	799
Total rental expenditure/ expense (2004)	$	23,202	12,990	11,662	1,328

(11) Fund Balances/Net Assets

Deficit Net Assets

The Workers' Compensation Commission (WCC) had a $29.4 million deficit in net assets as of June 30, 2004. The deficit is due to a change in actuarial assumptions during the fiscal year ended June 30, 1997. During 1997, the structure of the law changed by tying Workers' Compensation payments to the State's average weekly wage. This increased the payout of claims without increasing the amount of premiums collected by the agency. Since the deficit is not eliminated by normal operations, WCC has the ability to seek legislation to 1) increase Workers' Compensation Tax Premiums, or 2) increase the threshold of claims submitted to WCC. Also, WCC has the ability to change its investment strategy to receive larger returns on its investments without legislation. A committee comprised of the Chamber of Commerce, AFL-CIO and WCC employees has been appointed to study the actuarial assumptions and recommend a solution to the WCC director.

(12) Pensions

Plan Descriptions

The State contributed to three single-employer defined benefit pension plans: Arkansas Judicial Retirement Plan (Judicial), Arkansas Highway and Transportation Retirement Plan (Highway), and Arkansas State Police Retirement System (State Police). State Police and Judicial are administered by APERS. Highway is self administered. Each plan provides retirement, disability, and death benefits, in accordance with benefit provisions as established and amended by State Statute (A.C.A.24). Each plan issues a publicly available financial report, which may be obtained by writing or calling the appropriate plan:

Arkansas Judicial Retirement Plan	Arkansas Highway and Transportation Retirement Plan	Arkansas State Police Retirement Plan
One Union National Plaza 124 W. Capitol Little Rock, AR 72201-1015 (501) 682-7800	10324 I-30 Little Rock, AR 72209 (501) 569-2000	One Union National Plaza 124 W. Capitol 4th Floor Little Rock, AR 72201-1015 (501) 682-7800

The State sponsors two cost-sharing multiple-employer defined benefit plans: Teacher, administered by the Arkansas Teacher Retirement System board of trustees, and APERS, administered by the Arkansas Public Employees Retirement System board of trustees, which provide retirement, disability and death benefits, and annual cost-of-living adjustments to plan members and beneficiaries. Benefit provisions are established and amended by State statute (A.C.A.24). Each plan issues a publicly available financial report, which may be obtained by writing or calling the appropriate plan:

Arkansas Teacher Retirement Plan

1400 West Third Street
Little Rock, AR 72201
(501) 682-1517

Arkansas Public Employees Retirement Plan

One Union National Plaza
124 W. Capital
Little Rock, AR 72201
(501) 682-7800

Funding Policies

State statute establishes the contribution requirements of plan members and the State. The State's annual pension cost for the current year and related information for each plan is as follows:

		Teacher	APERS	Highway	State Police	Judicial
Number of participating employers/contributing entities		404	748	1	1	1
Contribution rates for the fiscal year ended June 30, 2004 (% of covered payroll):		14.00%	4-22%	12.90%	19.90%	12.00%
Covered Payroll (in thousands)	$	1,747,706	1,175,786	117,832	21,320	16,282
State Plan Members-contributory plans		6.00%	6.00%	6.00%	9.25%	5.0-6.0%
Annual pension cost (in thousands)	$	224,184	116,689	15,810	6,305	3,872
Contributions made (in thousands)	$	224,184	116,689	15,810	7,659	4,126

The required contribution amounts and the percentage contributed for Teacher and APERS for the current year and each of the two preceding years are as follows (expressed in thousands):

Fiscal year	Plan		Annual required contribution	Percentage contributed
2004	Teacher	$	224,184	100%
	APERS		116,689	100%
2003	Teacher		200,456	100%
	APERS		113,273	100%
2002	Teacher		191,353	100%
	APERS		107,189	100%

State Police and APERS consist of both a contributory plan, which has been in effect since the beginning of the plans, and is available to all persons who became members prior to January 1, 1978; and a noncontributory plan, which was created by Act 793 of 1977 and was effective January 1, 1978. The noncontributory plan applies automatically to all persons hired January 1, 1978 or later. All nonretired members of the State Police are now covered by noncontributory benefits. Members of the Teacher plan contribute 6% of their salaries, except for members who became members before July 1, 1971, who can contribute only on the first $7,800 of their annual salary; and effective July 1, 1993, all new members, including any former active members, were automatically enrolled as noncontributory members. By individual election, members of the Teacher plan may choose to contribute. Active members of the Judicial plan contribute 5% or 6% of their salaries. Members of the Judicial plan with 20 or more years of service and members age 65 or older with 10 or more years of service do not contribute to the plan. Active members of the Highway plan contribute 6% of their salaries.

The Teacher, Highway, and Judicial plans did not invest in of any commercial or industrial organization whose market value equals 5% or more of the individual plan's net assets available for benefits.

The State's 2004 contribution to APERS represented 100% of total contributions required of all participating entities. Beginning with the 1997 fiscal year, the State no longer contributes to Teacher. As required by Act 1194 of 1995, the State increased the local state supported school appropriations so that such retirement contributions come directly from the school districts.

The State's annual pension cost and net pension obligation (asset) to Judicial and State Police for the current year is as follows (expressed in thousands):

		Judicial	State Police
Annual required contribution (ARC)	$	4,195	6,302
Interest on net pension obligation (asset)		(895)	90
Adjustment to annual required contribution		572	(88)
Annual pension cost		3,872	6,304
Contributions made		(4,126)	(7,659)
Change in net pension obligation		(254)	(1,355)
Net pension obligation (asset), beginning of year		(12,779)	1,168
Net pension obligation (asset), end of year	$	(13,033)	(187)

The net pension asset for State Police and Judicial, respectively, is recorded in the governmental activities column in the government-wide financial statements.

No pension liability or asset exists for Highway, Teacher or APERS, as the State's contributions to each respective plans have been equal to the ARC.

Three-year trend information for the single-employer plans is as follows (expressed in thousands):

	Year ending	Annual pension cost (APC)	Percentage of APC contributed	Net pension obligation (asset)
Judicial	6/30/2004	$ 3,872	100.00%	$ (13,033)
	6/30/2003	3,811	100.00%	(12,779)
	6/30/2002	4,372	91.08%	(12,525)
State Police	6/30/2004	6,305	100.00%	(187)
	6/30/2003	5,864	100.00%	1,168
	6/30/2002	5,906	118.00%	2,209
Highway	6/30/2004	15,810	100.00%	-
	6/30/2003	15,581	100.00%	-
	6/30/2002	15,013	100.00%	-

State Employee Deferred Compensation Plan

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan permits employees to defer receiving a portion of their salary until they become eligible for benefits at retirement, termination, death or unforeseeable emergency. Amounts deferred are invested in custodial accounts or annuity contracts and deferrals and earnings on investments are not subject to state or federal income taxation until received by beneficiaries.

It is the opinion of the State's legal counsel that the annuity contracts purchased with the employees' deferred compensation are covered by the Arkansas Life and Disability Insurance Guaranty Association, as described in State Senate (A.C.A. 23-96-101 et.seq.), and liability for losses is insured under this act, up to $100,000 per participating employee.

The assets of the plan are held in trust by the custodian, State Street Bank and Trust Company of Boston, Massachusetts, according to terms specified by contract, for the exclusive benefit of plan participants and their beneficiaries. The plan is administered by Citistreet LLC, of Quincy, Massachusetts, acting under contract in an agency capacity for Department of Finance and Administration – Employee Benefits Division to provide investment direction, asset transfer or withdrawal instruction or other instruction to the custodian. In accordance with GASB 32, plan balances and activities are not reflected in the agency's financial statements. According to the custodian, plan assets totaled $249,960,569 at June 30, 2004.

Higher Education

All active higher education employees who work 20 or more hours a week have the option of participating in either APERS, Teacher, or the Teachers Insurance Annuity Association – College Retirement Equities Fund (TIAA-CREF), or the Fidelity Fund.

TIAA-CREF and the Fidelity Fund were established by the board of trustees of each respective college or university. These funds represent a defined contribution plan as set forth in Section 403(b) of the Internal Revenue Code. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings.

Each college or university contributes a percentage of an employee's salary ranging from 5% to 10%, to a TIAA-CREF or Fidelity Fund retirement account, allocated between the two funds according to the employee's choice. In addition, employees may make voluntary contributions of any amount up to the individual maximum allowance. During 2004, total employer contributions to TIAA-CREF and Fidelity were $54.8 million and $11 million, respectively. Employee contributions to TIAA-CREF and Fidelity were $51.4 million and $11.8 million, respectively.

Component Units

The U of A Foundation has a defined contribution (money-purchase) retirement plan covering substantially all employees. The U of A Foundation's contributions to the plan are 5% of the participants' salaries. In addition the U of A Foundation will match all contributions made by employees up to and including 5%. Contributions are limited to 10% of the total compensation paid to participants during the plan year. Participants' interests are immediately vested. Contributions to the plan were $46,189 in 2004.

(13) Additional Information – Enterprise Funds

The Construction Assistance Revolving Loan Program was created pursuant to the 1987 Amendments (P.L. 100-4) to the "Clean Water Act" (P.L. 92-500) to provide a perpetual fund for financing the construction of wastewater treatment facilities for municipalities and other public entities.

Condensed Statement of Net Assets (Expressed in thousands)

		Construction Assistance Revolving Loan Fund
Assets		
Current assets	$	77,931
Noncurrent assets		205,050
Total assets	$	282,981
Liabilities		
Current liabilities	$	5,539
Noncurrent liabilities		91,013
Total liabilities		96,552
Net Assets		
Restricted		186,429
Total net assets	$	186,429

Condensed Statement of Revenues, Expenses, and Changes in Net Assets (expressed in thousands):

		Construction Assistance Revolving Loan Fund
Investment earnings (pledged against bonds)	$	8,324
Amortization expense		(248)
Other operating expense		(5,308)
Operating income (loss)		2,768
Nonoperating revenue/expenses:		
Net transfers from(to) other funds		(808)
Capital grants and contributions		7,464
Change in net assets		9,424
Total net assets, beginning of year		177,005
Total net assets, end of year	$	186,429

Condensed Statement of Cash Flows (Expressed in thousands):

		Construction Assistance Revolving Loan Fund
Net cash provided (used) by:		
Operating activities	$	9,822
Noncapital financing activities		6,589
Capital and related financing activities		(8,981)
Investing activities		(5,537)
Net increase		1,893
Cash and cash equivalents, beginning		75,476
Cash and cash equivalents, end	$	77,369

(14) Risk Management Program

The following describes the risk management programs administered by the State.

Health and Life Plans

As required by A.C.A. § 21-5-405, the State and Public School Life and Health Insurance Board and the Executive Director of the Employee Benefits Division of the Department of Finance and Administration take a risk management approach in designing the State employee and public school employee health benefit programs. In addition, the Board ensures that the State and public school employee health benefit programs are maintained on an actuarially sound basis as determined by actuarial standards established by the Board. Not included in this service are most higher education, State police, and some portion of the State's vocational and technical schools.

The Board provides the following employee benefits to State employees: a self-funded comprehensive major medical plan that includes basic dental, vision, and prescription drug benefits; a fully funded mental health parity and employee assistance program; a fully funded basic and supplemental group life insurance; a cafeteria plan that includes a flexible medical spending account and a dependent daycare/elder care account; and a deferred compensation plan.

Public school employees are offered a self-funded comprehensive major medical plan (excluding basic vision and dental benefits); prescription drug benefits; a fully funded mental health parity benefit and an employee assistance program; and a fully funded basic and supplemental group term life insurance program. Each school district obtains its own cafeteria plan and any other benefits that are offered to public school employees by their school districts.

Basic group term life insurance and accidental death and dismemberment coverage is offered to all State and public school employees. Basic life insurance in the amount of $10,000 is provided to all full-time active State employees. The basic life insurance premium for active State employees of $4.60 a month is paid from the insurance trust fund. Upon enrollment in the health insurance plan, public school employees are provided with basic life insurance in the amount of $5,000. The basic life insurance premium for public school employees is $0.65 per month. Supplemental coverage is offered to both State and public school employees for employee or dependent coverage. Supplemental life insurance premiums are based upon age, and amount of coverage for both State and public school employees.

Claim liabilities for claims submitted after the close of the plan year or after plan termination of the self-insured medical health insurance plans and the prescription drug plan for State and public school employees are based on actuarial estimates of the ultimate cost of claims that have been incurred (both reported and unreported) and are recorded in the general fund. An analysis of changes in aggregate liabilities for claims and claims adjustment expenses for the current and prior fiscal year (expressed in thousands) are as follows:

		2004	2003
Claim liability, beginning of year	$	17,800	17,800
Incurred claims		292,152	132,323
Claims payments		(274,202)	(132,323)
Claim liability, end of year	$	35,750	17,800

The plans have not purchased any annuity contracts on behalf of claimants.

Risk Management Office

The State established the Risk Management Office in accordance with State law for the purpose of analyzing and making recommendations as to cost effective loss control and safety programs for the various State agencies. Accordingly, State agencies retain the ultimate decision authority over whether to purchase commercial insurance coverage for property losses.

For those State buildings covered by commercial insurance, the building and contents are generally insured for the full amount of losses subject to varying deductible amounts up to a $ 100,000 deductible from the Arkansas Multi Agency Trust Fund (AMAIT) and varying deductible amounts up to $25,000 per occurrence for the state agency involved. Arkansas State University has a $100,000 deductible and does not participate in A MAIT. The University of Arkansas System has its own program that the State Risk Management Office does not oversee. Losses arising from earthquakes are generally insured for the full amount of losses subject to a deductible of 5% of the building’s value. Due to market conditions, very limited availability and excessive cost, total earthquake coverage is limited to $110 million, with further limit restrictions in the eastern high hazard zones. In addition to these limitations on earthquake coverage, the State no longer has domestic or foreign terrorism insurance coverage due to excessive cost and limited coverage. Certain State agencies have chosen not to purchase commercial insurance on certain buildings and, as such, losses for these buildings are recorded as expenditures in the General Fund when incurred.

The State does not purchase liability insurance coverage for claims arising from third-party losses on State property as the State has sovereign immunity against such claims. Claims against the State for such losses are heard before the State Claims Commission.

For those State vehicles covered by commercial insurance, each participating agency determines which, if any, vehicles to insure for physical damage, subject to a deductible of $500 or $1000, the vehicle is generally insured for the full amount of losses subject to varying deductible amounts. Also, such commercial insurance generally provides coverage against liability losses up to $100,000 per occurrence in State and $500,000 per occurrence out of State. Certain state agencies have elected not to purchase commercial insurance for selected vehicles and losses on such vehicles are recorded as expenditures in the General Fund as incurred. Liability claims arising from uninsured vehicles are heard and adjudicated by the State Claims Commission.

There have been no instances in the past three fiscal years wherein the amount of settlements has exceeded insurance coverage. If a court awarded an amount in excess of policy limits, then a claim would to be directed to the State Claims Commission. As such, no liability has been recorded in the financial statements.

State Claims Commission

The State Claims Commission was established by State law to hear and adjudicate all claims against the State and its agencies and component units excluding those arising from workers' compensation law, employment security law, and the acts of the various retirement plans. According to State law, only claims for actual damages are allowed. The Commission may authorize awards for actual damages up to $10,000 without further approval, while amounts exceeding $10,000 must be approved by the State General Assembly. The claim liability is determined by review of pending claims and estimation of the ultimate cost to settle such claims and is recorded in the Government-Wide Financial Statements. The estimated claims liability at June 30, 2004, is $1.3 million.

Public Employee's Claims Division of the Arkansas Insurance Department

The State's Workers' Compensation Program (the Program) was created by State law to provide benefits to State employees injured on the job. All employees of the State and its component units are included in the Program. Prior to July 1, 1994, employees of State sponsored school districts in the State were also included in the plan, and the State continues to pay benefits to those employees injured prior to that date. Prior to July 1, 1986, employees of the counties and cities were included in the plan, and the State continues to pay benefits to those employees injured prior to that date. An injury is covered under workers' compensation if it is caused by an accident that arose out of and in the course of employment. Losses payable by the Program include medical claims, loss of wages, disability, and death benefits.

The Program is self-insured and is administered by the Public Employees Claims Division of the State Insurance Department. Each State agency is responsible for contributing to the Program each year an amount determined by the division based on past claims experience. The State's liability for claims at June 30, 2004, including claims incurred but not reported, is estimated to be approximately $67.4 million in the Government-Wide financial Statements.

Changes in the balance of the State's Workers' Compensation claim liability during the current and prior fiscal year are as follows (expressed in thousands):

		2004	2003
Claim liability, beginning of year	$	65,400	59,700
Incurred claims		11,883	15,900
Claims payments		(9,838)	(10,200)
Claim liability, end of year	$	67,445	65,400

Special Funds Division of the Arkansas Workers' Compensation Commission

The State provides two forms of loss protection to employers and insurance companies operating in the State to minimize workers' compensation claims paid for wage losses. The first such plan was created by State law and is known as the Death & Permanent Total Disability Trust Fund (Disability Trust Fund). The Disability Trust Fund pays wage loss benefits in excess of $75,000 per case. The employer's primary insurer is responsible for the first $75,000 per case. The second such plan was created by State law and is known as the Second Injury Trust Fund. The Second Injury Trust Fund was created to encourage employment of disabled workers by limiting the employer's liability for permanent disability benefits in the event of subsequent injury. The employee is fully protected in that the Second Injury Trust Fund pays the worker the difference between the employer's liability and the balance of his disability or impairment, which resulted from all disabilities or impairments combined.

The Disability Trust Fund and Second Injury Trust Fund are funded by taxes assessed on workers' compensation premiums earned by insurance companies operating in the State and by assessments on self-insured employers as if they were commercially insured. The claim liability is estimated by discounting at 5% the expected future claim payments of reported claims and is recorded in the Workers' Compensation Commission Enterprise Fund.

The Disability Trust Fund and the Second Injury Trust Fund are administered by the Workers' Compensation Commission. Changes in the combined balance of the Disability Trust Fund and Second Injury Trust Fund during the current and prior fiscal year are as follows (expressed in thousands):

		2004	2003
Claim liability, beginning of year	$	183,751	180,232
Incurred claims		21,309	16,466
Claims payments		(13,888)	(12,947)
Claim liability, end of year	$	191,172	183,751

Petroleum Storage Tank Trust Fund/Arkansas Remedial Action Trust Fund (RAFTA)

The Petroleum Storage Tank Trust Fund (Storage Tank Fund) was established according to State law to provide owners and operators of petroleum storage tanks in the State protection from losses associated with accidental releases from qualified storage tanks. In order for a storage tank to qualify under the Storage Tank Fund it must be registered with all fees paid and meet certain other requirements at the time of the release. The Storage Tank Fund will reimburse tank owners for corrective action as well as third-party property claims or bodily injury claims for damages up to $1 million per occurrence, with a $7,500 deductible. The Storage Tank Fund is funded by an environmental assurance fee of two-tenths of one dollar per gallon of fuel, collected at the wholesale level. The first-party claim liability is determined through the use of engineering estimates of the remaining corrective action for each site. The third-party claim liability is estimated at the plan limits for each third-party claim filed until actual damages are determined and the liability is recorded in the governmental activities.

The Arkansas Remedial Action Trust Fund (RAFTA) was established by Act 479 of 1985 to provide funding for investigation and clean up of abandoned hazardous substance sites within the State of Arkansas. The State must provide funds to clean up abandoned sites unless qualification can be established for the Federal Superfund Program to clean up the site. Should this occur, the State is required to match 10% of the monies needed for clean up of the site. Funding for RAFTA is primarily generated by fees collected from companies that require disposal of large quantities of hazardous waste. Additionally, RAFTA is funded with amounts recovered from State funded site work as well as civil and administrative penalties assessed in excess of the amount needed to keep the Arkansas Emergency Response Fund balance at $150,000. RAFTA funds are used only on sites included on the Arkansas Remedial Action Trust Fund Hazardous Substance Site Priority List by the Arkansas Pollution Control & Ecology Commission. This list is currently published as APC&EC Regulation Number 30.

Changes in the combined balance of the Storage Tank Fund and RAFTA claim liability during the current and prior fiscal year are as follows (expressed in thousands):

		2004	2003
Claim liability, beginning of year	$	14,448	15,650
Incurred claims		5,389	2,276
Claims payments		(6,473)	(3,478)
Claim liability, end of year	$	13,364	14,448

Higher Education Health Plans

The University of Arkansas System (UA System) and Arkansas State University (ASU) sponsor self-funded health plans for employees and their eligible dependents. Within the UA System, five four-year institutions and one two-year institution, along with the UA System's divisions of Criminal Justice Institute, Arkansas Archeological Survey, Division of Agriculture, System Administration, and the University of Arkansas Foundation, Inc. participate in the health insurance programs. The UA System Administration administers these plans. All ASU campuses participate in the health insurance programs, which are administered by third parties. These third parties are responsible for the processing of claims and administration of cost containment.

The universities pay a portion of the total premium for full-time active employees, while retirees and former employees participate on a fully contributory basis.

Changes in the balance of the UA System and ASU claim liability during the current fiscal year are as follows (expressed in thousands):

		2004	2003
Claim liability, beginning of year	$	11,802	10,725
Incurred claims		83,045	69,495
Claims payments		(81,710)	(68,418)
Claim liability, end of year	$	13,137	11,802

The universities purchase specific reinsurance to reduce their exposure on large claims. Under the specific arrangement, the reinsurance carrier pays for claims for covered individuals that exceed specified limits. Such limits are $250,000 and $125,000 for the UA System and ASU, respectively.

The plans have not purchased any annuity contracts on behalf of claimants.

Arkansas State Police Health Insurance Plan

Liabilities for claims incurred but not reported are included in the Arkansas State Police Health Insurance Plan. These liabilities exist because of the span of time between the incurrence of obligations to pay claims and the liquidation of the obligations by the agency across reporting periods. The amounts of these liabilities are based on evaluation of claims data for those claims that were incurred before year-end and paid after year-end for June 30, 2004, are as follows (expressed in thousands):

		2004	2003
Claim liability, beginning of year	$	939	443
Incurred claims		7,631	6,586
Claims payments		(7,560)	(6,090)
Claim liability, end of year	$	1,010	939

Other Post Employment Benefits

The State provides post employment health insurance coverage benefits to eligible employees who retire from the State. The Employee Benefit Division for the State of Arkansas is the Plan Administrator for all health insurance plans offered to State employees, including retirees. Healthcare benefits are funded through both employee and employer contributions. Employer contribution rates are set in accordance with Act 185 of 2001, effective July 1, 2001, which states that each State agency must pay a State employer contribution of up to $350 per budgeted position to support the State group insurance program. The current monthly premium effective as of June 30, 2000 is $280 per budgeted position.

As of June 30, 2004, there were approximately 6,663 retirees receiving post employment benefits. The self-funded plan is based on actuarial estimates. Premiums are paid by State employees and retirees in advance of the month of coverage. For the year ending June 30, 2004, the State paid an aggregate amount for Active employees, COBRA participants and Retirees of $157 million.

(15) Commitments and Contingencies

Primary Government

Litigation –

The State, its agencies, and employees are defendants in numerous legal proceedings, many of which normally occur in governmental operations. Such litigation includes, but is not limited to, claims assessed against the State for property damage and personal injury, alleged inmate wrongs, and other alleged torts, alleged breaches of contract, condemnation proceedings, challenges of State law, and other alleged violations of State and federal laws. Certain claims have been adjudicated against the State, but remained unpaid by the State as of the balance sheet date. The State has accrued liabilities in the approximate amount of $22.7 million for the payment of such claims. For other cases where it is reasonably possible that a loss will be incurred and the amount of the potential judgment can be reasonably estimated, the Attorney General and other counsel estimate the liability to be approximately $42.7 million.

Changes in the balance of litigation during the current fiscal year are as follows (expressed in thousands):

		2004	2003
Litigation, beginning of year	$	5,570	18,127
Incurred litigation		21,543	11,073
Litigation payments		(4,392)	(23,630)
Litigation, end of year	$	22,721	5,570

Federal Grants –

The State, including its institutions of higher education, receives significant financial assistance from the U.S. Government in the form of grants and federal revenue sharing entitlements. Entitlement to those resources is generally conditioned upon compliance with the terms and conditions of the grant agreements and applicable federal regulation, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits under either the Federal Single Audit Act or by grantor agencies of the Federal Government or their designees. At June 30, 2004, the State had questioned cost which may be disallowed by a federal grantor. These potential unallowed costs including penalties and interest are in excess of $25 million. The State disagrees with the determination letter issued by the federal grantor agency. Currently, the appeals process is at the agency level.

Loan Forgiveness –

In compliance with terms of the Little Rock School District desegregation case settlement agreement, the State had loaned $20,000,000 to the Little Rock School District (LRSD) between the dates of July 1, 1989 and July 1, 1999. On March 19, 2001, the State and the Little Rock School District executed an agreement in which $15 million of the loans made to the Little Rock School District was immediately forgiven and the remaining $5 million would be forgiven if the Little Rock School District obtains complete unitary status and release from federal court supervision on or before July 1, 2004. The remaining loans are to be amortized over a 20-year period beginning seven (7) years following the execution of the loan with an interest rate of three percent (3%) per annum. As of June 30, 2004, the State's loan receivable is $5 million and is recorded in the General Fund.

Construction and Other Commitments –

At June 30, 2004, the State has commitments of approximately $471.7 million for construction and other contracts and approximately $37.6 million for professional service contracts. The Soil and Water Conservation Commission has approved $7.1 million in loans for projects for water systems, waste water, or pollution abatement that have not been disbursed at June 30, 2004.

Bond Guarantees –

The Arkansas Economic Development Commission (AEDC) Bond Reserve Guaranty Fund is used to guarantee principal and interest on industrial development revenue bonds issued by counties and municipalities within the State of Arkansas. At June 30, 2004, total bonds guaranteed by the AEDC Bond Guaranty Reserve Fund were approximately $43.4 million. In addition, AEDC has committed to guarantee approximately $10.1 million in industrial development revenue bonds that have not closed at June 30, 2004.

Tobacco Settlement –

In November 1998, the Attorney General joined 45 other states and five territories in a settlement with the nation's largest tobacco manufacturers. The settlement includes base payments to states totaling $220.6 billion over the next 25 years, and continues in perpetuity. All disbursements from the Master Settlement Agreement were initially deposited to the Tobacco Settlement Cash Holding Account. In 2001, funds were distributed to various accounts within the general fund including the Arkansas Healthy Century Trust Account, in the amount needed to bring the principal balance to $100 million, and the remainder was distributed to the Tobacco Settlement Program Account. For 2002 and thereafter, the first $5 million shall be distributed to the Tobacco Settlement Debt Service Account, and the amounts remaining shall be distributed to the Tobacco Settlement Program Account. While Arkansas' share of the base payments will not change over time, the amount of the annual payment is subject to a number of modifications including adjustments for inflation and usage volumes. Some of the adjustments may result in increases in the payments (inflation, for example), while other adjustments will likely cause decreases in payments (volume adjustments, for example). The net effect of these adjustments on future payments is unclear; therefore, the financial statements do not reflect these adjustments. In fiscal year 2004 the State received a total of $52.6 million with $5 million being transferred to Arkansas Development Finance Authority for the Tobacco Settlement Debt Service Account. An additional amount of $25.8 million is reflected as an other receivable which is based on cigarette sales for the period January 1 to June 30, 2004.

(16) Subsequent Events

Primary Government –

(i) On July 1, 2004, $15 million in bonds dated July 1, 2004 were sold for $15 million with interest rates ranging from 3% to 5%. The proceeds were used to fund the Water, Waste Disposal and Pollution Abatement Facilities. The costs of issuing the bonds were paid from the net proceeds from the sale of the bonds.

(ii) On July 1, 2004, the State entered into a capital lease agreement with Arkansas Development Finance Authority, a component unit, for commercial office space and parking facilities over the next 30 years. The principal amount of the lease is $43.9 million.

(iii) On August 24, 2004, a claim in the amount of $2 million was filed against the Arkansas Department of Parks & Tourism. The claimant alleges personal injury due from employee negligence.

(iv) On September 1, 2004, the State entered into a loan agreement in the amount of $21,960,000 with Arkansas Development Finance Authority, a component unit, for the purchase of equipment to expand and enhance the Arkansas Wireless Information Network.

Higher Education –

(i) **University of Arkansas at Fayetteville** – On August 4, 2004, the Board of Trustees adopted a resolution expressing its intention to issue bonds to finance the acquisition and construction of various capital projects. The amount of the bonds is not to exceed $23 million.

(ii) **University of Arkansas at Little Rock** – On July 30, 2004 the University completed the purchase of the University Plaza property adjacent to the main campus at a cost of $5.4 million. The property includes 22.58 acres and 11 buildings with 245,574 square feet of enclosed space. The purchase was funded through the issuance of UALR Capital Improvement Revenue Bonds, Series 2004B.

On September 15, 2004 the University issued revenue bonds totaling $41,215,000. The series 1995, 1996 and 1997 bond issues were refunded through the issuance of $16,930,000 UALR Revenue Refunding Bonds, Series 2004A. The Refunding Bonds will be repaid over a seven year period. The refunding will result in a net present value benefit of $956,107. In addition, $24,285,000 UALR Capital Improvement Revenue Bonds, Series 2004B were issued for the purpose of property acquisition and renovation of campus facilities. The bonds are secured by a pledge of tuition and fees revenue and are scheduled for repayment over a 20 year period.

On October 1, 2004 the University issued $17,385,000 UALR Student Housing Revenue Bonds, Series 2004. The proceeds of these bonds will be used for the construction of a student residential facility. The proposed project consists of two and four bedroom apartments for approximately 326 students. The bonds are secured by a pledge of housing revenues and are scheduled for repayment over a 25 year period.

(iii) **University of Arkansas, Medical Sciences Campus** – In fiscal year 2005, UAMS will embark upon a $168,000,000 building project to replace the 50-year old hospital bed units, add new outpatient capacity, build a new dormitory, and add 40 new inpatient psychiatric bed units. UAMS plans to refinance $58,265,000 of outstanding 1998 facility bonds and issue $150,000,000 in new bonds in fiscal year 2005 with plans to issue $80,000,000 more in fiscal year 2006. The new facility will house 350 to 375 bed units and additional bassinets, plus 40 psychiatric bed units. The new bonds are expected to be fixed 30-year indentures. In addition to the facility bonds, UAMS plans to issue $11,000,000 in parking facility bonds to add to parking capacity.

(iv) **University of Arkansas at Hope** – On July 1, 2004, the University issued student fee revenue refunding bonds in the amount of $3,105,000 to early retire $3,375,000 in bonds issued in 1996. The balance of the 1996 bonds was paid from the 1996 debt service account.

(v) **Arkansas State University** – On August 28, 2004, the University executed a capital lease with Key Government Finance, Inc. for the procurement of telecommunication networking equipment. The principal amount of the lease is $1,565,782. Payments of $173,258 representing principal and interest are due semi-annually commencing on August 28, 2004, and concluding on February 28, 2009.

On August 30, 2004, the University executed contractual agreements with Sungard SCT, Inc. and Oracle Corporation to begin implementation of a new campus-wide enterprise computing solution. Migration to the new hardware and software platforms began in October of 2004 and is scheduled for completion in August of 2007. The current estimated cost of this project is from $8.6 to $10.

On October 5, 2004, the University executed a twenty (20) year promissory note payable to the Arkansas State University Foundation, Inc. for the principal sum of $465,000. Interest on the note accrues at a rate of six percent (6%) annually. Payments of principal and interest of $3,332 are due monthly with a final payment to be made on or before October 1, 2024. The proceeds from the note were used to fund the University’s portion of the construction costs of the new campus health center.

On October 19, 2004, and October 21, 2004, respectively, the University executed two (2) capital leases with UniversityLease, a division of California First National Bank for the procurement of computer hardware and software to be used in support of campus parking operations. The principal amount of the first lease is $49,655. Monthly payments of $1,521 are required over the thirty-six (36) month term of the lease. The second lease has a principal amount of $138,178 with required monthly payments over its forty-eight (48) month term of $3,305.

(vi) **Arkansas Northeastern College** – On September 15, 2004, Arkansas Northeastern College signed a contract with Construction Network, Inc., to construct a Health, Fitness, and Wellness Center. The construction was to begin October 5, 2004. The completion date is projected to be August 19, 2005. The cost of the project is estimated to be $3,050,000.

Component Units –

(i) **Arkansas Development Finance Authority** – On July 13, 2004, $43,985,000 in revenue bonds dated July 1, 2004, were sold by the Arkansas Development Finance Authority for $43,985,000 with interest rates ranging from 1.89% to 5%. The proceeds from the sale of these bonds were used to finance the acquisition of a commercial office and parking facilities (the Donaghey Complex) and to acquire, renovate, and equip the new office, warehouse, and storage space. The bonds are secured by rentals received under the lease and sublease of the property. The costs of issuing the bonds were paid from the net proceeds from the sale of the bonds.

On September 1, 2004, $21,960,000 in revenue bonds dated September 1, 2004, were sold by the Arkansas Development Finance Authority for $21,960,000 with interest rates ranging from 3% to 4.1%. The proceeds from the sale of the bonds shall be used to fund the purchase of wireless data equipment to expand and enhance the Wireless Information Network. The bonds are secured by fees received by the State from the sale of Arkansas drivers' licenses. The costs of issuing the bonds were paid from the net proceeds from the sale of the bonds.

REQUIRED SUPPLEMENTARY INFORMATION (TAB)

Required Supplementary Information
Schedule of Funding Progress

(In thousands)

Plan	Fiscal year	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
Teacher	2004	6/30/2004	$ 8,424,000	10,054,000	1,630,000	83.8%	$ 1,748,000	93.20%
	2003	6/30/2003	8,263,000	9,672,000	1,409,000	85.4%	1,683,000	83.70%
	2002	6/30/2002	8,328,000	9,062,000	734,000	91.9%	1,628,000	45.1%
Public Employees	2004	6/30/2004	4,438,000	5,005,000	567,000	88.7%	1,176,000	48.20%
	2003	6/30/2003	4,416,000	4,674,000	258,000	94.5%	1,147,900	22.50%
	2002	6/30/2002	4,404,000	4,398,000	(6,000)	100.1%	1,112,000	(0.5)%
Highway	2004	6/30/2004	1,050,200	1,016,100	(34,100)	103.4%	117,800	(29.0)%
	2003	6/30/2003	1,040,400	976,000	(64,400)	106.6%	116,800	(55.1)%
	2002	6/30/2002	1,026,300	918,100	(108,200)	111.8%	113,500	(95.4)%
State Police	2004	6/30/2004	201,830	275,720	73,890	73.2%	21,320	346.6%
	2003	6/30/2003	212,450	261,500	49,050	81.0%	20,000	245.0%
	2002	6/30/2002	223,768	251,763	27,995	88.9%	19,680	142.20%
Judicial	2004	6/30/2004	129,070	141,780	12,710	91.0%	16,280	78.1%
	2003	6/30/2003	126,520	137,925	11,405	91.7%	15,935	72.0%
	2002	6/30/2002	124,212	124,734	522	99.6%	15,112	3.5%

Note to Schedule of Funding Progress

(In thousands)

Actuarial Assumptions

The information presented in the required supplementary information was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

	Teachers Retirement	Judicial	State Police	Highway	APERS
Actuarial valuation date	June 30, 2004	June 30, 2004	June 30, 2004	June 30, 2004	June 30, 2004
Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Individual Entry Age Normal Cost
Amortization method	Level Percentage of Pay	Level Percentage of Pay	Level Percentage of Pay	Level Percentage of Pay, Open	30-Year Open
Remaining amortization period	31 years	30 years	18 years	0 years	(a), (b)
Asset valuation method	4 Year Smoothed Market	4 Year Smoothed Market	4 Year Smoothed Market	5 Year Smoothed Market	4 Year Smoothed Market
Actuarial assumptions:					
Inflation rate	4.0%	3.0%	4.3%	3.5%	4.0%
Investment rate of return*	8.0%	7.0%	7.75%	8.0%	8.0%
Projected salary increases*	4.0%-10.0%	4.0%	3.5%	4.75%-11.25%	4.7%-9.8%
Postretirement benefit increases	3.0% Simple	(c)	3.0% compounded	3.0% compounded	3.0% annual compounded

*Includes assumed inflation.

(a) State and Local Government Employers (6-year open Contingency Reserve Amortization). No unfunded liability exists for the State and Local Government Employers.

(b) General Assembly Subdivision – 30-year open.

(c) Pre-July 1, 1983 hires increased or decreased as the salary for the particular Judicial office is increased or decreased. Post June 30, 1983 hires – 3%, compounded.

.

Required Supplementary Information
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual

(In thousands)

	Budgeted amounts Original	Budgeted amounts Final	Actual amounts	Variance with final budget – positive (negative)
Expenditures: *				
Current:				
General government	$ 5,444,970	$ 4,918,032	$ 1,203,557	$ 3,714,475
Education	2,625,323	2,664,973	2,366,827	298,146
Health and human resources	4,248,822	4,154,598	3,725,681	428,917
Law, justice, and public safety	716,636	721,913	515,484	206,429
Recreation and resource development	749,242	497,479	247,170	250,309
Regulation of business and professionals	198,272	212,734	127,608	85,126
Transportation	659,394	281,725	281,268	457
Debt service	130,892	124,991	69,166	55,825
Capital outlay	1,114,109	790,716	756,215	34,501
Total expenditures	$ 15,887,660	$ 14,367,161	$ 9,292,976	$ 5,074,185

* Expenditures are appropriated, amounts blocked determined available budget. Blocking is revised quarterly to match the forecast revisions. Expenditures may not exceed the lesser of budget or funds available.

Notes to Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual

(In thousands)

Budgetary Basis of Accounting

The State's budget is adopted in accordance with a statutory cash basis of accounting, which is not in accordance with GAAP. Revenues are recognized when cash is received and deposited in the State Treasury or reported to the Department of Finance and Administration. Expenditures are recorded when cash is disbursed. If goods or services are not received before year-end, all encumbrances lapse, except those appropriations for multiyear projects.

Budgetary Basis Reporting – Budgetary Process

State finance law requires that a balanced budget be approved by the Governor and the General Assembly. The Governor presents an annual budget to the General Assembly which includes an estimate of revenues, expenditures, and other financing sources and uses anticipated during the coming biennial period. The General Assembly, which has full authority to amend the budget, adopts a line item budget by appropriating monies in biennial appropriation acts. Before signing the appropriation act, the Governor may veto any specific item, subject to legislative override.

The original appropriation may be adjusted by several items subsequent to the appropriation act. The adjustment items may be: Supplemental appropriations or subsequent legislative acts, revisions to the forecast of revenues, restrictions on spending by Executive Order and carryforward provisions.

The State does not adopt a revenue budget but does monitor the revenues and forecast of revenues and makes appropriate revisions to the expenditure budget based on such forecasts. These forecasts are adjusted quarterly to reflect actual receipts of revenues.

The General Assembly also must enact legislation pursuant to the Revenue Stabilization Law (the Stabilization Law) to provide an allotment process of funding appropriations in order to comply with the State law prohibiting deficit spending. The Governor may restrict spending to a level below appropriations amounts. The State uses specific funds (i.e., general and special revenue allotment accounts) for receipt and distribution of revenues. Pursuant to the Stabilization Law, all receipts are deposited in the General Revenue Allotment Account. From the General Revenue Allotment Account, 3% of all revenues are distributed to the Constitutional Officers Fund and the Central Services Fund to provide support for the State's elected constitutional offices (legislators, executive department, and judges), their staffs, and the Department of Finance and Administration (DF&A). The balance, net of income tax refunds, court settlement arrangements, etc., is then distributed to separate funds proportionately as established by the Stabilization Law. Special revenues are deposited into the Special Revenue Allotment Account from which 3% of revenues collected by DF&A and 1 ½ % of all special revenues collected by other agencies are first distributed to provide support for the State's elected officials, their staffs, and DF&A. The balance is then distributed to the funds for which the special revenues were collected as provided by law. Special revenues, which are primarily user taxes, are generally earmarked for the program or agency providing the related service.

General revenues are transferred into funds established and maintained by the Treasurer for major programs and agencies of the State in accordance with funding priorities established by the General Assembly.

Pursuant to the Stabilization Law, the General Assembly establishes three levels of priority for general revenue spending levels, “A,” “B,” and “C.” Successive levels of appropriations are funded only in the event sufficient revenues have been generated to fully fund any prior level. Accordingly, appropriations made to programs and agencies are only maximum authorizations to spend. Actual expenditures are limited to the lesser of monies flowing into programs or agencies’ funds maintained by the Treasurer or the maximum appropriation by the General Assembly.

The majority of the State’s appropriations are noncontinuing accounts which lapse at the end of each fiscal year. Others are continuing accounts for which the General Assembly has authorized that an unspent balance from the prior year be carried forward and made available for current spending. In addition, the General Assembly may direct that certain revenues be retained and made available for spending within a specific appropriation account.

The rate of spending of appropriations is controlled by DF&A. DF&A utilizes quarterly allotment which restricts spending to a certain percentage of the annual appropriation. The percentage is established to coincide with the expected actual rate of revenue collections, thereby ensuring adequate cash flow throughout the year. The funded portion of the quarterly allotment is then made available for expenditure, and the remainder is blocked.

DF&A has the responsibility to ensure that budgetary spending control is maintained on an individual appropriation classification basis. Appropriation classifications are subdivisions of appropriations, which define the purposes for which the appropriation can be used, and restrict the amount of expenditures for the various classifications to amounts established in the appropriation acts. Appropriation classifications may include regular salaries, extra help, overtime, maintenance and general operation, personal services matching, conference and travel expenses, professional fees, capital outlay, data processing, grants assistance and special aid, construction and permanent improvements, and other special classifications. Budgetary control is maintained through the Arkansas Administrative Statewide Information System (AASIS). AASIS ensures that expenditures are not processed if they exceed the appropriation classification total available spending authorization, which is considered its budget. Generally, expenditures may not exceed the level of spending authorized. However, the Arkansas Law authorizes DF&A to transfer specific holding appropriations when other sources of funding are received, such as a federal grant.

Budget is controlled at the appropriation line item (Commitment Item), which is the legal level of budgetary control. For financial reporting, the State groups these appropriation account categories by function to conform to its organization structure.

The following is a reconciliation of GAAP basis expenditures presented in the financial statements to the statutory cash basis expenditures of the General Fund (expressed in thousands):

Total GAAP basis expenditures General Fund	$	9,376,679
Less non-cash federal grant expenditures		(347,386)
Less non appropriated fund		(2,956,599)
Add expenses eliminated or reclassed as transfers for reporting purposes		3,202,028
Add basis of accounting differences		18,254
Total statutory basis expenditures General Fund	$	9,292,976

COMBINING FINANCIAL STATEMENTS (TAB)

NON-MAJOR ENTERPRISE FUNDS

The enterprise funds are used to account for operations of those State agencies and/or programs providing goods or services to the general public or a user-charge basis or where the State has decided that periodic determination of revenues earned, expenses incurred and/or income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The non-major enterprise funds consist of the following:

Employment Security Department – This department is responsible for promoting employment security in the State of Arkansas by administering federally assisted programs that provide employment, placement, and training services through local public employment offices within the State and for administering the State of Arkansas Unemployment Insurance Program.

War Memorial Stadium Commission – This agency has exclusive jurisdiction for the operation of the facility known as War Memorial Stadium, which is for the use of all the schools, colleges, and universities of the State under the supervision of the agency.

Construction Assistance Revolving Loan Fund – This program is responsible for providing a perpetual fund for financing the construction of waste water treatment facilities for municipalities and other public entities.

Other Revolving Loan Funds – These programs are responsible for providing a perpetual fund for financing the planning, design, acquisition, construction, expansion, equipping, and/or rehabilitation of water systems and the financing of capitalizable educational and general projects for community and technical colleges.

Combining Statement of Net Assets
Non-major Proprietary Funds

June 30, 2004
(In thousands)

	Business-type activities enterprise funds				
Assets	**Employment Security Department**	**War Memorial Stadium Commission**	**Construction Assistance Revolving Loan Fund**	**Other Revolving Loan Funds**	**Total**
Current assets:					
Cash and cash equivalents	$ 84,279	$ 611	$ 77,369	$ 9,379	$ 171,638
Investments	16,800	154			16,954
Receivables:					
Accounts	80,026		134	196	80,356
Loans				3,971	3,971
Interest	20		428	60	508
Other funds	1,440				1,440
Other governments	11,200				11,200
Inventories		29			29
Total current assets	193,765	794	77,931	13,606	286,096
Noncurrent assets:					
Cash and cash equivalents - restricted		198			198
Investments - restricted			18,233		18,233
Receivables, net			185,687	27,841	213,528
Other noncurrent assets		750	1,130		1,880
Total noncurrent assets		948	205,050	27,841	233,839
Capital assets:					
Land	2,973				2,973
Buildings	3,713	14,403			18,116
Equipment	5,826	322			6,148
Leasehold improvements	245				245
Assets under construction	792	259			1,051
Less accumulated depreciation	(8,289)	(4,985)			(13,274)
Total capital assets	5,260	9,999			15,259
Total assets	$ 199,025	$ 11,741	$ 282,981	$ 41,447	$ 535,194

Combining Statement of Net Assets
Non-major Proprietary Funds

June 30, 2004
(In thousands)

Liabilities	Employment Security Department	War Memorial Stadium Commission	Construction Assistance Revolving Loan Fund	Other Revolving Loan Funds	Total
	Business-type activities enterprise funds				
Current liabilities:					
Accounts payable	$ 33,593	$	$ 438	$ 208	$ 34,239
Accrued interest payable			481		481
Accrued and other current liabilities	768	10			778
Due to other funds	1,054				1,054
Due to other governments	3,424				3,424
Compensated absences payable	168	4			172
Deferred revenue				1,330	1,330
Bonds payable			4,620		4,620
Total current liabilities	39,007	14	5,539	1,538	46,098
Noncurrent liabilities:					
Accounts payable-construction		193			193
Bonds payable			88,627		88,627
Compensated absences payable	2,624	57			2,681
Deferred revenue		39	2,386		2,425
Total noncurrent liabilities	2,624	289	91,013		93,926
Total liabilities	41,631	303	96,552	1,538	140,024
Net Assets					
Net assets:					
Invested in capital asset, net of related debt	5,260	9,999			15,259
Restricted for unemployment compensation	152,134				152,134
Restricted for capital projects		755			755
Restricted by program requirements			186,429	39,909	226,338
Unrestricted		684			684
Total net assets	157,394	11,438	186,429	39,909	395,170
Total net assets and liabilities	$ 199,025	$ 11,741	$ 282,981	$ 41,447	$ 535,194

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Non-major Proprietary Funds

Year ended June 30, 2004
(In thousands)

	Business-type activities enterprise funds				
	Employment Security Department	War Memorial Stadium Commission	Construction Assistance Revolving Loan Fund	Other Revolving Loan Funds	Total
Operating revenues:					
Charges for sales and services	$	$ 1,349	$	$	$ 1,349
Investment earnings			8,324	995	9,319
Miscellaneous	125	5			130
Total revenue	125	1,354	8,324	995	10,798
Operating expenses:					
Cost of sales and services		420			420
Compensation and benefits	28,762	369			29,131
Supplies and services	8,704	281			8,985
ESD benefits	264,048				264,048
General and administrative expenses	8,554	65	266	115	9,000
Depreciation	419	479			898
Amortization			248		248
Interest			5,042		5,042
Total operating expenses	310,487	1,614	5,556	115	317,772
Operating income (loss)	(310,362)	(260)	2,768	880	(306,974)
Nonoperating revenues (expenses):					
Investment earnings	6,772	5			6,777
Taxes	280,545	765			281,310
Operating grants and contributions	72,048	815		14,308	87,171
Interest and amortization expense		(53)			(53)
Bad debt expense		(59)			(59)
Loss on sale of fixed assets	(52)				(52)
Total nonoperating revenues (expenses)	359,313	1,473		14,308	375,094
Income (loss) before transfers	48,951	1,213	2,768	15,188	68,120
Transfer from other funds	409	228			637
Transfer to other funds	(1,885)	(164)	(808)	(2,141)	(4,998)
Capital grants and contributions			7,464		7,464
Change in net assets	47,475	1,277	9,424	13,047	71,223
Total net assets-beginning	109,919	10,161	177,005	26,862	323,947
Total net assets-ending	$ 157,394	$ 11,438	$ 186,429	$ 39,909	$ 395,170

Combining Statement of Cash Flows
Non-major Proprietary Funds

Year ended June 30, 2004
(In thousands)

	Business-type activities enterprise funds				
	Employment Security Department	War Memorial Stadium Commission	Construction Assistance Revolving Loan Funds	Other Revolving Loan Funds	Total
Cash flows from operating activities:					
Cash received from customers	$	$ 1,211	$	$	$ 1,211
Cash received from other governmental agencies		109			109
Payments to employees	(27,691)	(304)			(27,995)
Payments of benefits	(320,810)				(320,810)
Payments to suppliers	(17,183)	(829)			(18,012)
Interest received (paid)			3,336	741	4,077
Loan administration received (paid)			6,486	(11,308)	(4,822)
Other receipts (payments)	125				125
Net cash provided (used) by operating activities	(365,559)	187	9,822	(10,567)	(366,117)
Cash flows from noncapital financing activities:					
Taxes	269,342				269,342
Operating grants and contributions	69,798		7,397	15,524	92,719
Net transfers to other funds	(1,476)	64	(808)	(3,412)	(5,632)
Net cash provided by noncapital financing activities	337,664	64	6,589	12,112	356,429
Cash flows from capital and related financing activities:					
Principal paid on capital debts and leases		(940)	(45,999)		(46,939)
Interest paid on capital debts and leases		(47)			(47)
Acquisition and construction of capital assets	(731)	(115)			(846)
Proceeds from governmental sources		830			830
Proceeds from long-term borrowings			37,018		37,018
Net cash used for capital and related financing activities	(731)	(272)	(8,981)		(9,984)
Cash flows from investing activities:					
Purchase of investments	(597)	(101)	(6,415)		(7,113)
Proceeds from sale and maturities of investments			878		878
Interest and dividends on investments	6,752	5			6,757
Loan disbursements				(800)	(800)
Loan repayments				461	461
Net cash provided (used) by investing activities	6,155	(96)	(5,537)	(339)	183
Net increase (decrease) in cash and cash equivalents	(22,471)	(117)	1,893	1,206	(19,489)
Cash and cash equivalents-beginning	106,750	926	75,476	8,173	191,325
Cash and cash equivalents-ending	$ 84,279	$ 809	$ 77,369	$ 9,379	$ 171,836
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	$ (310,362)	$ (260)	$ 2,768	$ 880	$ (306,974)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	419	479			898
Amortization			(120)	(33)	(153)
Accrued interest paid on new bond issuance			(45)		(45)
Premium paid on bond redemption			18		18
Net appreciation (depreciation) of investments			115		115
Net changes in assets and liabilities:					
Accounts receivable			57	1,264	1,321
Inventory		2			2
Loans receivable			6,802	(11,920)	(5,118)
Other current assets			20	(5)	15
Current liabilities			57		57
Accounts payable and other accrued liabilities	(56,529)		150	(1,210)	(57,589)
Compensated absences	913	(2)			911
Deferred revenue		(32)		457	425
Net cash provided (used) by operating activities	$ (365,559)	$ 187	$ 9,822	$ (10,567)	$ (366,117)

TRUST AND AGENCY FUNDS

Trust and agency funds are used to account for assets held by the State in a fiduciary capacity or as an agent for individuals, private organizations, or other governments and/or funds. The trust and agency funds consist of the following:

> ***Pension Trust Funds*** – These funds are accounted for in essentially the same manner as proprietary funds include Judicial, Teacher, State Police, Highway, and APERS retirement plans.
>
> ***Agency Funds*** – These funds are custodial in nature and do not involve measurement of operations. Included in these funds are assets held by the Insurance Department and various other State agencies.

Combining Statement of Fiduciary Net Assets
Pension Trust Funds

June 30, 2004
(In thousands)

Assets	Teacher	APERS	Highway	State Police	Judicial	Total
Cash and cash equivalents	$ 465,824	$ 175,809	$ 528	$ 5,876	$ 7,556	$ 655,593
Receivables:						
Employee	10,975	1,023	667		208	12,873
Employer	4,562					4,562
Interest and dividends	14,667	12,114	5,428	511	526	33,246
Advances to other funds	16,667					16,667
Other	279,715	27,561	4	7,712	925	315,917
Investments at fair value:						
Bonds, notes, mortgages, and preferred stock	608,591	867,415	291,153	50,580	45,029	1,862,768
Common stock	2,132,187	1,259,828	550,258	81,384	72,461	4,096,118
Real estate	111,313	222,210				333,523
International investments	1,344,364	814,934		41,500		2,200,798
Mutual funds		931,980				931,980
Pooled investment funds				15,695		15,695
Corporate obligations	381,059	43,834		2,601	2,079	429,573
Asset backed securities	19,731	36,100		2,823	1,490	60,144
Other	3,041,487	2,324	133,035			3,176,846
Securities lending collateral	719,811	549,311		40,042		1,309,164
Fixed assets	529	50				579
Other assets	3,114	1,668				4,782
Total assets	9,154,596	4,946,161	981,073	248,724	130,274	15,460,828
Liabilities and Net Assets						
Liabilities:						
Accounts payable and other liabilities	1,514	6,270	46	344	186	8,360
Investment principal payable	331,082	83,734		12,927	561	428,304
Obligations under securities lending	719,811	549,311		40,042		1,309,164
Due to other funds	219					219
Total liabilities	1,052,626	639,315	46	53,313	747	1,746,047
Net assets:						
Held in trust for employee's pension benefits	$ 8,101,970	$ 4,306,846	$ 981,027	$ 195,411	$ 129,527	$ 13,714,781

Combining Statement of Changes in Fiduciary Net Assets
Pension Trust Funds

Year ended June 30, 2004
(In thousands)

	Teacher	APERS	Highway	State Police	Judicial	Total
Additions:						
Contributions:						
Members	$ 77,772	$ 2,331	$ 7,707	$ 57	$ 801	$ 88,668
Employers	224,184	117,223	15,810	4,923	1,910	364,050
Supplemental contributions		1,730		438	1,313	3,481
Court fees				1,264	903	2,167
Reinstatement fees				976		976
Total contributions	301,956	121,284	23,517	7,658	4,927	459,342
Investment income:						
Net increase (decrease) in fair value of investments	354,864	390,466	99,833	29,039	13,672	887,874
Interest, dividends, and other	851,075	101,624	22,746	2,909	2,925	981,279
Real estate operating income	7,738	3,133				10,871
Securities lending income	8,666	8,911		478		18,055
Total investment income	1,222,343	504,134	122,579	32,426	16,597	1,898,079
Less investment expense	47,238	19,974	3,688	1,609	637	73,146
Net investment income	1,175,105	484,160	118,891	30,817	15,960	1,824,933
Miscellaneous	202	6,720		1		6,923
Total additions (losses)	1,477,263	612,164	142,408	38,476	20,887	2,291,198
Deductions:						
Benefits paid to participants or beneficiaries	413,434	182,902	51,851	13,940	6,438	668,565
Refunds of employee/employer contributions	4,018	375	604			4,997
Administrative expenses	8,197	4,704	48	95	40	13,084
Total deductions	425,649	187,981	52,503	14,035	6,478	686,646
Change in net assets held in trust for:						
Employees' pension benefits	1,051,614	424,183	89,905	24,441	14,409	1,604,552
Net assets, beginning	7,050,356	3,882,663	891,122	170,970	115,118	12,110,229
Net assets, ending	$ 8,101,970	$ 4,306,846	$ 981,027	$ 195,411	$ 129,527	$ 13,714,781

Combining Statement of Fiduciary Net Assets
Agency Funds

June 30, 2004
(In thousands)

Assets		Insurance Department	Other agencies	Total
Cash and cash equivalents	$	10,911	32,383	43,294
Receivables:				
Interest and dividends			45	45
Due from Other Funds			583	583
Other			6,047	6,047
Investments at fair value:				
Certificates of deposit		12,211	42,994	55,205
Bonds, government securities, notes, mortgages, and preferred stock		325,549	70,277	395,826
Total assets	$	348,671	152,329	501,000
Liabilities				
Liabilities:				
Accounts payable and other liabilities	$		6,861	6,861
Due to other governments			85,057	85,057
Due to other funds			4,396	4,396
Due to third parties		348,671	56,015	404,686
Total liabilities	$	348,671	152,329	501,000

STATISTICAL
SECTION
(TAB)

Table 1
Government-Wide Governmental Activities and Expenses (Unaudited)
Last Three Fiscal Years

(In thousands)

		2004	2003	2002
Revenues:				
Program Revenues:				
Charges for service	$	712,645	719,961	624,197
Operating grants and contributions		3,805,225	3,802,814	3,425,029
Capital grants and contributions		454,668	15,419	6,707
General Revenues:				
Taxes		5,022,063	4,588,446	4,493,647
Investment earnings		36,651	46,139	63,121
Miscellaneous income		295,706	292,716	45,374
Loss on sale of fixed assets			(31,910)	(14,696)
Transfers-internal services		(637,949)	(596,261)	(609,619)
Total Revenues		9,689,009	8,837,324	8,033,760
Expenses:				
Education		2,342,543	2,326,854	2,236,210
Health and human services		4,100,830	3,785,128	3,304,714
Transportation		606,900	620,424	522,826
Law, justice, and public safety		529,693	441,258	428,701
Recreation and resource development		189,406	243,519	218,534
General government		1,071,734	1,048,805	940,426
Regulation of business and professional		130,349	115,983	98,494
Interest on long-term debt		56,906	55,677	51,215
Total Expenses		9,028,361	8,637,648	7,801,120
Change in Net Assets	$	660,648	199,676	232,640

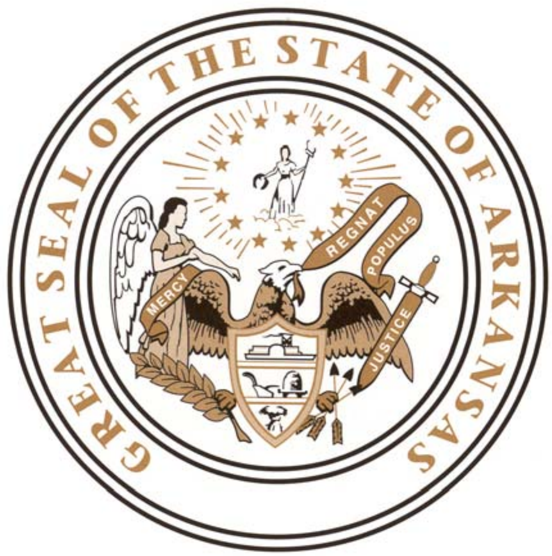

GREAT SEAL OF THE STATE OF ARKANSAS
REGNAT POPULUS
MERCY
JUSTICE

Table 2
Expenditures by Function (Unaudited)
General Fund
Last Ten Fiscal Years

(In thousands)

		2004	2003	2002		2001
General government	$	1,029,316	1,044,164	902,922		681,055
Education		2,336,813	2,324,631	2,231,401		2,172,021
Health and human services		4,065,745	3,772,155	3,293,609		2,984,687
Law, justice, and public safety		496,109	416,353	405,434		509,428
Recreation and recourses development		159,895	221,987	196,731		196,734
Regulation of business and professionals		125,968	108,378	96,655		120,189
Transportation		312,688	346,282	257,976	(1)	788,416
Debt service		94,772	91,031	93,392		69,841
Capital outlay		755,373	692,898	810,947	(1)	132,485
Total expenditures	$	9,376,679	9,017,879	8,289,067		7,654,856

(1) Capital outlay expense increased while transportation expense decreased due to the capitalization of road and bridge construction in 2002 and 2003.

Table 3
Revenues by Source (Unaudited)
General Fund
Last Ten Fiscal Years

(In thousands)

		2004	2003	2002	2001
Taxes:					
Personal and corporate income	$	1,914,067	1,714,603	1,671,615	1,704,226
Consumer sales		1,951,475	1,770,946	1,719,686	1,728,033
Gas and motor carrier		450,444	439,614	430,735	257,407
Other taxes		694,802	638,510	647,387	373,688
Intergovernmental		4,249,189	3,823,171	3,417,665	2,882,725
Licenses, permits, and fees		717,092	750,872	591,817	480,698
Investment earnings		36,651	46,139	63,167	107,074
Other		313,952	250,566	49,403	623,006
Total revenues	$	10,327,672	9,434,421	8,591,475	8,156,857

2000	1999	1998	1997	1996	1995
587,147	992,322	724,127	751,164	783,378	722,077
2,098,860	1,959,309	1,883,809	1,812,291	1,690,844	1,629,154
2,698,687	2,614,967	2,496,628	2,437,633	2,297,385	2,067,465
333,211	311,176	265,313	282,258	241,228	200,574
203,358	170,619	177,838	163,937	178,519	150,509
161,703	139,345	121,450	147,064	130,339	126,415
622,061	559,572	635,188	677,638	579,417	483,972
77,244	57,917	54,876	77,360	27,413	9,184
142,227	120,525	110,988	184,003	94,874	73,812
6,924,498	6,925,752	6,470,217	6,533,348	6,023,397	5,463,162

2000	1999	1998	1997	1996	1995
1,670,110	1,873,980	1,822,383	1,614,700	1,587,671	1,441,787
1,622,476	1,560,892	1,476,686	1,435,841	1,364,977	1,312,884
285,113	386,503	368,050	355,586	353,598	348,296
349,969	353,136	361,071	312,704	407,647	328,390
2,613,654	2,459,368	2,387,385	2,335,367	2,213,786	1,990,879
481,078	438,174	414,338	381,498	355,742	255,279
102,158	108,000	90,169	68,888	66,033	48,931
442,979	390,236	241,826	386,352	361,376	333,038
7,567,537	7,570,289	7,161,908	6,890,936	6,710,830	6,059,484

Table 4
Ratio of Annual Debt Service Expenditures for General Bonded Debt to Total General Fund Revenues and Expenditures (Unaudited)
Last Ten Fiscal Years

(In thousands)

	Debt Service	Total Revenue	Ratio	Total Expenditures	Ratio
Year ended June 30:					
2004	$ 94,772	$ 10,327,672	0.0092	$ 9,376,679	0.0101
2003	91,031	9,434,421	0.0096	9,017,879	0.0101
2002	93,392	8,591,475	0.0109	8,289,067	0.0113
2001	69,841	8,076,157	0.0086	7,576,656	0.0092
2000	77,244	7,567,537	0.0102	6,924,498	0.0112
1999	57,917	7,570,289	0.0077	6,925,752	0.0084
1998	54,876	7,161,908	0.0077	6,470,217	0.0085
1997	77,360	6,890,936	0.0112	6,533,348	0.0118
1996	27,413	6,710,830	0.0041	6,023,397	0.0046
1995	9,184	6,059,484	0.0015	5,463,162	0.0017

Source: Arkansas Department of Finance and Administration Office of Accounting
The notes to the financial statements are an integral part of the statement.

Table 5
Ratio of Outstanding General Obligation Bonded Debt to Gross General Revenues and Per Capita (Unaudited)
Last Ten Fiscal Years

(In thousands)

				Net general obligation bonded debt	
	Population	Gross general revenues	General obligation bonded debt	Per capita	Ratio to gross general revenue
Year ended June 30:					
2004	2,737	$ 4,334,500	$ 923,173	337.29	0.213
2003	2,723	4,043,000	920,986	338.22	0.228
2002	2,703	3,930,800	712,939	263.76	0.181
2001	2,689	3,958,000	551,189	204.98	0.139
2000	2,673	3,844,800	546,172	204.33	0.142
1999	2,557	3,698,300	388,336	151.87	0.105
1998	2,540	3,544,400	400,402	157.64	0.113
1997	2,525	3,315,000	299,101	118.46	0.090
1996	2,507	3,142,200	244,683	97.60	0.078
1995	2,483	2,964,300	146,729	59.09	0.049

Source: State of Arkansas Department of Finance and Administration Economic Analysis and Tax Research

Table 6
Revenue Bond Coverage (Unaudited)
Arkansas Student Loan Authority
Last Ten Years

(In thousands)

Arkansas Student Loan Authority	Gross revenue	Direct operating expense	Net revenue available for debt service	Principal	Interest	Total debt service	Coverage
Year ended June 30:							
2004	$ 68,207 [1]	$ 4,069	$ 64,139	$ —	$ 5,543	$ 5,543	11.57
2003	67,629	3,677	63,962	6,860	6,594	13,454	4.75
2002	61,654	3,597	58,057	13,005	7,769	20,774	2.79
2001	53,888	3,680	50,208	17,655	12,478	30,133	1.67
2000	44,630	2,902	41,728	4,730	10,353	15,083	2.77
1999	42,470	2,775	39,695	1,665	12,002	13,667	2.90
1998	37,510	2,572	34,938	2,100	12,200	14,300	2.44
1997	33,702	2,360	31,342	8,540	12,554	21,094	1.49
1996	31,471	2,076	29,395	2,575	10,968	13,543	2.17
1995	29,253	2,001	27,252	3,200	10,379	13,579	2.01

Source: State of Arkansas Student Loan Authority.

(1) Gross revenue includes payment of principal loans.

Table 7
Demographic Statistics (Unaudited)
Last Ten Years

(In thousands)

Calendar year	Total population	Per capita personal income	Unemployment rate
(forecast)	(in thousands)		
2004	2,737	$ 24,946	5.4%
2003	2,723	23,899	5.2%
2002	2,703	23,142	5.1%
2001	2,689	23,757	4.5%
2000	2,673	23,114	4.4%
1999	2,557	22,188	4.5%
1998	2,540	21,149	5.5%
1997	2,525	20,334	5.3%
1996	2,507	19,425	5.4%
1995	2,483	18,524	4.9%

Source: State of Arkansas Department of Finance and Administration Economic Analysis and Tax Research

Table 8
Economic Statistics (Unaudited)
Last Ten Years

(In thousands)

Calendar year	Gross State Product (stated in 1996 dollars)	Personal income
2004	$ 68,800	$ 68,278
2003	67,057	64,531
2002	65,357	62,871
2001	63,701	60,624
2000	64,046	57,426
1999	63,207	54,949
1998	59,967	52,364
1997	58,585	49,727
1996	56,796	47,306
1995	54,689	44,615

Table 9
Property Values, Taxable Sales, Bank Deposits, and Bank Loans (Unaudited)
Last Ten Years

(In millions, except for bank number data)

Calendar year	Assessed property values	Taxable total sales	Banks			
			Number	Deposits	Loans	Assets
2004	$ 27,564	$ 40,056	161	$ 30,214	$ 23,443	$ 37,136
2003	26,352	38,120	166	27,383	21,026	33,201
2002	25,357	36,529	196	26,505	20,593	31,878
2001	23,979	36,275	178	23,536	18,104	28,165
2000	22,696	35,486	185	21,545	16,599	25,682
1999	21,648	33,307	195	22,467	16,433	26,725
1998	20,796	31,873	202	21,503	14,772	25,128
1997	19,895	30,824	226	24,704	17,159	28,735
1996	18,383	30,425	233	26,453	17,515	30,633
1995	17,021	28,794	242	24,057	16,298	27,987

Sources:

Assessed property value:	Assessment Coordination Department
Taxable sales:	State of Arkansas Department of Finance and Administration Economic Analysis and Tax Research
Banks:	State Bank Department; FDIC Database

Table 10
Twenty-Five Largest Private Sector Employers in Arkansas (Unaudited)
June 30, 2004

	Company	Number of employees
1.	Wal-Mart Stores Inc.	42,462
2.	Tyson Foods Inc.	24,274
3.	Baptist Health, Inc.	7,369
4.	ConAgra Foods, Inc.	6,400
5.	Triad Hospitals*	5,000
6.	Whirlpool Corporation	4,500
7.	Entergy Corporation	4,000
8.	Georgia-Pacific Corporation	3,731
9.	Beverly Enterprises, Inc.	3,667
10.	Alltel Corp.	3,500
11.	Arkansas Children’s Hospital, Inc.	3,215
12.	Kroger Co.	3,201
13.	Dillard's Inc.	3,200
14.	J.B. Hunt Transport Services, Inc.	3,011
15.	International Paper Company	3,000
16.	St. Vincent Health System	2,967
17.	Union Pacific Railroad Co.	2,888
18.	SBC Communications, Inc.*	2,800
19.	O.K. Industries, Inc.	2,700
20.	Acxiom Corporation	2,600
21.	Cooper Tire and Rubber Co.	2,408
22.	Emerson Electric Company	2,405
23.	Sparks Health System	2,403
24.	Cargill, Inc.	2,228
25.	United Parcel Service, Inc.	2,154

Sources:

Arkansas Business 2004 Book of Lists

*Data Base of Arkansas Department of Economic Development

Table 11A
Miscellaneous Public Education Statistics (Unaudited)
Last Ten Years

	Number of schools	Average daily attendance	Number of teachers	Pupil-teacher ratio
School year ended:				
2004	1130	426399	31900	13.37
2003	1139	415525	30874	13.46
2002	1133	420015	31429	13.36
2001	1159	418906	31883	13.14
2000	1149	422958	31010	13.64
1999	1108	421933	30745	13.72
1998	1149	429892	29616	14.52
1997	1104	426983	29415	14.52
1996	1095	420901	29344	14.34
1995	1095	418222	28875	14.48

Source:
Annual Status Report of the Public Schools of Arkansas, Arkansas Statistical Report, and Arkansas Department of Education

	Expenditure on education per pupil in daily attendance			% Revenue from State Government		
	United States	Arkansas	Arkansas Rank	United States	Arkansas	Arkansas Rank
School year ended:						
2004	$ 9458 *	4087 *	31 *	49.10% *	61.50% *	11 *
2003	9014	6393	49	49.00%	61.50%	10
2002	8719	6335	48	49.60%	62.40%	9
2001	7640	5966	46	50.20%	62.20%	12
2000	7146	5625	46	50.70%	62.90%	12
1999	6734	5545	42	49.80%	61.00%	16
1998	6638	5848	34	49.10%	60.80%	14
1997	6335	4498	48	48.70%	65.90%	6
1996	6103	4353	48	47.90%	65.40%	7
1995	5894	4059	49	46.00%	63.60%	9

* Estimate

Source:
National Education Association Research, Estimates Data Bank
Rankings and Estimates, A Report of School Statistics

Table 11B
Miscellaneous Higher Education Statistics (Unaudited)
Last Ten Years

Public Institutions

	Fall net enrollment	Degrees awarded: Undergraduate	Graduate	Total
2003-04	113,100	17,043	3,116	20,159
2002-03	108,824	16,950	2,890	19,840
2001-02	103,715	15,148	2,984	18,132
2000-01	100,207	14,090	2,852	16,942
1999-00	98,989	13,747	2,927	16,674
1998-99	97,742	13,028	2,829	15,857
1997-98	95,435	12,787	2,869	15,656
1996-97	92,069	13,157	2,910	16,067
1995-96	90,276	12,560	2,715	15,275
1994-95	89,466	11,934	2,808	14,742

Private Institutions

	Fall net enrollment	Degrees awarded: Undergraduate	Graduate	Total
2003-04	11,378	2,166	271	2,437
2002-03	12,277	2,204	236	2,440
2001-02	11,890	2,108	184	2,292
2000-01	11,483	2,057	118	2,175
1999-00	11,015	1,633	108	1,741
1998-99	10,781	1,874	87	1,961
1997-98	10,698	1,950	80	2,030
1996-97	11,116	1,893	90	1,983
1995-96	10,969	1,801	80	1,881
1994-95	10,703	1,577	59	1,636

Sources:
Fall On-Campus Enrollment: Table 6, Fall Enrollment Book
Degrees Awarded: Total Degrees and Certificates by Sector; Degrees and Certificates Book

Table 12
Miscellaneous Statistics (Unaudited)

Date of Statehood	1836
Form of Government	Constitutional Representative Government
Land Area	34,036,700 Acres
Miles of State Highway	16,383
State Police Protection:	
Number of Stations	13
Number of State Police	502
Higher Education (State supported):	
Number of Campuses	44
Number of Students	113,100
Recreation:	
Number of State Parks	51
Area of State Parks and Forests	52,553 Acres
Number of State Parks Museums	4