ARKANSAS

Comprehensive Annual Financial Report

Fiscal year Ended June 30, 2005

STATE OF ARKANSAS

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2005

Mike Huckabee
Governor

Richard A. Weiss
Director
Department of Finance and Administration

Prepared by
The Department of Finance and Administration
Office of Accounting

Governor Mike Huckabee

STATE OF ARKANSAS
MIKE HUCKABEE
GOVERNOR

December 22, 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). We require timely accurate financial reporting to ensure proper handling of the taxpayers' money. This annual publication is an important part of that effort. These financial statements and accompanying disclosures are an excellent means of providing 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 received the Government Finance Officers Association certificate of achievement in financial reporting. Every effort will be made to continue to receive this award in the future.

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 yours,

Mike Huckabee

State Capitol Building, Suite 250 * Little Rock, AR 72201 * mike.huckabee@state.ar.us
501-682-2345 * Fax 501-682-1382 * TDD 501-682-7515

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

Financial Reporting Staff:

Connie Honeycutt, CPA –
Assistant Administrator of Office of Accounting
Teri Matthews, CPA – Support Manager
Brenda Horner, CPA – Support Manager
Deanna Richardson, CPA – Support Manager
Shirley Manning, CPA – Support Manager
Greg Crawford, CPA – Support Manager
Gary Puls, CPA – Support Manager
Marcella Winzerling, CPA
Kim Hardwick, CPA
Bill Dull, CPA
John Bata
Sheila Watts
Gary Prince
Danny Ford
Kristin Blain
Linda Hensley
Marnie Davidson

Special appreciation is given to staff members at the Secretary of State's Office and to Richard Drilling with the Department of Finance and Administration, 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, 2005

TABLE OF CONTENTS

ARKANSAS

Introductory Section


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

December 22, 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, 2005. The report has been prepared by the Department of Finance and Administration. 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 auditor's report, management's discussion and analysis, basic financial statements, notes to the financial statements, required supplementary information 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 $72,949 million in FY 2005. This represented an increase of $4,356 million or 6.4 percent over FY 2004.

FY 2006 is estimated at $76,914 million (current dollars), an increase of $3,964 million or 5.4 percent over FY 2005.

Employment: In FY 2005, wage and salary employment rose to 1,167,025 jobs. This represented an increase of 15,875 jobs or 1.4 percent compared to FY 2004. In FY 2006, wage and salary employment is estimated to grow to 1,183,275 jobs. This represents an increase of 16,250 jobs or 1.4 percent from FY 2005.

FY 2006 Gross General Revenues: The FY 2006 forecast for gross general revenue is $4,804.5 million, an increase of $73.9 million or 1.6 percent over FY 2005.

FY 2005 Net Available General Revenues: Actual net available general revenues collected totaled $3,937.1 million, of which $3,629.9 million was distributed to State agencies and $307.2 million surplus was deposited to the General Revenue Allotment Reserve Fund. This amount is $338.3 million or 9.4 percent above the net available collections of FY 2004. The general revenue distribution included an estimated $54.4 million from a 3 percent income tax surcharge which will expire for tax years beginning January 1, 2005, and a transfer of $25.0 million from the Property Tax Relief Trust Fund.

FY 2006 net available general revenue collections are estimated at $3,923.5, a decrease of $13.6 million or 0.3 percent over FY 2005, with distribution to State agencies of $3,825.1 million, an increase of $195.2 million or 5.4% increase. This would provide an estimated $98.4 million surplus to be deposited to the General Revenue Allotment Reserve Fund for appropriation in the 2007 Legislative Session. The net available general revenues distributed for FY 2006 are estimated to include $18.2 million from the Property Tax Relief Trust Fund. Revenue decreases from expiration of the 3 percent income tax surcharge and elimination of the Arkansas Estate Tax are estimated at $56.5 million and $9.1 million, respectively.

Selected Special Revenues: Act 107 of the Second Extraordinary Session of 2003 increased the State sales and use tax rate from 5.125% to 6.0% effective March 1, 2004. Effective July 1, 2004, a new sales tax on selected services went into effect in addition to an increase in vending machine decal fees. Act 94 increased the minimum corporate franchise tax and the tax rate effective for calendar years beginning January 1, 2004. These revenues are deposited to the Educational Adequacy Fund to provide an adequate education system. In FY 2005, $393.9 million was distributed to the Educational Adequacy Fund with the FY 2006 distribution estimated to be $405.4 million.

FY 2006 Arkansas State Wage and Salary Disbursements are estimated at $39,063 million, an increase of $1,809 million or 4.9 percent.

FY 2005 U.S. Gross Domestic Product: During FY 2005, the United States produced final goods and services valued at $11,049 billion (FY 2000 Dollars). This was an increase of $416 billion or 3.9 percent over FY 2004. In current dollars, the United States produced final goods and services valued at $12,103 billion, an increase of $723 billion or 6.4 percent.

During FY 2006, the United States economy is expected to produce final goods and services valued at $11,413 billion (FY 2000 Dollars), an increase of $363 billion or 3.3 percent. In current dollars, the U.S. gross domestic product is expected to be $12,792 billion, an increase of $689 billion or 5.7 percent.

MAJOR INITIATIVES

Highways and Transportation

In FY 2005, the Arkansas State Highway and Transportation Department (AHTD) maintained over 16,000 miles of highways and completed construction projects such as simple resurfacing of existing highways, replacing bridges, adding passing lanes, and building new roads.

During FY 2005 and the previous four years, the AHTD has made unprecedented improvements to the Arkansas Interstate System as a result of the Interstate Rehabilitation Program (IRP). By mid-2005, 50 Interstate roadway projects totaling 355.6 miles had been let to contract at a cost of nearly $1 billion. Forty nine of these projects totaling 349.3 miles of reconstructed or rehabilitated Interstate have been completed, with one 6.3 mile project on Interstate 40 in North Little Rock remaining under construction. Completed jobs included 71.1 miles on Interstate 30, 224.5 miles on Interstate 40, 47.1 miles on Interstate 55, and 6.6 miles on Interstate 540.

The new 13 mile stretch of Highway 549 south of Texarkana was completed at a cost of $90 million. This section runs from Loop 245 on the south side of Texarkana to Fouke and will become a segment of Interstate 49. The Forrest City Bypass is an eight mile; two-lane roadway completed this year at a cost of just over $26 million. It includes new interchanges at Interstate 40 and Highway 70, as well as a railroad overpass.

Several projects funded by Act 345 of 2001 were completed in FY 2005. Signed by Governor Huckabee during the 2001 Legislative Session, this act provided $9 million from the State's General Improvement Fund to help pay for the rebuilding of eight Arkansas Welcome Centers. Welcome Centers are a joint venture of the AHTD and the Arkansas Department of Parks and Tourism (ADPT). AHTD builds and maintains the Centers while ADPT staffs and operates them. Over the past year the El Dorado, Texarkana, and Van Buren/Fort Smith Welcome Centers were completed and dedicated by the Governor.

Arkansas Department of Parks and Tourism

State Parks Division: The mission of Arkansas State Parks is to provide quality recreational and educational opportunities and to safeguard the unique natural, historical, and cultural resources of our State. The mission also includes enhancing the State's economy by providing outstanding recreational and leisure services to all visitors.

There are 51 State parks encompassing 52,611 acres of wetlands, forest, fish and wildlife habitat, recreational facilities, and unique historic and cultural resources. Within the parks are 1,777 campsites, four lodges, over 115 fully-equipped cabins, marinas, swimming pools, restaurants, an 18-hole golf course, and more than 317 miles of hiking trails. Last year there were just under 10 million visitors to our parks. Over 466,000 guests participated in 34,766 educational and recreational programs and special events throughout the park system. During FY 2005, two additional visitor centers were constructed at Lake Dardanelle and Cossatot River State Parks.

New initiatives include the lodge and cabins currently under construction at Mt. Magazine State Park, and a lodge, conference center, and a 27-hole Andy Dye signature golf course to be constructed at Village Creek State Park. The $32 million Mt. Magazine project, which will open in the spring of 2006, is being financed by the Arkansas Development Finance Authority with State park revenue bonds. The new resort facilities at Village Creek will be the result of a public/private partnership between the Arkansas Department of Parks and Tourism (ADPT), Arkansas Development Finance Authority, Arkansas Department of Economic Development, the Cross County Economic Development Corporation, the Recreation and Tourism Public Facilities Board of Cross County, and Village Creek Resort, LLC (V.C.R.). Approval for the project was given in April 2004, and the lease agreement was signed in June 2004. The Public Facilities Board will issue $25 million in bonds to finance the project, with $18 million loaned to V.C.R. to construct and operate the lodge, convention center, pro shop, and infrastructure, and $7 million loaned to ADPT for V.C.R. to construct and operate the golf course. These new facilities are slated to open June 2007 and will add 125 jobs to eastern Arkansas with an estimated $3 million payroll.

Tourism Division: FY 2005 collections of the State's 2% tourism tax increased by 8.7% over the previous year. FY 2006 collections are projected to grow at greater than 10%. These gains are a result of the opening of the new Clinton Presidential Center and Park in Little Rock, establishment of the Natural State Golf Trail, an aggressive marketing campaign, a redesigned website, and key improvements in the State park system.

Information Technology

The mission of the Office of Information Technology (OIT) is to provide statewide leadership, direction, and communication to ensure successful delivery of information technology solutions and Arkansas government services. The accomplishments of this agency help the State of Arkansas remain in the forefront of technology use.

During FY 2005, the State Security Office (SSO) within OIT, worked with State agencies to create and test organizational disaster recovery/continuity of operations plans. These plans are designed to prepare Arkansas for virtually any potential disaster.

The Arkansas Geographic Information Office worked with the Kansas Geographic Information Department to implement redundant Geospatial Information System (GIS) servers in each state to ensure that physical or virtual affects to either of the State's network do not impede the ability to provide a GIS response to events.

Arkansas is also deploying statewide a fully interoperable Project 25 compliant communication system, known as the Arkansas Wireless Information Network (AWIN). "The AWIN system is intended to help prevent in Arkansas the type of communication problems experienced elsewhere in the country during times of crisis or disaster such as with Hurricanes Rita and Katrina," said Governor Mike Huckabee. "This system provides a level of communication between agencies, first-responders, counties, and cities that simply was not possible in the past." This project involves numerous State agencies, all 75 counties, and many municipalities.

The State now has more than 350 online applications for increased access to State government at the convenience of citizens and business. The State adopted an Arkansas.gov website naming convention intended to not only improve access to State government, but also to county and municipal governments statewide. Additionally, the Information Network of Arkansas Board instituted a statewide grant program to fund website development for any county in the state without a web presence. Arkansas received national recognition for its government activities and overall utilization of technology from the Center for Digital Government and from Brown University.

Education

The number of Arkansas students participating in Advanced Placement (AP) Exams in 2005 increased by 108 percent over 2004, representing the largest increase in access to Advanced Placement curricula any state has achieved in a single year during the 50 year history of the College Board's AP program.

Having participated in an AP course is a predictor of later success. Research indicates that a student who has taken an AP course is more likely to complete a bachelor's degree in four years or less.

The increase in AP students in the State is a direct result of Act 102 of the Second Extraordinary Session of the 84th General Assembly, which requires that AP courses be available in the four core areas of study – English, math, science, and social studies – in Arkansas high schools by the 2008-2009 school years. During the 2004-2005 school year 23 schools added AP courses to their class schedule making a total of 235 schools with at least one AP course offered this past school year. Another factor in the growth is that more of Arkansas' teachers have attended the College Board's Advanced Placement Summer Institutes. In addition, the State began paying the fees for students to take the AP tests in May 2005, easing access to the course examinations for many Arkansas students.

A total of 13,883 students took 23,014 AP Exams in 2005, compared to 6,674 students taking 11,112 AP Exams in 2004. Of those tests taken in 2005, 6,524 were scored a 3 "Qualified," a 4 "Well Qualified," or a 5 "Extremely Well Qualified." Since 2000, the number of AP Exams taken by African-American students has grown by 2,678; for Hispanic students during that same time period, the number of AP Exams taken has grown by 580; and for low-income students, the number has grown by 2,573.

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.

In November 2004, Arkansas voters approved an amendment to the State Constitution to allow the State to issue general obligation bonds for projects that create 500 jobs and have an investment of $500 million. Bond issuance is limited to 5 percent of State general revenues during the most recent year, which currently would allow an issuance of approximately $223 million in bonds.

New incentives have been added to attract non-profit headquarters facilities that create a new payroll of at least $1 million and pay wages that are 110 percent of the State or county average wage.

Targeted industry incentives provide start-up companies a 33 percent transferable income tax credit for research and development, a 10 percent payroll tax credit for up to 5 years, and sales and use tax refunds for equipment and building materials. Industries targeted are those that grow knowledge-based businesses from the intellectual property generated by the State's research universities. The emerging technology sectors include: advanced materials and manufacturing systems; agriculture, food, and environmental sciences; biotechnology, bioengineering, and life sciences; information technology; transportation logistics; bio-based products.

Changes to legislation governing threshold limits and allowing the Director the discretion to increase incentives in highly competitive situations by approving rebates have provided Arkansas additional tools to attract industry.

A diverse set of companies located or expanded in Arkansas in fiscal year ending June 30, 2005. Some of the companies are as follows:

Hino Motors Manufacturing USA is building a $160 million, 400,000 square-foot plant in Marion. The plant will employ 280 employees producing parts and components for Toyota vehicles.

The Infinity Group in West Memphis is constructing two 600,000 square-foot distribution centers on 85 acres for $33 million. The centers will provide 500 new jobs.

Mid-South Manufacturing Inc. in Marked Tree is investing $3 million and adding 110 new jobs, bringing its total workforce there to more than 450 employees.

K-Tops Plastic Manufacturing is constructing a 225,000 square-foot facility in Colt that will employ 200 people within the first year of operation. The company is a plastic injection molding company that manufactures products for Kolcraft, the leading supplier of baby products in North America.

Eakas Arkansas in Wynne is building a $15 million, 91,000 square-foot manufacturing facility that will have an eventual workforce of 250. The company will produce decorative and functional interior and exterior trim and other complex modular assemblies for the automotive industry.

JW Aluminum in Russellville announced that it will expand its workforce from 40 to 125 employees.

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, child day care, and Medicaid for the State of Arkansas. In 2005, the department expended $3.7 billion and provided services to over 1,000,000 recipients. Local service delivery was provided through 10 major divisions from 85 service outlets.

Under a Trust Indenture dated July 1, 2004, the Arkansas Finance Development Authority (AFDA) issued State Agencies Facilities Revenues Bonds, Series 2004. The Bonds provided funds for the purchase of the Donaghey Complex in downtown Little Rock, which is substantially occupied by the Department of Human Services central offices. The complex is subleased to the Department by the Arkansas Building Authority. Future savings through reduced lease payments will be significant to the State over the 30 year life of the bonds.

The 85th General Assembly of the State of Arkansas enacted legislation which became Act 1954 of 2005 that merged the Arkansas Department of Health with the Arkansas Department of Human Services and renamed the Department, The Arkansas Department of Health and Human Services. The Department of Health became the Division of Health effective August 12, 2005. This legislation transferred all authority, powers, duties, and functions as established by law for the Department of Health to the Department of Health and Human Services. Further, all records, personnel, property, and unexpended balances of appropriations, allocations, or other funds were transferred to the Department of Health and Human Services.

The Arkansas Board of Health was also transferred by Act 1954 of 2005, but retains exactly the same powers, authorities, duties, and functions prescribed by law as it had prior to the transfer, and maintains all rule and regulation-making authority prescribed by law to the Department of Health before the transfer. The DHHS Director appoints the Director of the Division of Health, and the Governor, with the approval of the Board of Health, appoints a Chief Health Officer for the State of Arkansas.

The Healthy Arkansas Initiative defines specific areas where behavioral changes can lead to healthier citizens in areas such as cardiovascular health, diabetes, tobacco prevention and control, arthritis, and cancer control. In prior years, worksite wellness guides and toolkits were developed and distributed statewide through local coalitions and State of Arkansas websites. In 2005, youth smoking prevalence dropped to 26.3% from 34.9% in 2001. The SOS Quitline (1-866-NOW-QUIT) received over 6,800 calls and enrolled 749 clients into cessation counseling. The average 12 month successful quit rate for this time period was 26.1 percent, which is higher than the national average of 10-15%.

During FY 2005, diabetes self-management education programs were established in Arkansas with the assistance of several medical-related businesses. The Arkansas Wellness Coalition distributed the ABC's of Diabetes and Body Mass Index (BMI) Guidelines and Posters to over 3,000 health care professionals in Arkansas.

On April 18, the Arkansas Department of Health and Human Services officially kicked off the State's Worksite Wellness pilot as part of the Governor's Healthy Arkansas Initiative. The worksite wellness program, better known as HELP or Healthy Employee Lifestyle Program, enables almost 10,000 employees to start taking steps to a healthier lifestyle. A customized web-based tracking system was developed specifically for DHHS. The tracking system enables employees to document points earned for their time spent on exercise, tobacco use, and their consumption of fruits and vegetables. Participants also earn points when they receive the doctor recommended, age-appropriate health screenings and complete an online health risk assessment. As an added incentive for employees, Act 724 was passed during this past Legislative Session to authorize time off from work when they participate in HELP.

Efforts continue to strengthen the State's public health preparedness for emergency response. Mass influenza immunization clinics were held in all 75 Arkansas counties on November 3, 2004. The clinics exercised the counties' bio-terrorism mass dispensing/flu pandemic plans and provided 52,195 doses of flu vaccine to Arkansans in one day.

Immunizations are key to preventing the outbreak of vaccine-preventable diseases. 82.4% of Arkansas children 19 to 35 months of age were appropriately immunized in 2004, exceeding the national rate of 80.9%. A statewide, web-based immunization registry (the Immunization Network for Children) was implemented in January 2005. The registry serves as a resource for Arkansas physicians to both report and track immunizations for their patients.

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:

The 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.

Fund financial statements consist of information about the three fund types. 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) consists of budget comparison schedules, as well as various pension and public entity risk pool 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, 2005, was approximately $945 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 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 State of Arkansas Division of Legislative Audit performed the audit for the fiscal year ended June 30, 2005. 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.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Arkansas for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2004. This was the seventh year that the State has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. The report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements. The Certificate of Achievement is valid for a period of one year only.

Acknowledgments

Governor Mike Huckabee, by making fiscal responsibility a top priority, has provided excellent leadership in the accurate and timely financial reporting by the State. His administration has developed policies and acquired the resources necessary to ensure strict compliance with the reporting requirements of the entities that govern financial reporting for governments. The information generated by and distributed through the State’s reporting structure is used by the Legislature and other decision makers within the State of Arkansas.

The level of detail and degree of accuracy with which information in this report is presented would not be possible without the contributions and support of all State agencies that provide their financial packages on a timely basis. Their efforts are appreciated by all of the people responsible for preparing the CAFR.

Sincerely,

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Arkansas

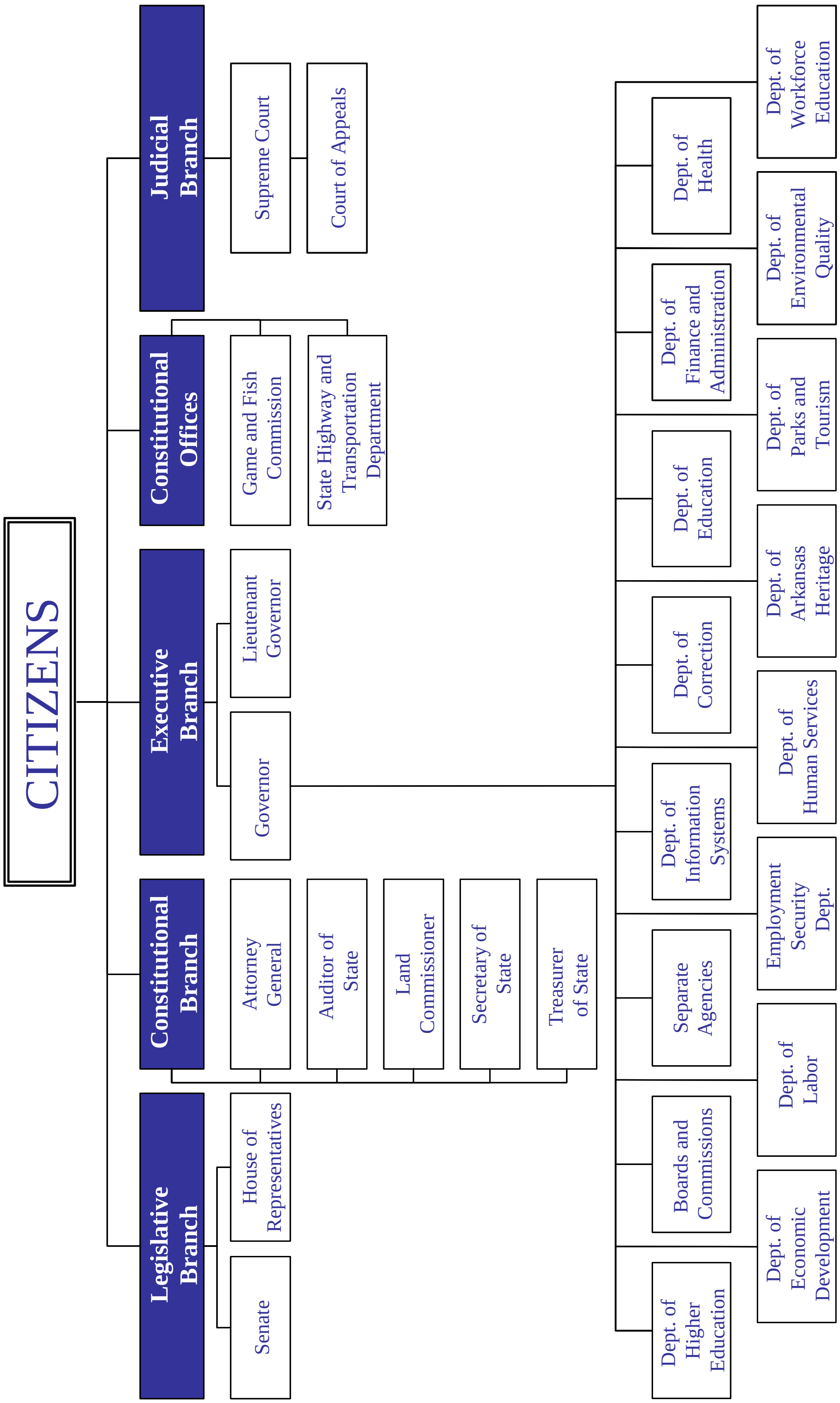
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

Organizational Chart



Principal Officials

Elected Officials

Governor

Mike Huckabee

Lieutenant Governor

Winthrop P. Rockefeller

Treasurer of State

Gus Wingfield

Auditor of State

Jim Wood

Secretary of State

Charlie Daniels

Attorney General

Mike Beebe

Land Commissioner

Mark Wilcox

Legislative Branch

President Pro Tempore

Senator Jim Argue

Speaker of the House

Representative Bill Stovall III

Supreme Court

Chief Justice

Jim Hannah

Associate Justice

Robert L. Brown

Associate Justice

Annabelle Clinton Imber

Associate Justice

Betty Dickey

Associate Justice

Donald L. Corbin

Associate Justice

Tom Glaze

Associate Justice

Jim Gunter

ARKANSAS

Financial Section


GREAT SEAL OF THE STATE OF ARKANSAS
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JUSTICE

Arkansas

Charles L. Robinson, CPA, CFE
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE
DIVISION OF LEGISLATIVE AUDIT

Independent Auditor's Report

The Honorable Mike Huckabee, Governor
and Members of the Legislative Joint Auditing Committee
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, 2005, 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 financial statements of the University of Arkansas for Medical Sciences, a portion of the Higher Education Fund, which represent 16% of the assets and 34% of the revenues of the business-type activities opinion unit and 20% of the assets and 53% of the revenues of the Higher Education major enterprise fund opinion unit. We did not audit the financial statements of the Construction Assistance Revolving Loan Fund or the Other Revolving Loan Funds (non-major enterprise funds), which on a combined basis represent 7% of the assets and less than 1% of the revenues of the business-type activities opinion unit and 2% of the assets and less than 1% of the revenues of the aggregate remaining fund information 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, are 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. The financial statements of the University of Arkansas Foundation, Inc. and the University of Arkansas Fayetteville Campus Foundation, Inc. (discretely presented component units) were not audited in accordance with *Government Auditing Standards.* 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 reports of other auditors provide a reasonable basis for our opinions.

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, 2005, 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.

172 STATE CAPITOL • LITTLE ROCK, ARKANSAS 72201-1099 • PHONE (501) 683-8600 • FAX (501) 683-8605 • TDD (501) 683-8610

As discussed in Note 2, the State adopted the provisions of Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, an amendment of GASB Statement No. 3, as of July 1, 2004.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 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 on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The management's discussion and analysis, and the schedule of funding progress, the budgetary information and the ten-year claims development information schedules on pages 3 through 13 and pages 112 through 120, 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, in our opinion, 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.

DIVISION OF LEGISLATIVE AUDIT

Charles L. Robinson, CPA, CFE
Legislative Auditor

Little Rock, AR
December 22, 2005
CAFR00105

ARKANSAS

Management's Discussion and Analysis


GREAT SEAL OF THE STATE OF ARKANSAS
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MANAGEMENT'S DISCUSSION AND ANALYSIS (Introduction)

Management of the State of Arkansas (the State) provides this *Management's Discussion and Analysis* of the State's 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 are for the fiscal year ended June 30, 2005. The State's June 30, 2005, financial statements received an unqualified opinion (see Independent Auditors' Report for more information). We believe that the State is making great strides in building a reporting structure that will produce more timely and accurate financial statements in the future. Management has aggressively addressed audit areas of concern by adding professional accounting staff, strengthening internal control, training agency staff, and further defining processes and implementing additional policies and procedures. 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. 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.

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 exceeded its liabilities for the fiscal year ended June 30, 2005, by $12.3 billion (presented as "total net assets"). The net assets of the State increased $835 million during the year. Net assets of the governmental activities increased by $639 million. Of the total net assets, $2.3 billion (18%) is reported as unrestricted. 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, $1.3 billion (10%), 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, $8.8 billion (71%), 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 leases, and notes as of June 30, 2005, was $2.2 billion. Additional debt totaling $625 million was entered into during the year. $416 million of that increase was attributable to increases in college and university revenue bonds.

Fund Highlights:

As of the close of business on June 30, 2005, the State's General Fund reported a fund balance of $2.5 billion. Of this balance, $989 million or 40% of the total fund balance is reserved, and $1.5 billion or 60% of the total fund balance is unreserved. The fund balance in the General Fund increased $423 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. The State's basic financial statements include *Government-Wide Financial Statements*, *Fund Financial Statements*, *Notes to the Financial Statements,* and *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 *Statement of Net Assets* and the *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.

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, and 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 Education (elementary and secondary), Health and Human Services, Transportation, Law, Justice and Public Safety, Recreation and Resources Development, General Government, and 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 Higher Education, Workers' Compensation Commission, Employment Security Department, War Memorial Stadium Commission, Public School Employee Health and Life Benefit Plan, Construction Assistance Revolving Loan Fund, and Other Revolving Loan Funds.

Discretely presented component units are legally separate organizations established for a specific purpose and are managed independently with their powers generally vested in a governing board. Discretely presented component units are financially accountable to the State and include Arkansas Student Loan Authority (ASLA), Arkansas Development Finance Authority (ADFA), The University of Arkansas Foundation, Inc., and The University of Arkansas Fayetteville Campus Foundation, Inc.

Complete financial statements of ASLA, ADFA, The University of Arkansas Foundation, Inc., and The University of Arkansas Fayetteville Campus Foundation, Inc. can be obtained from their administrative offices. Addresses and other additional information about the State's component units are presented in the notes to the financial statements.

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 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: *Governmental Funds*, *Proprietary Funds*, and *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. 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 seven proprietary funds. They are the Higher Education, the Workers' Compensation Commission, the Employment Security Department, the War Memorial Stadium Commission, the Public School Employee Health and Life Benefit Plan, the Construction Assistance Revolving Loan Fund, and 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 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, District Judges, and Arkansas Public Employees Retirement Systems as well as the 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 Fiduciary Funds 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, a schedule of ten-year claims development information for three public entity risk pools, and a budgetary comparison schedule which includes a reconciliation between the statutory expenditures for budgetary purposes and the expenditures 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 AND ANALYSIS

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

State of Arkansas - Primary Government
Net Assets
(Expressed in thousands)

	Governmental Activities		Business-Type Activities		Totals	
	2005	2004	2005	2004	2005	2004
Current Assets	$ 3,151,331	$ 2,696,025	$ 1,086,588	$ 1,078,872	$ 4,237,919	$ 3,774,897
Noncurrent Assets	212,769	215,569	1,841,472	1,487,554	2,054,241	1,703,123
Capital Assets	8,604,222	8,268,565	1,927,457	1,762,860	10,531,679	10,031,425
Total Assets	11,968,322	11,180,159	4,855,517	4,329,286	16,823,839	15,509,445
Current Liabilities	815,009	651,068	296,748	302,620	1,111,757	953,688
Long-Term Liabilities	1,249,890	1,265,049	2,134,874	1,798,453	3,384,764	3,063,502
Total Liabilities	2,064,899	1,916,117	2,431,622	2,101,073	4,496,521	4,017,190
Net Assets						
Invested in Capital Assets, Net of Related Debt	7,593,189	7,375,246	1,200,731	1,159,058	8,793,920	8,534,304
Restricted	506,508	231,314	760,011	649,458	1,266,519	880,772
Unrestricted	1,803,726	1,657,482	463,153	419,697	2,266,879	2,077,179
Total Net Assets	$ 9,903,423	$ 9,264,042	$ 2,423,895	$ 2,228,213	$ 12,327,318	$ 11,492,255

The net assets of the governmental activities increased $639 million while the net assets of the business-type activities increased $195.7 million. Approximately one third of the increase in governmental activities is attributable to increased sales tax revenue due to favorable economic conditions and an additional tax rate that was implemented in 2004 to enhance the adequacy of education in Arkansas. Business-type activities increased by $195.7 million primarily from revenues from the Enhanced Medicaid program at the University of Arkansas for Medical Sciences.

The book value of capital assets as of June 30, 2005, was $8.6 billion for governmental activities and $1.9 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.

Governmental activities increased the State's net assets by $639 million. Key elements of this increase are as follows:

State of Arkansas - Primary Government
Changes in Net Assets
(Expressed in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2005	**2004**	**2005**	**2004**	**2005**	**2004**
Program Revenues:						
Charges for services	$ 816,391	$ 712,645	$ 1,269,348	$ 1,150,295	$ 2,085,739	$ 1,862,940
Operating grants and contributions	3,997,615	3,805,225	602,649	549,004	4,600,264	4,354,229
Capital grants and contributions	431,739	454,668	70,432	56,889	502,171	511,557
General Revenues:						
Personal and corporate taxes	2,164,445	1,920,448			2,164,445	1,920,448
Sales and use taxes	2,380,921	1,956,032			2,380,921	1,956,032
Motor fuel taxes	450,281	449,960			450,281	449,960
Other taxes	720,948	695,623	310,431	318,555	1,031,379	1,014,178
Total Revenues	10,962,340	9,994,601	2,252,860	2,074,743	13,215,200	12,069,344
Expenses:						
Education	2,881,337	2,342,543			2,881,337	2,342,543
Health and human services	4,538,242	4,100,830			4,538,242	4,100,830
Transportation	626,138	606,900			626,138	606,900
Law, justice and public safety	518,579	529,693			518,579	529,693
Recreation and resources development	175,097	189,406			175,097	189,406
General government	1,042,440	1,027,251			1,042,440	1,027,251
Regulation of business and professionals	117,525	130,349			117,525	130,349
Business-type expenses			2,826,162	2,627,453	2,826,162	2,627,453
Interest expense	60,101	56,906			60,101	56,906
Total Expenses	9,959,459	8,983,878	2,826,162	2,627,453	12,785,621	11,611,331
Other:						
Unrestricted investment earnings	58,348	36,651	48,310	40,498	106,658	77,149
Miscellaneous Income	232,838	295,706	65,988	35,119	298,826	330,825
Transfers-internal activities	(654,686)	(668,032)	654,686	668,032		
Total Other	(363,500)	(335,675)	768,984	743,649	405,484	407,974
Increase (decrease) in net assets	639,381	675,048	195,682	190,939	835,063	865,987
Net Assets - Beginning	9,264,042	8,588,994	2,228,213	2,037,274	11,492,255	10,626,268
Net Assets - Ending	$ 9,903,423	$ 9,264,042	$ 2,423,895	$ 2,228,213	$ 12,327,318	$ 11,492,255

As is typical for governmental activities, program expenses exceeded program revenues. The excess program expenses of $4.7 billion were funded by normal State taxing activities.

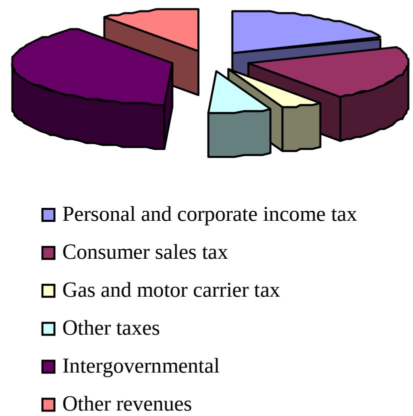
FUND HIGHLIGHTS AND ANALYSIS

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, 2005 and 2004 (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

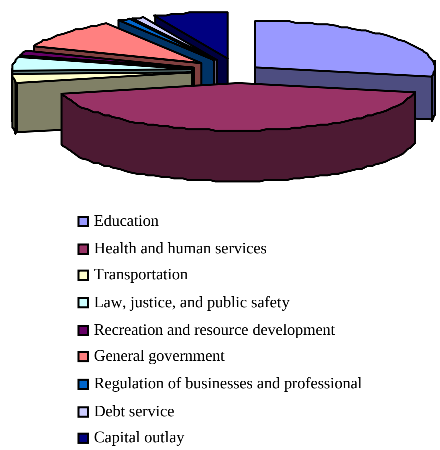
Revenues	2005	2004	Increase (Decrease) Percent
Personal and corporate income tax	$ 2,169,849	$ 1,914,067	13.36%
Consumer sales tax	2,382,865	1,951,475	22.11%
Gas and motor carrier tax	450,269	450,444	-0.04%
Other taxes	721,144	694,802	3.79%
Intergovernmental	4,418,148	4,249,189	3.98%
Other revenues	1,142,825	1,067,695	7.04%
Total	$ 11,285,100	$ 10,327,672	9.27%



Governmental revenues increased by 9.27%. The increase was due to higher personal and corporate income taxes and an increased sales tax rate which went into effect on March 1, 2004, and continued to yield excess revenue that was not expended in the current year.

Expenditures by Source - General Fund

Expenditures	2005	2004	Increase (Decrease) Percent
Education	$ 2,877,770	$ 2,336,813	23.15%
Health and human services	4,526,132	4,065,745	11.32%
Transportation	319,140	312,688	2.06%
Law, justice, and public safety	480,246	496,109	-3.20%
Recreation and resource development	159,709	159,895	-0.12%
General government	1,058,514	1,029,316	2.84%
Regulation of businesses and professional	114,484	125,968	-9.12%
Debt service	108,494	94,772	14.48%
Capital outlay	704,117	755,373	-6.79%
Total	$ 10,348,606	$ 9,376,679	10.37%



Expenditures increased 10.37%. This increase was due to higher grant expense for Medicaid expenditures in health and human services and increases in various grants in order to meet court requirements placed on the Legislature to ensure all students in Arkansas receive a quality education.

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 2005, the State's General Fund reported an ending fund balance of $2.5 billion which is an increase of $423 million in comparison to fiscal year 2004.

$1.5 billion or 60% of the total fund balance is the unreserved fund balance, which is available for spending in the coming year. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed for certain items. $989 million or 40% of the total fund balance is reserved.

Capital Assets and 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 $16.5 billion, and the accumulated depreciation was $6 billion at June 30, 2005. The net book value is $10.5 billion. Depreciation expense was $366 million for the governmental activities and $120 million for the business-type activities.

Major capital asset events during the current fiscal year included the following:

- The Department of Health and Human Services obtained a capital lease to acquire an office complex for $46 million.
- The Department of Correction completed construction on a new correctional facility in Malvern at a cost of $9 million. Various correctional facility improvements amounted to $15 million.
- Infrastructure assets increased $223 million in large part to highway improvements under the State's Interstate Rehabilitation Plan.

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

The State issues both general obligation bonds and revenue bonds. General obligation bonds are backed by the full faith and credit of the State. Revenue bonds are backed by a revenue source and restricted funds as specified in the bond resolution. Revenue bonds are generally designed to be self-supporting from the revenue source related to the program financed.

Depending on the issuing entity, the State's bonds are rated between Aaa and A2 by Moody's Investor Service with general obligation bonds generally rated Aa2. The Aa rating indicates very strong creditworthiness comparative to similar issues. The following agencies and organizations have not been rated: Department of Workforce Education, Henderson State University, South Arkansas University Tech – Camden, East Arkansas Community College, National Park Community College, Mid-South Community College, North Arkansas College, Rich Mountain Community College, Ozarka College, and Black River Community College.

Governmental Activities

The State's governmental activities had $1,183 million in bonds, notes payable, and capital leases outstanding at June 30, 2005, versus $1,092 million at June 30, 2004. The net increase is approximately $91 million.

- The Soil and Water Conservation Commission issued $15 million of Series 2004A Water, Waste and Pollution Revenue Bonds.

- The Department of Health and Human Services entered into a capital lease with Arkansas Development Finance Authority to acquire the Donaghey Plaza Complex for $46 million.

Notes payable and capital leases to component units increased $150 million during the year. Bonds payable decreased $27.7 million representing principal payments made during the year. Notes payable and capital leases decreased $56.4 million for advance refunding of debt and $22.5 for principal payments made during the year.

The State's governmental activities have approximately $113 million of claims and judgments outstanding at June 30, 2005, compared to $125 million at June 30, 2004. Other obligations include accrued sick leave and vacation pay.

Business-type Activities

The State's business-type activities had $1,034 billion in bonds, notes payable and capital leases outstanding at June 30, 2005, versus $799 million at June 30, 2004. The net increase is $235 million.

New debt resulted primarily from the issuance of revenue and general obligation bonds. Significant increases and decreases in bonds, notes payable, and capital leases follow:

- $339.6 million in revenue bonds were issued by the University of Arkansas System.
- Other revenue bonds issued were:
    - Arkansas Tech University, $10.7 million;
    - Northwest Arkansas Community College, $14.4 million;
    - Pulaski Technical College, $16.5 million;
    - University of Central Arkansas, $20.5 million;
    - National Park Community College, $9.7 million;
    - Other colleges and universities, $4.8 million.

The colleges and universities also entered into capital leases totaling $6.7 million as well as notes payable totaling $6.2 million. Bonds, notes payable, and capital leases decreased $194.0 million primarily due to principal payments made during the year.

The State's business-type activities have approximately $232 million of claims and judgments outstanding at June 30, 2005, compared to $220 million at June 30, 2004. Other obligations include accrued sick leave and vacation pay.

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

GENERAL FUND BUDGETARY HIGHLIGHTS

The original expenditures budget as authorized by the Arkansas Legislature was $17.8 billion and the revised expenditure budget was $19.4 billion. The difference between the two amounts is due to the adjustments for appropriation transfers and for such items as miscellaneous federal grants.

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

Functions	Budgeted amounts Original	Budgeted amounts Final	Actual amounts
General Government	$ 5,551,026	$ 5,953,036	$ 1,387,429
Education	4,955,236	5,055,901	2,917,462
Health and Human Services	4,498,758	4,678,361	4,036,562
Law, Justice and Public Safety	706,308	790,222	508,277
Recreation and Resources Development	215,514	398,288	198,885
Regulation of Business and Professionals	180,113	203,349	106,311
Transportation	665,394	1,142,202	290,215
Debt Service	124,492	134,665	79,356
Capital Outlay	900,514	1,046,248	594,097
	$ 17,797,355	$ 19,402,272	$ 10,118,594

The amounts reported as budgeted reflect appropriations made by the General Assembly of the State. Appropriations made to programs and agencies are only maximum authorizations to spend. Actual expenditures are limited to the lesser of monies flowing into programs and agencies' funds maintained by the State Treasurer or the maximum appropriation by the General Assembly. The significant variances between budgeted amounts and actual are due to the appropriations exceeding available funding sources or delays in timing of expenditures.

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
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JUSTICE

ARKANSAS

Basic Financial Statements

Statement of Net Assets
June 30, 2005
(Expressed in thousands)

	Primary Government			Component Units	
Assets	**Governmental Activities**	**Business-type Activities**	**Total**	**Arkansas Student Loan Authority**	**Arkansas Development Finance Authority**
Current assets:					
Cash and cash equivalents	$ 412,678	$ 362,969	$ 775,647	$ 58	$ 196,356
Investments	1,798,359	222,124	2,020,483	35,568	1,485
Receivables, net:					
Accounts	113,749	263,624	377,373		1,141
Taxes	437,450		437,450		
Medicaid	192,926		192,926		
Loans	19,750	9,666	29,416	8,424	4,646
Interest	21,858	2,228	24,086	8,076	6,186
Agency and trust funds	116		116		
Other	26,800		26,800		
Internal balances	1,083	(1,083)			
Due from other governments	79,065	18,508	97,573		
Prepaid items	7,727	2,630	10,357		
Inventories	39,466	18,068	57,534		
Deposits with bond trustee		181,611	181,611		
Current deferred charges	304		304		
Other current assets		6,242	6,242		
Total current assets	3,151,331	1,086,587	4,237,918	52,126	209,814
Noncurrent assets:					
Cash and cash equivalents, restricted		74,509	74,509		
Deposit with component unit	34,212	202	34,414		
Deposits with bond trustee		66,744	66,744		
Investments	2,651	529,029	531,680	207,760	1,086,522
Accounts receivable, net		285,609	285,609		
Loans and mortgages receivable	165,937		165,937	350,448	203,251
Loans and capital leases receivable from primary government					214,598
Capital leases receivable					6,341
External portion of investment pool		876,462	876,462		
Deferred charges				6,648	6,384
Financial assurance instruments		5,700	5,700		
Internal balances	5,613	(5,613)			
Other noncurrent assets	4,356	8,830	13,186	380	1,942
Total noncurrent assets	212,769	1,841,472	2,054,241	565,236	1,519,038
Capital assets (net of accumulated depreciation):					
Land	445,410	95,451	540,861		
Land improvements	89,010		89,010		
Infrastructure	5,245,283	72,419	5,317,702		
Buildings	552,758	1,341,890	1,894,648		
Equipment	219,948	144,547	364,495	2	138
Improvements other than building		8,583	8,583		
Leasehold improvements	723	211	934		
Construction in progress	2,041,364	218,406	2,259,770		
Other capital assets	9,726	45,950	55,676		
Total capital assets, net of depreciation	8,604,222	1,927,457	10,531,679	2	138
Total noncurrent assets and capital assets	8,816,991	3,768,929	12,585,920	565,238	1,519,176
Total assets	$ 11,968,322	$ 4,855,516	$ 16,823,838	$ 617,364	$ 1,728,990

Statement of Net Assets
June 30, 2005
(Expressed in thousands)

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Arkansas Student Loan Authority	Arkansas Development Finance Authority
Liabilities					
Current liabilities:					
Accounts payable	$ 57,226	$ 76,452	$ 133,678	$ 5,250	$ 2,600
Accrued interest	13,583	1,846	15,429		21,343
Accrued and other current liabilities	80,269	84,939	165,208		
Medicaid payable	258,092		258,092		
Income tax refunds payable	205,557		205,557		
Due to other governments	4,279	1,624	5,903		
Workers' compensation benefits payable		12,334	12,334		
Funds held in trust for others		7,127	7,127		
Due to component unit	24		24		
Bonds, notes, and leases payable	109,853	44,030	153,883	30,520	57,196
Claims, judgments, and compensated absences	52,446	36,140	88,586		
Deferred revenue	33,680	32,255	65,935		
Total current liabilities	815,009	296,747	1,111,756	35,770	81,139
Long-term liabilities:					
Workers' compensation benefits payable		191,302	191,302		
External portion of investment pool		876,462	876,462		
Bonds, notes, and leases payable	1,073,112	989,881	2,062,993	549,939	1,441,260
Claims, judgments, and compensated absences	172,204	56,825	229,029		
Deposits held on behalf of primary government					34,414
Other noncurrent liabilities		16,738	16,738		16,734
Deferred revenue		3,666	3,666		6,924
Net pension obligation	4,574		4,574		
Total long-term liabilities	1,249,890	2,134,874	3,384,764	549,939	1,499,332
Total liabilities	2,064,899	2,431,621	4,496,520	585,709	1,580,471
Net Assets					
Net assets:					
Invested in capital assets, net of related debt	7,593,189	1,200,731	8,793,920	2	138
Restricted for:					
Unemployment compensation		194,703	194,703		
Debt service	88,099	15,312	103,411		
Other capital projects	148,725	50,172	198,897		
Bond and resolution program					78,346
Program requirements	269,684	269,113	538,797		
Non-expendable		73,428	73,428		
Expendable-capital projects, debt service, loans, and other		157,283	157,283	31,653	
Unrestricted	1,803,726	463,153	2,266,879		70,035
Total net assets	9,903,423	2,423,895	12,327,318	31,655	148,519
Total liabilities and net assets	$ 11,968,322	$ 4,855,516	$ 16,823,838	$ 617,364	$ 1,728,990

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, 2005

(Expressed in thousands)

Assets		
Cash	$	5,727
Contributions receivable, net of allowance for doubtful accounts of $684		73,539
Interest receivable		2,402
Notes and other receivables		254
Cash value of life insurance		459
Land		2,009
Buildings and equipment, net of accumulated depreciation of $582		193
Investments		480,755
Total assets	$	565,338
Liabilities and Net Assets		
Liabilities:		
Accounts payable	$	2,444
Annuity obligations		16,783
Total liabilities		19,227
Net Assets:		
Unrestricted		59,963
Temporarily restricted		123,453
Permanently restricted		362,695
Total net assets		546,111
Total liabilities and net assets	$	565,338

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, 2005

(Expressed in thousands)

Assets		
Investments	$	411,004
Net Assets		
Temporarily restricted	$	10,923
Permanently restricted		400,081
Total net assets	$	411,004

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

Statement of Activities
For the Year Ended June 30, 2005
(Expressed in thousands)

Functions/Programs	Expenses	Program revenues: Charges for Services	Program revenues: Operating Grants and Contributions	Program revenues: Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	$ 1,042,440	$ 270,746	$ 133,168	$ 602
Education	2,881,337	9,217	487,547	234
Health and human services	4,538,242	214,646	3,257,224	1,868
Transportation	626,138	130,190	13,840	414,464
Law, justice, and public safety	518,579	60,540	75,717	13,816
Recreation and resources development	175,097	55,026	27,955	
Regulation of business and professionals	117,525	76,026	2,164	755
Interest expense	60,101			
Total governmental activities	9,959,459	816,391	3,997,615	431,739
Business-type activities:				
Higher Education	2,256,317	1,054,808	468,760	70,432
Workers' Compensation	35,517			
Employment Security	325,595		98,921	
War Memorial Stadium	1,830	746	5	
Public School Employee Insurance Plan	202,137	211,430		
Revolving loans	4,766	2,364	34,963	
Total business-type activities	2,826,162	1,269,348	602,649	70,432
Total primary government	$ 12,785,621	$ 2,085,739	$ 4,600,264	$ 502,171
Component units:				
Arkansas Student Loan Authority	$ 18,520	$ 24,708	$	$
Arkansas Development Finance Authority	91,381	90,854		13,674
Total component units	$ 109,901	$ 115,562	$	$ 13,674

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, as restated
Net assets-ending

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

Net revenue (expense)				
Primary government			Component Units	
Governmental Activities	Business-type Activities	Total	Arkansas Student Loan Authority	Arkansas Development Finance Authority
$ (637,924)	$	$ (637,924)		
(2,384,339)		(2,384,339)		
(1,064,504)		(1,064,504)		
(67,644)		(67,644)		
(368,506)		(368,506)		
(92,116)		(92,116)		
(38,580)		(38,580)		
(60,101)		(60,101)		
(4,713,714)		(4,713,714)		
	(662,317)	(662,317)		
	(35,517)	(35,517)		
	(226,674)	(226,674)		
	(1,079)	(1,079)		
	9,293	9,293		
	32,561	32,561		
	(883,733)	(883,733)		
(4,713,714)	(883,733)	(5,597,447)		
			$ 6,188	$
				13,147
			6,188	13,147
2,164,445		2,164,445		
2,380,921		2,380,921		
450,281		450,281		
720,948	310,431	1,031,379		
5,716,595	310,431	6,027,026		
58,348	48,310	106,658		
232,838	65,988	298,826		
(654,686)	654,686			
5,353,095	1,079,415	6,432,510		
639,381	195,682	835,063	6,188	13,147
9,264,042	2,228,213	11,492,255	25,467	135,372
$ 9,903,423	$ 2,423,895	$ 12,327,318	$ 31,655	$ 148,519

UNIVERSITY OF ARKANSAS FOUNDATION, INC.
Discretely Presented Component Units
Consolidated Statement of Activities
For the Year Ended June 30, 2005

(Expressed in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other support:				
Contributions	$ 13,764	$ 56,503	$ 61,187	$ 131,454
Sponsored programs	1,498	367		1,865
Interest and dividends	5,070	6,413	398	11,881
Net realized and unrealized gains (losses) on long-term investments	4,755	5,979	14,999	25,733
Other	240	51		291
Net assets released from restrictions	49,754	(49,754)		
Total revenues, gains, and other support	75,081	19,559	76,584	171,224
Expenses and losses:				
Program services:				
Construction	28,858			28,858
Research	3,702			3,702
Faculty/staff support	10,078			10,078
Scholarships and awards	5,752			5,752
Public/staff relations	2,679			2,679
Equipment	1,746			1,746
Sponsored programs	2,189			2,189
Other	11,069			11,069
Total program services	66,073			66,073
Supporting services:				
Management and general	433			433
Fund raising	2,969			2,969
Change in value of split-interest agreements			100	100
Provision for loss on uncollectible pledges	120	185	477	782
Total supporting services	3,522	185	577	4,284
Total expenses and losses	69,595	185	577	70,357
Change in net assets	5,486	19,374	76,007	100,867
Net assets, beginning	54,477	104,079	286,688	445,244
Net assets, ending	$ 59,963	$ 123,453	$ 362,695	$ 546,111

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 Activities
For the Year Ended June 30, 2005

(Expressed in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other support:				
Contributions	$	$ 5,065	$ 100,635	$ 105,700
Interest and dividends		3,125	3,347	6,472
Net realized and unrealized gains (losses) on long-term investments		4,547	24,853	29,400
Net assets released from restrictions	9,859	(9,859)		
Total revenues, gains, and other support	9,859	2,878	128,835	141,572
Expenses and losses:				
Program services:				
Construction	76			76
Research	2,615			2,615
Faculty/staff support	245			245
Scholarships and awards	4,309			4,309
Equipment and technology	2,485			2,485
Other	23			23
Total program services	9,753			9,753
Supporting services:				
Management and general	106			106
Total supporting services	106			106
Total expenses and losses	9,859			9,859
Change in net assets		2,878	128,835	131,713
Net assets, beginning		8,045	271,246	279,291
Net assets, ending	$	$ 10,923	$ 400,081	$ 411,004

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

Balance Sheet
Governmental Fund
June 30, 2005

(Expressed in thousands)

Assets		General Fund
Cash and cash equivalents	$	412,678
Investments		1,801,010
Receivable, net:		
Accounts		113,749
Taxes		437,450
Medicaid		192,926
Loans		185,687
Interest		21,858
Other		26,800
Due from other funds		2,773
Due from other governments		79,065
Prepaid items		7,727
Inventories		39,466
Advances to other funds		6,988
Deposits with component unit		34,212
Total assets	$	3,362,389
Liabilities and Fund Balance		
Liabilities:		
Accounts payable	$	57,226
Accrued and other current liabilities		80,269
Deferred revenue		217,884
Income tax refunds payable		205,557
Due to other governments		4,279
Due to other funds		2,949
Advances from other funds		15,100
Medicaid claims payable		258,092
Due to component unit		24
Total liabilities		841,380
Fund balance:		
Reserved for:		
Prepaid items		7,727
Inventories		39,466
Debt service		100,166
Loans		185,687
Advances		6,988
Grant programs		253,988
Capital projects		166,740
Transportation programs		192,982
Tobacco Settlement		35,227
Unreserved		1,532,038
Total fund balance		2,521,009
Total liabilities and fund balance	$	3,362,389

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, 2005

(Expressed in thousands)

Total fund balance:		
Governmental fund		$ 2,521,009
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	$ 576,384	
Infrastructure assets	8,989,226	
Other capital assets	3,632,145	
Accumulated depreciation	(4,593,533)	
Total capital assets		8,604,222
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.		4,659
The Arkansas Judicial and State Police Retirement Plans have annual required contributions in excess of what has been funded , creating net pension obligations. These obligations are not current available financial obligations and are not reported in the funds.		(4,574)
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.		184,205
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	$ (1,156,531)	
Claims, judgments, and compensated absences	(224,650)	
Loss of early retirement	4,807	
Unamortized bond issue premium	(17,918)	
Accrued interest on bonds	(13,583)	
Unamortized bond issue discounts	1,777	
Total long-term liabilities		(1,406,098)
Net assets of governmental activities		$ 9,903,423

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, 2005

(Expressed in thousands)

		General Fund
Revenues:		
Taxes:		
Personal and corporate income	$	2,169,849
Consumers sales and use		2,382,865
Gas and motor carrier		450,269
Other		721,144
Intergovernmental		4,418,148
Licenses, permits, and fees		836,688
Investment earnings		57,999
Miscellaneous		248,138
Total revenues		11,285,100
Expenditures:		
Current:		
General government		1,058,514
Education		2,877,770
Health and human services		4,526,132
Transportation		319,140
Law, justice, and public safety		480,246
Recreation and resources development		159,709
Regulation of business and professionals		114,484
Debt service:		
Principal retirement		46,723
Interest expense		58,866
Bond issuance costs		2,905
Capital outlay		704,117
Total expenditures		10,348,606
Excess of revenues over expenditures over expenditures		936,494

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Fund
For the Year Ended June 30, 2005

(Expressed in thousands)

		General Fund
Other financing sources (uses):		
Issuance of debt	$	116,717
Bond discounts/premiums		2,844
Payment to refunding escrow agent		(60,325)
Capital leases		80,010
Sale of capital assets		2,289
Transfers in		46,495
Transfers out		(701,296)
Total other financing sources and uses		(513,266)
Net change in fund balance		423,228
Fund balance-beginning		2,097,781
Fund balance-ending	$	2,521,009

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 Governmental Fund to the Statement of Activities For the Year Ended June 30, 2005

(Expressed in thousands)

Net change in fund balance-governmental fund		$ 423,228
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	$ 704,117	
Depreciation expense	(365,919)	
Excess of capital outlay over depreciation expense		338,198
Capital assets donated and other assets acquired in prior years which are treated as revenue in the statement of activities.		6,741
Bond proceeds provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the statement of net assets.		(116,717)
Bonds issued at a premium provide current financial resources to governmental funds, but increase the long-term liabilities in the statement of net assets.		(3,781)
Bonds issued at a discount reduce current financial resources to governmental funds, but decrease the long-term liabilities in the statement of net assets.		938
Bond issuance costs are expenditures to governmental funds, but are current deferred charges in the statement of net assets.		2,905
Contributions to certain pension plans use current financial resources from governmental funds, but increase the net pension obligation ($4,574) and decrease the net pension asset ($13,219).		(17,793)
Payments to refunding escrow agent use current financial resources to governmental funds but reduce long-term liabilities in the statement of net assets.		60,325
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.		(80,010)
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		46,723
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.		(17,927)
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:		
Interest accreted on capital appreciation debt	$ (1,310)	
Increase in claims, judgments, and compensated absences	6,981	
Amortization of bond premium, discount and issuance costs	1,664	
Loss on sale of capital assets	(9,435)	
Capital assets transferred in	114	
Increase in accrued interest	(1,463)	
Total additional expenditures		(3,449)
Change in net assets of governmental activities		$ 639,381

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

Statement of Net Assets
Proprietary Funds
June 30, 2005

(Expressed in thousands)

	Enterprise Funds			
Assets	**Higher Education**	**Workers' Compensation Commission**	**Non-Major Enterprise Funds**	**Total**
Current assets:				
Cash and cash equivalents	$ 160,245	$ 22,459	$ 180,265	$ 362,969
Investments	77,094	128,947	16,083	222,124
Receivables, net				
Accounts	172,488	8,935	82,201	263,624
Loans	9,606		60	9,666
Interest	641	748	839	2,228
Due from other funds	1,437	409	1,311	3,157
Due from other governments	9,925		8,583	18,508
Advances to other funds			405	405
Inventories	18,047		21	18,068
Prepaid items	2,281	32	317	2,630
Deposits with bond trustee	181,611			181,611
Other current assets	6,242			6,242
Total current assets	639,617	161,530	290,085	1,091,232
Noncurrent assets:				
Cash and cash equivalents				
Restricted	73,992		517	74,509
Investments				
Endowment	14,967			14,967
Restricted	32,241	92	99,378	131,711
Unrestricted	382,351			382,351
Receivables, net	43,860		241,749	285,609
Capital assets:				
Land	91,898	580	2,973	95,451
Infrastructure	135,290			135,290
Buildings	2,186,479	2,272	18,774	2,207,525
Equipment	476,041	1,486	6,102	483,629
Improvements other than building	16,211			16,211
Leasehold improvements	46		245	291
Construction in progress	209,895		8,511	218,406
Other depreciable assets	130,077	104	841	131,022
Less accumulated depreciation	(1,343,995)	(2,285)	(14,088)	(1,360,368)
External portion of investment pool	876,462			876,462
Advances to other funds			3,549	3,549
Deposits with bond trustee	66,744			66,744
Deposits with component unit		202		202
Financial assurance instruments		5,700		5,700
Other noncurrent assets	7,839		991	8,830
Total noncurrent assets	3,400,398	8,151	369,542	3,778,091
Total assets	$ 4,040,015	$ 169,681	$ 659,627	$ 4,869,323

Continued on the following page

Statement of Net Assets
Proprietary Funds
June 30, 2005

(Expressed in thousands)

Continued from the previous page

	Enterprise Funds			
	Higher Education	Workers' Compensation Commission	Non-Major Enterprise Funds	Total
Liabilities				
Current liabilities:				
Accounts payable	$ 39,010	$ 7	$ 37,435	$ 76,452
Accrued interest payable	1,478	19	349	1,846
Accrued and other current liabilities	83,783	265	891	84,939
Advances from other funds	1,780			1,780
Due to other funds	2,184	9	672	2,865
Due to other governments	1		1,623	1,624
Funds held in trust for others	7,127			7,127
Workers' compensation benefits payable		12,334		12,334
Bonds, notes, and leases payable	38,905	170	4,955	44,030
Claims, judgments, and compensated absences	19,007	82	17,051	36,140
Deferred revenue	28,013		4,242	32,255
Total current liabilities	221,288	12,886	67,218	301,392
Noncurrent liabilities:				
Workers' compensation benefits payable		191,302		191,302
External portion of investment pool	876,462			876,462
Advances from other funds	9,162			9,162
Bonds, notes, and leases payable	904,835	1,345	83,701	989,881
Claims, judgments, and compensated absences	53,568	558	2,699	56,825
Deferred revenue	1,582		2,084	3,666
Other noncurrent liabilities	11,038	5,700		16,738
Total noncurrent liabilities	1,856,647	198,905	88,484	2,144,036
Total liabilities	2,077,935	211,791	155,702	2,445,428
Net Assets				
Net assets:				
Invested in capital assets, net of related debt	1,177,373		23,358	1,200,731
Restricted:				
Unemployment compensation			194,703	194,703
Debt service	15,312			15,312
Capital projects	49,655		517	50,172
Program requirements	1,131		267,982	269,113
Nonexpendable	73,428			73,428
Expendable - capital projects, debt service, loans and other	157,283			157,283
Unrestricted	487,898	(42,110)	17,365	463,153
Total net assets (deficit)	1,962,080	(42,110)	503,925	2,423,895
Total liabilities and net assets	$ 4,040,015	$ 169,681	$ 659,627	$ 4,869,323

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
For the Year Ended June 30, 2005

(Expressed in thousands)

	Enterprise Funds			
	Higher Education	Workers' Compensation Commission	Non-Major Enterprise Funds	Total
Operating revenues:				
Charges for sales and services	$ 790,606	$	$ 212,176	$ 1,002,782
Licenses, permits and fees	264,202		2,364	266,566
Grants and contributions	317,973			317,973
Investment earnings			8,836	8,836
Miscellaneous	64,068	205	1,715	65,988
Total operating revenues	1,436,849	205	225,091	1,662,145
Operating expenses:				
Cost of sales and services			3,642	3,642
Compensation and benefits	1,408,216	8,171	26,611	1,442,998
Supplies and services	580,593	884	25,455	606,932
General and administrative expenses	1,508	54	7,044	8,606
Scholarships and fellowships	102,990	17		103,007
Benefit and aid payments		26,154	466,211	492,365
Depreciation	119,348	155	858	120,361
Amortization			218	218
Interest			4,240	4,240
Total operating expenses	2,212,655	35,435	534,279	2,782,369
Operating income (loss)	(775,806)	(35,230)	(309,188)	(1,120,224)
Nonoperating revenues (expenses):				
Investment earnings	30,805	2,032	5,714	38,551
Unrealized gains/(losses) on investments	923			923
Taxes	19,261		270,604	289,865
Insurance tax		20,566		20,566
Grants and contributions	150,787		133,889	284,676
Interest and amortization expense	(26,630)	(82)		(26,712)
Loss on sale of fixed assets	(5,516)		(49)	(5,565)
Other nonoperating revenue (expense)	(11,631)			(11,631)
Total nonoperating revenues (expenses)	157,999	22,516	410,158	590,673
Income (loss) before transfers and contributions	(617,807)	(12,714)	100,970	(529,551)
Transfers in	696,377		4,919	701,296
Transfers out	(42,503)		(3,992)	(46,495)
Capital grants and contributions	70,432			70,432
Change in net assets	106,499	(12,714)	101,897	195,682
Total net assets(deficit)-beginning, as restated	1,855,581	(29,396)	402,028	2,228,213
Total net assets(deficit)-ending	$ 1,962,080	$ (42,110)	$ 503,925	$ 2,423,895

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

Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2005

(Expressed in thousands)

	Enterprise Funds			
	Higher Education	Workers' Compensation Commission	Non-major Enterprise Funds	Total
Cash flows from operating activities:				
Cash received from customers	$ 260,705	$	$ 217,445	$ 478,150
Cash received from other government agencies	319,015			319,015
Auxiliary enterprise charges	794,670			794,670
Payments to employees	(1,126,750)	(8,073)	(26,602)	(1,161,425)
Payments of benefits	(192,385)	(13,691)	(469,508)	(675,584)
Payments to suppliers	(597,229)	(1,335)	(32,607)	(631,171)
Interest received (paid)	6,300		4,104	10,404
Loan administration received (paid)	(6,188)		(28,244)	(34,432)
Other receipts (payments)	(83,070)	205	1,151	(81,714)
Net cash used in operating activities	(624,932)	(22,894)	(334,261)	(982,087)
Cash flows from noncapital financing activities:				
Gifts and grants	127,203			127,203
Direct lending receipts	86,372			86,372
Direct lending payments	(84,730)		(4,620)	(89,350)
Taxes	18,757	20,021	268,717	307,495
Grants and contributions	39,074		135,540	174,614
Other receipts (payments)	4,125			4,125
Net transfers from (to) other funds	621,346		982	622,328
Net cash provided by noncapital financing activities	812,147	20,021	400,619	1,232,787
Cash flows from capital and related financing activities:				
Principal paid on capital debts and leases	(118,631)	(165)		(118,796)
Interest paid on capital debts and leases	(32,937)	(62)		(32,999)
Acquisition and construction of capital assets	(199,942)	(98)	(8,873)	(208,913)
Proceeds from governmental sources	4,433			4,433
Proceeds from long-term borrowings	333,338			333,338
Proceeds from sale of capital assets	21,141			21,141
Other receipts (payments)	(106,801)			(106,801)
Net cash used in capital and related financing activities	(99,399)	(325)	(8,873)	(108,597)

Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2005

(Expressed in thousands)

	Enterprise Funds			
	Higher Education	Workers' Compensation Commission	Non-major Enterprise Funds	Total
Cash flows from investing activities:				
Purchase of investments	$ (319,894)	$ (1,054)	$ (72,570)	$ (393,518)
Proceeds from sale and maturities of investments	176,782		11,994	188,776
Interest and dividends on investments	11,772	1,381	5,681	18,834
Advance repayments (disbursements)			(90)	(90)
Loan repayments (disbursements)	(44)			(44)
Net cash provided by (used in) investing activities	(131,384)	327	(54,985)	(186,042)
Net increase (decrease) in cash and cash equivalents	(43,568)	(2,871)	2,500	(43,939)
Cash and cash equivalents-beginning as restated	277,805	25,330	178,282	481,417
Cash and cash equivalents-ending	$ 234,237	$ 22,459	$ 180,782	$ 437,478
Reconciliation of operating loss to net cash used in operating activities:				
Operating loss	$ (775,806)	$ (35,230)	$ (309,188)	$ (1,120,224)
Adjustments to reconcile operating loss to				
net cash used in operating activities:				
Depreciation	119,348	155	858	120,361
Amortization			151	151
Bad debt expense	167			167
Loan principal and interest canceled	54			54
Net appreciation (depreciation) of investments			8	8
Other operating activities	(116)			(116)
Net changes in assets and liabilities:				
Accounts receivable	42,092		4,851	46,943
Loans receivable	(25)		(28,221)	(28,246)
Inventory	(991)		8	(983)
Prepaid items		6		6
Other current assets	(3,213)		129	(3,084)
Current liabilities	(2,444)	46	635	(1,763)
Accounts payable and other accrued liabilities	(8,625)	12,076	(3,444)	7
Compensated absences	3,936	53	(103)	3,886
Deferred revenue	691		55	746
Net cash used in operating activities	$ (624,932)	$ (22,894)	$ (334,261)	$ (982,087)

Continued on the following page

Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2005

(Expressed in thousands)

Continued from the previous page

	Enterprise Funds			
	Higher Education	Workers' Compensation Commission	Non-major Enterprise Funds	Total
Non-cash investing, capital, and financing activities:				
Increase in fair value of investments	$ 248	$	$	$ 248
Borrowing under capital leases	9,972			9,972
Donated capital assets	11,536			11,536
Capital assets donated by other state agencies	(33)			(33)
Capital gifts	45,649			45,649
Debt service payments made from capitalized interest accounts held by bond trustee	1,482			1,482
Payments to bond escrow directly from bond proceeds	70,196			70,196

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

Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2005

(Expressed in thousands)

	Pension Trust Funds	Agency Funds
Assets		
Cash and cash equivalents	$ 420,646	$ 14,243
Receivables:		
Employee	10,763	
Employer	41,448	
Interest and dividends	37,465	99
Advances to other funds	15,100	
Other	427,706	9
Total receivables	532,482	108
Inventories		5
Investments at fair value:		
Certificates of deposit		43,724
Bonds, notes, mortgages, and preferred stock	1,733,637	51,269
Common stock	4,247,308	
Real estate	395,674	
International investments	2,595,895	
Mutual funds	488,398	
Pooled investment funds	350,328	
Corporate obligations	497,770	
Asset backed securities	174,700	
Other	4,034,269	
Total investments	14,517,979	94,993
Securities lending collateral	1,448,419	
Financial assurance instruments		338,346
Capital assets	379	
Other assets	1,836	
Total assets	16,921,741	447,695

Continued on the following page

Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2005

(Expressed in thousands)

Continued from the previous page

	Pension Trust Funds	Agency Funds
Liabilities		
Accounts payable and other liabilities	$ 9,647	$ 96
Investment principal payable	603,017	
Obligations under securities lending	1,448,419	
Due to other governments		89,282
Due to other funds	116	
Due to third parties		358,317
Total liabilities	2,061,199	447,695
Net Assets		
Held in trust for employee's pension benefits	14,860,542	
Total net assets	$ 14,860,542	$

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

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2005

(Expressed in thousands)

		Pension Trust Funds
Additions:		
Contributions:		
Members	$	96,321
Employers		443,907
Supplemental contributions		4,237
Court fees		2,171
Local municipal judges retirement funds		23,679
Reinstatement fees		881
Total contributions		571,196
Investment income:		
Net increase (decrease) in fair value of investments		1,038,121
Interest, dividends, and other		331,768
Real estate operating income		5,966
Securities lending income		36,644
Total investment income		1,412,499
Less investment expense		(92,844)
Net investment income		1,319,655
Miscellaneous		7,350
Total additions (losses)		1,898,201
Deductions:		
Benefits paid to participants or beneficiaries		735,347
Refunds of employee/employer contributions		5,919
Administrative expense		11,174
Total deductions		752,440
Change in net assets held in trust for employee's pension benefits		1,145,761
Net assets - beginning		13,714,781
Net assets - ending	$	14,860,542

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

Notes to the Financial Statements – Table of Contents

Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2005

(1) Summary of Significant Accounting Policies

(a) 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.

(b) 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.

(c) 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	**Arkansas Development Finance Authority**
101 East Capitol, Suite 401 Little Rock, AR 72201 (501) 682-2952	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 of 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. 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. (the Foundation) 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 Financial Accounting Standards Board (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.

(d) Accounting Restatements

The following paragraphs summarize changes to net assets as previously reported on the statement of net assets:

General fund – an increase in net assets in the amount of $16 million represents restatement of claims liability for the Public School Health and Life Benefit plan (a public entity risk pool) from the general fund to the enterprise funds. The restated government-wide net assets are as follows (in thousands):

Beginning Net Assets	$	9,248,042
2005 Adjustment		16,000
Restated Beginning Net Assets	$	9,264,042

Agency fund – a decrease in the agency fund assets and liabilities represents a restatement for the Public School Health and Life Benefit plans from the agency funds to the enterprise funds. The restated agency assets / liabilities are as follows (in thousands):

Beginning Assets / Liabilities	$	501,000
2005 Adjustment		(22,858)
Restated Beginning Assets / Liabilities	$	478,142

Enterprise funds – the enterprise funds beginning net assets are affected by the restatements above. The restated government-wide net assets of the enterprise funds net assets are as follows (in thousands):

Beginning Net Assets	$	2,221,355
2005 General Fund Adjustment		(16,000)
2005 Agency Fund Adjustment		22,858
Restated Beginning Net Assets	$	2,228,213

(e) 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 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.

(f) 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 capital 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.

(g) 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, financial position, and cash flows, which is similar to business. These funds are used to account for operations of those State agencies providing goods or services to the general public on 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 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; the Other Revolving Loan Funds, which are 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; and the Public School Employee Health and Life Benefit Plan, which is responsible for providing health and life insurance along with a prescription drug benefit to participating public school employees.

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 District Judge 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.

(h) 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, 2005, five universities, the University of Arkansas Cooperative Extension Service, and three foundations participated in the Pool. The foundations hold approximately $876.5 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."

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, 2005, is $84.3 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 are 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, 2005, is related to projected refund estimates attributable to fiscal year 2005 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.

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 Code Annotated §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.

(i) 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.

(j) New Accounting Pronouncements Not Yet Required to be Adopted

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, and other types of postemployment benefits. The standards established in GASB Statement 43 are generally consistent with standards established for defined benefit pension plans. Statement 43 is effective for 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 health care 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 periods beginning after December 15, 2006 (i.e. fiscal year 2008).

GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation—an amendment of GASB Statement No. 34*, clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government—such as citizens, public interest groups, or the judiciary—can compel a government to honor. The Statement also specifies the accounting and financial reporting requirements if new enabling legislation replaces existing enabling legislation or if legal enforceability is reevaluated. Finally, this Statement requires governments to disclose the portion of total net assets that is restricted by enabling legislation. Statement 46 is effective for periods beginning after June 15, 2005 (i.e. fiscal year 2006).

GASB Statement No. 47, *Accounting for Termination Benefits,* establishes accounting standards for all types of termination benefits. This Statement requires employers to disclose a description of the termination benefit arrangement, the cost of the termination benefits (required in the period in which the employer becomes obligated if that information is not otherwise identifiable from information displayed on the face of the financial statements), and significant methods and assumptions used to determine termination benefit liabilities. In general, the Statement is effective for financial statements for periods beginning after June 15, 2005. However, for termination benefits provided through an existing defined benefit postemployment benefits plan, governments should implement Statement 47 simultaneously with Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.*

(2) Deposits and Investments

For the year ended June 30, 2005, the State of Arkansas implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, an amendment of GASB Statement No. 3. The implementation of GASB 40 requires additional disclosures but had no impact on the reported amounts of investments, net assets, or changes in net assets.

Arkansas Code Annotated 19-4-805 requires that agencies, other than institutions of higher learning, abide by the recommendations of the State Board of Finance as to the best investment decisions of any idle cash balances outside the State Treasury. The State Board of Finance promulgated certain cash management and investment standards and procedures, effective September 1, 1990, and the Department of Finance and Administration incorporated this policy statement within the State Accounting Procedure Manual for use by all State agencies. The State supported institutions of higher learning have the right to determine the depositories and the nature of investments of any of their cash funds which are not currently needed for operating purposes. In making these determinations, these institutions seek to obtain the highest possible rate of return for their investments.

The stated primary goal of State cash management is the protection of principal, while maximizing investments and minimizing non-interest bearing balances. Deposits are to be made within the borders of the State of Arkansas and placed with an Arkansas financial institution. Policy requires a minimum of four bids be sought on interest bearing deposits in order to obtain the highest rate possible.

The State Treasurer and designated investment officers must perform their duties in a manner consistent with the standard of a "prudent investor" – exercising the judgment and care, under the circumstances then prevailing, which an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income.

Except for the State Treasury Certificate Deposit Investment Program, the State Treasury Money Management Trust Fund, and trust funds required to be invested in certificates of deposits as governed by A.C.A. 19-3-518(a), eligible investments for all funds managed by the State Treasurer may include but not limited to: 1) direct obligations of the U.S. government; 2) obligations of agencies and instrumentalities created by act of the United State Congress and authorized thereby to issue securities or evidence of indebtedness regardless of guarantee of repayment by the United States Government; 3) obligations the principal and interest of which are fully guaranteed by the Unites States Government or an agency or an instrumentality created by an act of the United States Congress and authorized thereby to issue such guarantee; 4) obligations the principal and interest of which are fully secured, insured, or covered by the United States Government or an agency or instrumentality created by an act of the United States Congress and authorized thereby to issue such commitment or agreements; 5) banker's acceptance purchased on the secondary market with maturities not greater than one hundred eighty days rated A1 by Standard and Poor's rating service and P1 by Moody's Investors Service; 6) commercial paper with maturities not exceeding ninety days rated A1 by Standard and Poor's Ratings and P1 by Moody's Investor's Service, 7) repurchase agreements that are fully collateralized by direct obligations of the U.S. government, 8) the State Treasury Money Management Trust fund; 9) prerefunded municipal bonds backed by U.S. Government obligations; 10) securities of any money market fund whose portfolio is principally U.S. Government obligations and repurchase agreements fully collateralized by U.S. Government obligations; 11) certificates of deposit, demand, or saving deposits with financial institutions provided they are fully insured by a federal deposit insurance agency; 12) obligations of corporations organized under the provisions of Arkansas Development Finance Corporation Act; 13) obligations issued under provisions of the Arkansas Industrial Development Act and the Municipalities and Counties Industrial Development Revenue Bond Law; 14) obligations issued by the State Board of Education under the authority of the State Constitution; and, 15) obligations of the State of Arkansas or its political subdivisions.

The investment portfolio will be subject to the following restrictions: the average maturity of the portfolio will not exceed five years; purchases of obligations issued under the Arkansas Development Finance Corporation shall be limited to $40,000,000 pursuant to A.C.A. 19-3-518; the expected maturity of any security will not exceed five years except securities used as collateral in repurchase agreements, Arkansas Capital Corporation Bonds, State Board of Finance and State Building Services Certificates of Indebtedness.

Investments in non-government securities, exclusive of funds managed by security lending agent, will not exceed the following percentages of the total portfolio: 15% in Banker Acceptances; 15% in Commercial Paper; and, 10% in Certificates of Deposit.

Repurchase agreements will be subject to the following additional restrictions: transactions will be documented with master repurchase agreements; securities accepted as collateral will be readily marketable; repurchase agreements with any dealer or financial institution will not exceed 50% of the total portfolio; repurchase agreements will not exceed one hundred eight days, and the share of the portfolio allocated to repurchase agreements with maturities beyond thirty days will not exceed 30% of the total portfolio; and, securities delivered as collateral for a repurchase agreement with a maturity date longer than seven days will be priced at least weekly at 102% of market value, plus accrued interest.

Investment policies for funds managed by the State Treasurer for the State Treasury Certificate Deposit Investment Program are:

> An institution can receive no more than 10% of the total distribution; institutions will be ranked by Arkansas deposits, and institutions in the 98th percentile or above, as a group, can receive no more than 30% of the entire distribution; an institution must have Tier 1 regulatory capital of 5.5% in order to hold Treasury deposits; the scale for base deposits will be based on percentiles using total deposits as a base; Arkansas loans and Arkansas deposits will be weighted using a factor calculated off of the institution's loan to deposit ratio; 70% will be allocated to each institution based on its percentage of Arkansas loans relative to the whole; and 30% will be allocated to each institution based on its weighted Arkansas deposits relative to the whole.

Investment policies for funds managed by the State Treasurer for the State Money Management Trust Fund are:

> Eligible investments are basically the same as the funds managed by the State Treasury.
>
> The average maturity of the portfolio will not exceed ninety days; the expected maturity of any security will not exceed thirteen months except securities used as collateral in repurchase agreements; and, investments in non-government securities, exclusive of funds managed by a securities lending agent, will not exceed 15% for Banker Acceptances, 15% for Commercial Paper, and 10% for Certificates of Deposit.
>
> Repurchase agreements will be subject to the following additional restrictions: transactions will be documented with master repurchase agreements; securities accepted as collateral will be readily marketable; repurchase agreements with any dealer or financial institution will not exceed 50% of the total portfolio; repurchase agreements will not exceed one hundred eight days, and the share of the portfolio allocated to repurchase agreements with maturities beyond thirty days will not exceed 30% of the total portfolio; and, securities delivered as collateral for a repurchase agreement with a maturity date longer than seven days will be priced at least weekly at 102% of market value, plus accrued interest.

For retirement systems, Arkansas Code Annotated 24-2-601 through 24-2-619 authorize the Boards of Trustees to have full power to invest and reinvest monies of the systems and to hold, purchase, sell, assign, transfer or dispose of any of the investments, or proceeds of the investments, in accordance with the prudent investor rule. The Code also states the systems shall seek to invest not less than 5% or more than 10% of the systems' portfolio in Arkansas related investments.

The Higher Education Component Units are not included in the following information. The Foundations are private nonprofit organizations that report under Financial Accounting Standards Board standards and are not required to report under Governmental Accounting Standards Board standards. As such, the Foundations are not required to report deposit and investment risks.

(a) Deposits

Custodial credit risk for deposits is the risk that in the event of a financial institution failure, the State's deposits may not be returned to it.

State Board of Finance policy states that collateralizing deposits with securities pledged to a cash fund agency by a financial institution to be held by a third party custodian should be required to protect public funds in case of a default by the financial institution. Actual collateralization requirements are the responsibility of, and should be determined by, the individual cash fund agency. A Custodial Service Agreement should be executed with each financial institution acting as custodian for the safekeeping of securities pledged to the cash fund agency by the financial institution. This agreement should include the following: (1) assets eligible to be pledged as collateral as prescribed by ACA 19-8-203, (2) define the percentage of the pledge required to secure the deposits based on the current market value of the securities to be pledged, (3) provide for the time allowable for receipt of a safekeeping receipt reflecting the securities pledged to secure the deposit or investment, (4) securities shall not be co-pledged, assigned, or otherwise compromised in any manner, (5) custodian shall not for any reason release or compromise the collateral without written instruction to do so by the cash fund agency, and (6) provisions for failure by the pledging bank to provide collateral within the specified time for any violation of (3) or (4) above will make the account subject to immediate withdrawal. Institutions of higher learning do not have a deposit policy for custodial credit risk. The retirement systems' policies are to place deposits only in collateralized or insured accounts.

At June 30, 2005, the reported bank balances of the general funds were $1,137,408,928. Of this amount, $606,049 was uninsured and uncollateralized, and $6,219,700 was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent but not in the State's name.

At June 30, 2005, the reported bank balances of the enterprise funds were $507,642,805. Of this amount, $2,936,724 was uninsured and uncollateralized, $52,034,895 was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent but not in the State's name, and $7,339,000 was uninsured and collateralized with securities held by the pledging financial institution.

At June 30, 2005, the reported bank balances of the fiduciary funds were $105,513,073. Of this amount, $65,624 was uninsured and uncollateralized, and $12,772,848 was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent but not in the State's name.

At June 30, 2005, the reported bank balances of the component units were $15,175,173. Of this amount, $29,000 was uninsured and uncollateralized, and $14,330,000 was uninsured and collateralized with securities held by the pledging financial institution.

Foreign currency risk for deposits is included in the investments section.

(b) Investments

Interest Rate Risk

Interest rate risk is defined as the risk that changes in interest rates will adversely affect the fair value of an investment. Also, the terms of a debt investment may cause its fair value to be highly sensitive to interest rate changes.

The State Treasury's interest rate risk policy is that the investments will not exceed a maturity of five years. The investment policy for funds managed by the State Treasurer for the State Money Management Trust Fund states that the average maturity of the portfolio will not exceed ninety days; and the expected maturity of any security will not exceed thirteen months except securities used as collateral in repurchase agreements. The State Board of Finance requires that every effort should be made to match maturity of investments with expenditure requirements. The institutions of higher education and the retirement systems do not have a formal investment policy that limits the investment maturities as a means of managing the exposure to fair value losses arising from increased interest rates.

As of June 30, 2005, the State of Arkansas had the following debt investments and maturities (expressed in thousands):

		Investment Maturities (in years)			
Investment Type	Fair Value	Less Than 1	1 to 5	6 to 10	More Than 10
General Funds					
U.S. Treasuries	$ 33,479	$ 614	$ 32,865	$	$
U.S. Treasury STRIPS	12,058	5,675	6,383		
U.S. Government Agencies	514,231	42,805	466,695	4,731	
Corporate Bonds	3		1	1	1
Subtotal	559,771	49,094	505,944	4,732	1
Enterprise Funds					
U. S. Treasuries	16,815	11,985	1,591	2,874	365
U.S. Government Agencies	136,791	60,412	73,919	1,990	470
Corporate Bonds	24,502	1,748	17,539	3,709	1,506
Mutual Bond Fund	3,856	897	2,959		
External Investment Pool	294,504	1,545		292,959	
Money Market Mutual Funds	182,329	178,279	4,050		
Guaranteed Investment Contract	6,513			3,640	2,873
Subtotal	665,310	254,866	100,058	305,172	5,214
Fiduciary Funds					
U. S. Treasuries	215,555	3,552	117,450	30,101	64,452
U.S. Government TIPS	8,277		5,181	3,096	
U.S. Government Agencies	681,659	17,012	159,744	60,274	444,629
Convertible Bonds	400,497		44,076	31,570	324,851
Collateralized Obligations	246,967		56,135	43,741	147,091
Municipal Bonds	20,809	2,060	6,671	1,684	10,394
Corporate Bonds	688,055	57,210	274,749	227,869	128,226
Domestic Fixed Income Commingled	64,262			64,262	
High Yield Income Fund	37,565	19,814	17,751		
Emerging Markets Bond Fund	6,990				6,990
International Governments	29,233		16,711	10,571	1,951
Global Corporate Fixed	2,845		64	1,278	1,503
Emerging Markets	33,503		10,348	14,385	8,770
U.S. Corporate Fixed Income	214,935	19,013	195,922		
Bank Obligations	74,999	10,002	64,997		
Asset Backed Securities	182,495	63	162,405	12,654	7,373
Certificates of Deposit	95,488	51,489	43,999		
External Investment Pool	796,917	796,917			
Repurchase Agreements	148,137	148,137			
Subtotal	3,949,187	1,125,269	1,176,203	501,485	1,146,230
Component Units					
U. S. Treasuries	104,165	55,853	47,500	812	
U.S. Government Agencies	39,684	3,736	27,032	8,876	40
Municipal Bonds	485			485	
Repurchase Agreements	1,381		1,381		
Guaranteed Investment Contracts	601,069		336,338	220,759	43,972
Money Market Mutual Funds	204,555	204,555			
Mortgage Backed Securities	561,236		97		561,139
Subtotal	1,512,575	264,144	412,348	230,932	605,151
Total	$ 6,686,843	$ 1,693,373	$ 2,194,553	$ 1,042,321	$ 1,756,596

Mortgage-Backed Securities

As of June 30, 2005, Arkansas State Highway Employees Retirement System (ASHERS) and Arkansas Development Finance Authority (ADFA) held mortgage-backed securities with fair values of $5,831,904 and $561,236,000, respectively. The overall return or yield on mortgage-backed securities depends on the amount of interest collected over the life of the security and the change in the market value. Therefore, they are sensitive to prepayments by mortgagees which may result from a decline in interest rates. Although ASHERS and ADFA will receive the full amount of principal if prepaid, the interest income that would have been collected during the remaining period to maturity, net of any market adjustment, is lost.

Convertible Corporate Bonds

As of June 30, 2005, Arkansas Public Employees Retirement System (APERS) held convertible bonds with a fair value of $132,266,649. Convertible bonds convey an option to the bondholder to exchange each bond for a specified number of shares of common stock of the corporation. Convertible bonds offer lower coupon rates and promised yields to maturity than do nonconvertible bonds. On December 13th and 16th of 2003, APERS purchased convertible bonds issued by Wyeth Pharmaceuticals totaling $2,435,000 with a maturity date of January 15, 2024. The amount of the semiannual coupon is calculated at the six month LIBOR rate minus 50 basis points. A variable coupon varies directly with movements in interest rates. At June 30, 2005, the bonds had a fair value of $2,493,903. Of the $132,266,649 total bonds held by the APERS at June 30, 2005, the $2,493,903 are considered highly sensitive to interest rate changes.

Credit Risk

Credit risk of investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

The Arkansas State Police Retirement Fund's policy is to provide for a minimum overall portfolio rating of A or better. The Arkansas State Highway Employees Retirement System's policy is that debt securities purchased shall carry an investment rating of Baa or better by Moody's Investors Service, and a rating of Baa or better by Standard and Poor's. Energy bonds may be purchased that are below investment grade. The other retirement systems, institutions of higher education and the State Board of Finance do not have a credit risk policy.

The State's exposure to credit risk as of June 30, 2005, is as follows (expressed in thousands):

Standard and Poor's		Moody's Investor's Service	
Rating	Fair Value	Rating	Fair Value
General Fund			
AAA	$ 524,840	Aaa	$ 999,862
AA	17,017	Unrated	48,474
A-1	17,231		
Unrated	489,248		
Subtotal	1,048,336		1,048,336
Enterprise Funds			
AAA	217,762	Aaa	213,121
AA	15,943	Aa	274
A	4,782	Baa	2,825
A-1	8,281		
BB	2,825	Unrated	731,403
B	36		
Unrated	697,994		
Subtotal	947,623		947,623
Fiduciary Funds			
AGY	350,997	AGY	222,780
AAA	789,445	Aaa	879,707
AA	229,014	Aa	405,230
A	489,556	A	233,878
A-1	3,038	P-1	80,504
BBB	312,497	Baa	345,235
BB	228,543	Ba	152,455
B	118,746	B	135,591
CCC or Lower	23,302	C or Lower	14,021
Unrated	1,150,939	Unrated	1,226,676
Subtotal	3,696,077		3,696,077
Component Units			
AAA	797,858	Aaa	196,938
Unrated	609,171	Unrated	1,210,091
Subtotal	1,407,029		1,407,029
Total	$ 7,099,065		$ 7,099,065

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of failure of the counterparty, the State will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The State Board of Finance requires that investment instruments should be held in safekeeping by financial institutions, and the cash fund manager should obtain safekeeping receipts. The retirement systems' policies state that for securities lending transactions, contracts with the broker-dealers or other entities require that they indemnify the system if the borrowers fail to return the securities or fail to pay the system for income distributions by the securities issuers while the securities are on loan. The institutions of higher education do not have a formal custodial credit risk policy.

At June 30, 2005, the reported amount of the general funds' investments was $1,109,223,337. Of this amount, $175,338 was uninsured and unregistered with securities held by the counterparty's trust department or agent but not in the State's name.

At June 30, 2005, the reported amount of the enterprise funds' investments was $969,216,834. Of this amount, $1,975,542 was uninsured and unregistered with securities held by the counterparty's trust department or agent but not in the State's name.

At June 30, 2005, the reported amount of the fiduciary funds' investments was $16,404,431,155. Of this amount, $651,499,130 was uninsured and unregistered with securities held by the counterparty's trust department or agent but not in the State's name.

At June 30, 2005, the reported amount of the component units' investments was $1,512,575,028. Of this amount, $209,141,271 was uninsured and unregistered with securities held by the counterparty, but not in the State's name.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributable to the magnitude of the State's investment in a single user.

There is no concentration of credit risk for the State.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit.

The State does not have a formal investment policy for foreign currency risk.

The exposure to foreign currency risk for investments and deposits at June 30, 2005, is as follows (expressed in thousands):

Currency	Fair Value	Fixed Income Securities	Equities	Foreign Currency Contract	Cash
Australian Dollar	$ 52,803	$	$ 58,092	$ (5,318)	$ 29
Brazilian Real	1				1
British Pound Sterling	324,700	11,147	379,162	(71,263)	5,654
Canadian Dollar	99,540	537	93,709	4,270	1,024
Chilean Peso	758			758	
Danish Krone	15,449		11,096	4,061	292
Euro	605,726	15,970	608,657	(28,871)	9,970
Hong Kong Dollar	39,236		42,990	(4,007)	253
Indian Rupee	698				698
Japanese Yen	402,867	1,166	389,233	10,461	2,007
Malaysian Ringgit	1,483	1,483			
Mexico Nuevo Peso	4,227	4,984		(985)	228
New Taiwan Dollar	3,205		3,205		
New Zealand Dollar	(2,029)	1,141		(3,172)	2
Norwegian Krone	4,710		4,704	(84)	90
Polish Zloty	1,594	826		768	
Singapore Dollar	35,699		13,811	21,861	27
South African Rand	14,949		16,207	(1,260)	2
South Korean Won	44,458		45,911	(1,453)	
Swedish Krona	86,403		42,593	43,708	102
Swiss Franc	134,849		174,864	(40,097)	82
Thailand Baht	15,724			15,724	
	$ 1,887,050	$ 37,254	$ 1,884,234	$ (54,899)	$ 20,461

Note – For Foreign Currency Contracts, a positive number represents the market value of contracts to purchase that currency in excess of the market value of contracts to sell that currency. A negative number therefore represents the market value of contracts to sell foreign currency in excess of contracts to purchase that currency.

(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 rate. Risks associated with such contracts include movement in the value of the foreign currency in relation 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 unrealized gain or loss on closed forward currency contracts represents the difference between the original 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, 2005, the retirement systems referred to above were party to outstanding forward exchange currency contracts to purchase foreign currencies with contract amounts of $168.1 million, collectively. Market values of these outstanding contracts were $165.0 million resulting in a net unrealized loss of $3.1 million. The retirement system also had outstanding foreign contracts to sell foreign currency with contract amounts of $223.7 million at June 30, 2005. Market values of these contracts were $219.9 million resulting in an unrealized gain of approximately $3.8 million.

Mortgage-Backed Securities

APERS, Arkansas Judicial Retirement System (Judicial), 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 investment risks (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 of these securities depends on the changes in interest and principal payment patterns and the market value of the underlying assets.

Asset-Backed Securities

As of June 30, 2005 APERS, Judicial and Teacher held asset-backed securities with the fair value of $106.1 million, $8.8 million, and $64.6 million, respectively. These securities represent interest in various trusts consisting of pooled financial assets other than mortgage loans conveyed by the issuing parties. The ability to recover the amount of principal invested in these securities depends on the performance and quality of the trust assets.

Pooled Funds

APERS, Arkansas District Judges Retirement System (District Judge), Judicial and State Police had approximately $447.5 million, $1.1 million, $21.6 million and $38.9 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

Arkansas Development Finance Authority (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 investment risk. ADFA invests in these securities to enhance yields on investments. Changes in market interest rate affect the cash flows of these securities and may result in changes in fair value. The overall return on yield on these securities depends on the changes in the interest and principal in the interest and principal payment pattern and the market value of the underlying assets.

Interest Rate Swaps

ADFA has entered into an interest rate swap agreement to effectively convert $10.0 million of variable rate debt based on the three-month LIBOR to fixed rate debt with an effective fixed rate of 7.7%. ADFA is exposed to interest rate risk under the swap agreement if the three-month LIBOR rate is less than 7.4%. The interest rate swap agreement is set to expire January 2, 2014.

(4) Securities Lending Transactions

Arkansas State Police Retirement System, Arkansas Teacher Retirement System, and Arkansas Public Employees Retirement System 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 fair 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 fair 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, 2005, includes domestic and international equities, domestic and international corporate fixed income securities, U.S. Treasury securities, governmental agency securities, and non-U.S. sovereigns. With the exception of cash collateral, the pension does 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. These securities have also been included 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 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. The carrying value and fair value of the underlying securities is $ 1.45 billion. At June 30, 2005, the pension systems have no credit risk exposure to borrowers because the amount 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, 2005, at a fair value of $35.74 million. The short sale transactions are administered by a custodial agent bank.

(6) Receivables

Receivables at June 30, 2005, 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	$ 205,726	$ 624,438 (2)	$	$ 192,926	$ 215,155	$ 21,858	$ 26,916 (1)	$ (308,433)	$ 978,586
Higher Education Fund	183,494				59,024	641		(16,564)	226,595
Workers' Compensation Commission	8,935					748			9,683
Non-major Enterprise Funds	82,201				241,809	839			324,849
Pension Trust			52,211			37,465	427,706		517,382
Agency						99	9		108
Total	$ 480,356	$ 624,438	$ 52,211	$ 192,926	$ 515,988	$ 61,650	$ 454,631	$ (324,997)	$ 2,057,203

(1) $116 of this total is reflected as "due from other funds" in general fund and "receivables-trust funds" in government wide.
(2) Receivable balances of $68,636 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
Arkansas Student Loan Authority	$	$ 360,597	$	$ 8,076	$	$ (1,725)	$ 366,948
Arkansas Developmental Finance Authority	1,141	329,430	115,529	6,186		(16,123)	436,163
University of Arkansas Foundation (3)		254		2,402	74,223	(684)	76,195
Total	$ 1,141	$ 690,281	$ 115,529	$ 16,664	$ 74,223	$ (18,532)	$ 879,306

(3) Five pledges approximate 44% of total contributions receivable at June 30, 2005.

(7) Intergovernmental Activity (expressed in thousands)

Interfund Receivables and Payables

	Due From					
Due To	General Fund	Higher Education Fund	Workers' Compensation Commission	Non-major Enterprise Funds	Pension Trust	Total
General Fund	$	$ 1,981	$ 9	$ 668	$ 115	$ 2,773
Higher Education Fund	1,437					1,437
Workers' Compensation Commission	201	203		4	1	409
Non-major Enterprise	1,311					1,311
Total	$ 2,949	$ 2,184	$ 9	$ 672	$ 116	$ 5,930

Interfund receivables and payables include $2 million due from the Higher Education Fund to the General Fund for worker's compensation unemployment contributions, $1.3 million due from the General Fund to the Employment Security Department for unemployment insurance program contributions, and $1.4 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 To		
Advances From	**General Fund**	**Higher Education Fund**	**Total**
General Fund	$	$ 6,988	$ 6,988
Non-Major Enterprise Funds		3,954	3,954
Pension Trust	15,100		15,100
Total	$ 15,100	$ 10,942	$ 26,042

Advances include: (1) an outstanding balance of $15.1 million 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 $7.0 million to the Higher Education Fund for the construction of a biomedical research building with repayment terms based upon tax revenue from the 4% additional mixed drink tax collected each fiscal year and interest charged at 2.5% annually; and (3) advances to the Community/Technical College Revolving Loan program of $4 million to provide low interest loans to community and technical colleges for capitalizable education and general projects with variable interest rates.

Transfers

	Transfers In			
Transfers Out	**General Fund**	**Higher Education Fund**	**Non-major Enterprise Fund**	**Total**
General Fund	$	$ 696,377	$ 4,919	$ 701,296
Higher Education Fund	42,503			42,503
Non-Major Enterprise Funds	3,992			3,992
Total	$ 46,495	$ 696,377	$ 4,919	$ 747,791

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 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 ($1.8 million to Arkansas Department of Health and $377 thousand 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.

(8) Capital Assets

(a) Primary Government

Capital asset activity for the year ended June 30, 2005 was as follows (expressed in thousands):

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 411,499	$ 34,195	$ (284)	$ 445,410
Construction in progress	2,106,205	508,352	(573,193)	2,041,364
Other non-depreciable assets	3,204	616	(119)	3,701
Total capital assets, not being depreciated	2,520,908	543,163	(573,596)	2,490,475
Capital assets, being depreciated:				
Land improvements	111,587	20,367	(980)	130,974
Infrastructure	8,517,972	507,357	(36,103)	8,989,226
Leasehold improvements	883	234		1,117
Buildings	783,809	156,184	(6,250)	933,743
Equipment	627,115	82,297	(65,641)	643,771
Other depreciable assets	4,153	4,298	(2)	8,449
Total capital assets, being depreciated	10,045,519	770,737	(108,976)	10,707,280
Subtotal	12,566,427	1,313,900	(682,572)	13,197,755
Less accumulated depreciation for:				
Land improvements	(34,964)	(7,332)	332	(41,964)
Infrastructure	(3,495,493)	(287,497)	39,047	(3,743,943)
Leasehold improvements	(351)	(43)		(394)
Buildings	(352,334)	(32,252)	3,601	(380,985)
Equipment	(413,683)	(61,812)	51,672	(423,823)
Other depreciable assets	(1,037)	(1,400)	13	(2,424)
Total accumulated depreciation	(4,297,862)	(390,336)	94,665	(4,593,533)
Governmental activities capital assets, net	$ 8,268,565	$ 923,564	$ (587,907)	$ 8,604,222

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
Business-type activities:				
Capital assets, not being depreciated:				
Land	$ 89,495	$ 6,106	$ (150)	$ 95,451
Construction in progress	178,252	154,854	(114,700)	218,406
Total capital assets, not being depreciated	267,747	160,960	(114,850)	313,857
Capital assets, being depreciated:				
Improvements other than\ building	13,054	3,157		16,211
Leasehold improvements	245	46		291
Buildings	2,060,429	149,090	(1,994)	2,207,525
Equipment	443,518	64,424	(24,313)	483,629
Other depreciable assets	123,920	9,813	(2,711)	131,022
Infrastructure	120,450	14,866	(26)	135,290
Total capital assets, being depreciated	2,761,616	241,396	(29,044)	2,973,968
Less accumulated depreciation for:				
Improvements other than\ building	(7,794)	(1,924)	2,090	(7,628)
Leasehold improvements	(72)	(8)		(80)
Buildings	(807,073)	(66,562)	8,000	(865,635)
Equipment	(317,257)	(42,815)	20,990	(339,082)
Other depreciable assets	(78,236)	(8,704)	1,868	(85,072)
Infrastructure	(56,071)	(6,800)		(62,871)
Total accumulated depreciation	(1,266,503) $	(126,813) $	32,948	(1,360,368)
Total capital assets, being depreciated, net	1,495,113			1,613,600
Business-type activities capital assets, net	$ 1,762,860			$ 1,927,457

(b) Discretely Presented Component Units

Activity for ADFA for the year ended June 30, 2005, was as follows (expressed in thousands):

	Balance July 1, 2004	Additions/ Deletions	Balance June 30, 2005
ADFA:			
Capital assets being depreciated:			
Equipment	$ 673	$ (158)	$ 515
Less accumulated depreciation for:			
Equipment	(475)	98	(377)
ADFA capital assets, net	$ 198	$ (60)	$ 138

Activity for ASLA for the year ended June 30, 2005, was as follows (expressed in thousands):

	Balance July 1, 2004	Additions/ Deletions	Balance June 30, 2005
ASLA:			
Capital assets being depreciated:			
Equipment	$ 345	$ 0	$ 345
Less accumulated depreciation for:			
Equipment	(336)	(7)	(343)
ASLA capital assets, net	$ 9	$ (7)	$ 2

Activity for U of A Foundation, Inc. for the year ended June 30, 2005, was as follows (expressed in thousands):

	Balance July 1, 2004	Additions/ Deletions	Balance June 30, 2005
U of A Foundation:			
Capital assets not being depreciated:			
Land	$ 2,556	$ (547)	$ 2,009
Capital assets being depreciated:			
Buildings and equipment	756	19	775
Less accumulated depreciation for:			
Buildings and equipment	(624)	42	(582)
Total Assets being depreciated, net	132	$ 61	193
Total Assets U of A Foundation	$ 2,688		$ 2,202

(c) Depreciation

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

Governmental Activities:		
Education	$	4,236
Health and human services		10,896
Transportation		301,466
Law, justice, and public safety		20,502
Recreation and resources development		13,676
General government		13,602
Regulation of business and professionals		1,541
Total depreciation expense – governmental activities	$	365,919
Business-type Activities:		
Enterprise Funds	$	120,361
Total depreciation expense – business-type activities	$	120,361
Component Units:		
ASLA	$	7
ADFA		55
U of A Foundation		80
Total depreciation expense – component units	$	142

(9) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2005, are summarized as follows (expressed in thousands):

	Balance, July 1, 2004 as restated	Additions	Accretion on capital appreciation bonds	Reductions	Balance, June 30, 2005	Due within one year	Due greater than one year
Governmental Activities:							
Bonds payable:							
General obligation	$ 923,173	$ 46,125	$ 1,310	$ 25,750	$ 944,858 (1)	$ 83,185 (2)	$ 861,673
Special obligation	460			90	370	95	275
Add (deduct):							
Deferred bond refunding loss	(1,011)	(3,950)		(154)	(4,807)		(4,807)
Issuance premium (discount)	15,339	2,844		2,042	16,141	2,260	13,881
Total bonds payable	937,961	45,019	1,310	27,728	956,562	85,540	871,022
Notes payable to component unit	57,148	70,585		31,050	96,683	11,780	84,903
Note payable to pension trust fund	16,667			1,567	15,100	1,692	13,408
Capital leases	9,536	273		2,882	6,927	2,515	4,412
Capital leases with component unit	70,582	79,745		42,805	107,522	8,155	99,367
Total notes and leases payable	154,654	150,603		78,854	226,403	24,313	202,090
Subtotal bonds, notes, and leases payable	1,092,615	195,622	1,310	106,582	1,182,965	109,853	1,073,112
Claims and judgments	124,290	167,333		178,552	113,071	38,331	74,740
Compensated absences	107,515	4,064			111,579	14,115	97,464
Subtotal claims, judgments, and compensated absences	231,805	171,397		178,552	224,650	52,446	172,204
Net pension obligation		4,574			4,574		4,574
Governmental activity total	$ 1,324,420	$ 371,593	$ 1,310	$ 285,134	$ 1,412,189	$ 162,299	$ 1,249,890

(1) includes accretion on capital appreciation bonds of $70,436.
(2) includes accretion on capital appreciation bonds of $540.

	Balance, July 1, 2004 as restated	Additions	Reductions	Balance, June 30, 2005	Due within one year	Due greater than one year
Business-type Activities:						
Bonds payable:						
Special obligation:						
Construction Assistance						
Revolving Loan Fund	$ 93,530	$	$ 4,620	$ 88,910	$ 4,955	$ 83,955
College and University						
Revenue Bonds	661,551	416,287	181,928	895,910	29,155	866,755
Add (deduct) Issuance						
premiums/(discounts)	(123)	215	(8)	100	21	79
Total bonds payable	754,958	416,502	186,540	984,920	34,131	950,789
Notes payable	14,519	6,201	3,592	17,128	3,097	14,031
Notes payable with component unit	9,675		947	8,728	996	7,732
Total notes payable	24,194	6,201	4,539	25,856	4,093	21,763
Capital leases	17,450	6,733	2,713	21,470	5,496	15,974
Capital leases with component unit	1,960		295	1,665	310	1,355
Total lease payable	19,410	6,733	3,008	23,135	5,806	17,329
Subtotal bonds, notes						
and lease payable	798,562	429,436	194,087	1,033,911	44,030	989,881
Claims and judgments	220,309	305,861	294,476	231,694	40,091	191,603
Compensated absences and sick leave	61,279	12,438	8,810	64,907	8,383	56,524
Business-type						
activity total	$ 1,080,150	$ 747,735	$ 497,373	$ 1,330,512	$ 92,504	$ 1,238,008

Governmental Activities

Governmental activities long-term liabilities were restated for fiscal year 2005. For more information, see note 1 (d) for the General fund.

Business-type Activities

Higher Education long-term liabilities were restated for fiscal year 2005. For more information, see note 1 (d) for the Enterprise funds.

The College Technical Revolving Loan Fund balances in the amount of $3,901 were excluded from the beginning balances of bonds and notes, in the amounts of $282 and $3,619 respectively, because they are actually advances from Higher Education. Other reclassifications were to properly record notes payable to component units resulting in a decrease of bonds payable of $729, a decrease in notes payable of $3,026, and an increase in notes payable with component units of $3,755, as well as a decrease/increase in capital leases and capital leases with component units in the amount of $30.

		Balance, July 1, 2004	Additions	Reductions	Balance, June 30, 2005	Due within one year	Due greater than one year
Component units:							
Arkansas Student Loan Authority:							
Bonds payable:							
Revenue	$	404,650 $	187,350 $	11,300 $	580,700 $	30,520 $	550,180
Less: Deferred bond refunding loss		(1,117)		(876)	(241)		(241)
Total bonds payable ASLA		403,533	187,350	10,424	580,459	30,520	549,939
Arkansas Development Finance Authority:							
Bonds payable		1,145,682	267,690	240,010	1,173,362	48,556	1,124,806
Notes payable		216,315	355,235	245,495	326,055	8,640	317,415
Less: Issuance discounts		(2,098)	778	(359)	(961)		(961)
Total bonds and notes payable ADFA		1,359,899	623,703	485,146	1,498,456	57,196	1,441,260
U of A Foundation Annuity Obligations		15,376	3,273	1,866	16,783	1,094	15,689
Component units total	$	1,778,808 $	814,326 $	497,436 $	2,095,698 $	88,810 $	2,006,888

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, 2005, 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:			
1995B Series Water Resources G.O. Bonds	2025	4.80-5.75	6,025
1994A Series Waste Disposal G.O. Bonds	2008	5.20-5.50	2,400
1995A Series Waste Disposal G.O. Bonds	2025	4.65-5.50	2,025
1998A Series Waste Disposal G.O. Bonds	2027	4.50-5.05	8,685
2000A Series Water, Waste, and Pollution	2033	4.85-5.75	4,855
2001A Series Water, Waste, and Pollution	2011	5.50-6.30	6,435
2001B Series Water, Waste, and Pollution	2011	3.80-4.45	2,320
2002A Series Water, Waste, and Pollution	2026	4.00-5.00	12,880
2002B Series Water, Waste, and Pollution	2025	4.25-5.00	6,315
2002C Series Water, Waste, and Pollution	2020	3.50-5.00	7,440
2002D Series Water, Waste, and Pollution	2017	3.25-4.75	8,030
2002E Series Water, Waste, and Pollution	2012	4.40-5.80	1,505
2002F Series Water, Waste, and Pollution	2012	3.00-4.20	2,020
2002G Series Water, Waste, and Pollution	2035	2.85-4.95	5,000
2002H Series Water, Waste, and Pollution	2017	4.50-5.35	1,815
2002I Series Water, Waste, and Pollution	2026	3.00-4.75	10,325
2002J Series Water, Waste, and Pollution	2008	3.00	2,490
2002K Series Water, Waste, and Pollution	2026	3.00-4.875	8,285
2003A Series Water, Waste, and Pollution	2020	2.25-5.30	2,190
2003B Series Water, Waste, and Pollution	2027	2.00-4.65	5,995
2003C Series Water, Waste, and Pollution	2033	2.50-4.75	19,100
2004A Series Water, Waste, and Pollution	2036	3.00-5.00	14,690
College Savings Bonds:			
1991A Series, G.O. Bonds	2011	6.75-7.00	9,859
1991B Series, G.O. Bonds	2012	6.85-7.00	16,458
1991C Series, G.O. Bonds	2013	6.70-6.90	11,510
1993 Series, G.O. Bonds	2014	5.55-5.95	14,969
1995 Series, G.O. Bonds	2015	5.15-5.90	15,214
1996A Series, G.O. Bonds	2016	5.00-5.65	17,899
1996B Series, G.O. Bonds	2016	5.05-6.30	13,544
1996C Series, G.O. Bonds	2016	5.25-6.00	19,799
1997A Series, G.O. Bonds	2017	5.10-6.05	22,804
1997B Series, G.O. Bonds	2017	4.55-5.60	23,240
1998A Series, G.O. Bonds	2017	4.35-5.35	32,610
2005 Series, G.O. Bonds	2016	3.00-5.00	31,127
Total			$ 944,858

Future amounts required to pay principal and interest on general obligation bonds at June 30, 2005, excluding accrued accreted interest of approximately $70 million on capital appreciation bonds, were as follows (expressed in thousands):

	Principal	Interest	Total
Year ending June 30:			
2006	$ 82,645	$ 45,813	$ 128,458
2007	67,437	44,487	111,924
2008	71,717	41,649	113,366
2009	72,861	39,553	112,414
2010	76,019	36,711	112,730
2011-2015	423,814	130,548	554,362
2016-2020	40,584	36,860	77,444
2021-2025	20,005	7,828	27,833
2026-2030	10,800	3,535	14,335
2031-2035	7,830	1,211	9,041
2036-2040	708		708
Total	$ 874,420	$ 388,195	$ 1,262,615

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 reconstructing and renovating the interstate highways and related facilities in the State of Arkansas. The bonds are payable primarily from Federal Interstate Maintenance Funds and by State revenues derived from the tax on diesel fuel at the rate of 4 cents per gallon.

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. No bonds were issued under this act in the 2005 fiscal year.

State Waste Disposal and Pollution Abatement Facilities General Obligation Bonds – Act 686 of 1987, as amended, authorized the Arkansas 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 2005 fiscal year.

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. In 2005, $15 million of bonds were issued under this act.

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. In 2005, $31 million of bonds were issued under this act.

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, 2005, 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	$ 370

Future amounts required to pay principal and interest on special obligation bonds at June 30, 2005, were as follows (expressed in thousands):

	Principal	Interest	Total
Year ending June 30:			
2006	$ 95	$ 23	$ 118
2007	100	17	117
2008	105	11	116
2009	70	5	75
Total	$ 370	$ 56	$ 426

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, 2005, were as follows (expressed in thousands):

	Principal	Interest	Total
Year ending June 30:			
2006	$ 6,563	$ 5,709	$ 12,272
2007	7,096	5,400	12,496
2008	6,501	5,007	11,508
2009	6,665	4,818	11,483
2010	6,880	4,595	11,475
2011-2015	36,825	17,127	53,952
2016-2020	20,043	4,745	24,788
2021-2025	2,720	1,287	4,007
2026-2030	3,390	470	3,860
Total	$ 96,683	$ 49,158	$ 145,841

Note Payable to Pension Trust Fund – The note payable to the pension trust fund consists of a note issued to the Arkansas Teacher 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, 2005, were as follows (expressed in thousands):

	Principal	Interest	Total
Year ending June 30:			
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	2,302	598	2,900
2011-2015	5,172	629	5,801
Total	$ 15,100	$ 5,201	$ 20,301

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, 2005, were as follows (expressed in thousands):

	Principal	Interest	Total
Year ending June 30:			
2006	$ 171	$ 5	$ 176

Business-Type Activities

Special obligation bonds outstanding at June 30, 2005, 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	$ 88,910

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, 2005, 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 $254:

	Principal	Interest	Total
Year ending June 30:			
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	6,850	3,146	9,996
2011-2015	40,540	10,987	51,527
2016-2020	16,890	2,556	19,446
2021-2025	2,160	152	2,312
Total	$ 88,910	$ 31,931	$ 120,841

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, 2005, 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 $354:

	Final maturity date	Interest rate(s) %	Balance
Henderson State University	2027	3.00-7.00	$ 16,320
Southern Arkansas University – Magnolia	2031	1.40-5.35	13,635
Southern Arkansas University Tech – Camden	2015	2.05-6.25	550
Arkansas State University – Beebe	2023	3.00-6.61	4,331
Arkansas State University – Jonesboro	2034	Variable	94,396
Arkansas State University – Mountain Home	2019	3.81-5.38	4,815
Arkansas State University - Newport	2028	1.30-4.63	4,737
Arkansas Tech University	2035	1.1-5.65	24,882
University of Arkansas at Fayetteville	2032	Variable	262,826
University of Arkansas at Little Rock	2029	1.00-4.89	59,801
University of Arkansas for Medical Sciences	2019	Variable	181,637
University of Arkansas at Monticello	2018	Variable	4,925
University of Arkansas at Pine Bluff	2027	Variable	9,538
University of Central Arkansas	2033	2.00-7.75	69,680
University of Arkansas Community College at Hope	2021	2.05-6.00	6,240
University of Arkansas Community College at Batesville	2018	Variable	4,780
University of Arkansas Community College at Morrilton	2022	2.25-5.25	4,695
University of Arkansas at Fort Smith	2023	1.00-6.50	46,527
East Arkansas Community College	2013	3.60-6.00	1,060
National Park Community College	2030	3.00-4.70	9,725
Mid-South Technical College	2033	4.35-5.10	12,870
Arkansas Northeastern College	2031	4.00-5.35	4,975
North Arkansas College	2016	4.3	2,225
Phillips Community College of the Univ. of Arkansas	2017	3.90-5.00	4,995
Rich Mountain Community College	2006	Variable	1,805
Northwest Arkansas Community College	2030	3.00-5.00	24,074
Black River Technical College	2028	1.35-4.25	3,150
Pulaski Technical College	2035	3.93-4.89	39,570
Ouachita Technical College	2008	2.99	341
Ozarka College	2027	3.00-7.24	2,661
Total			$ 921,766

The variable rates of interest are calculated at periodic intervals. Such calculations are primarily based on the lenders' changes in the index determined by the Prime Rate or the LIBOR Rate.

Other variable rates are calculated using the rate in effect at the financial statement date. Actual rates will vary.

Future amounts required to pay principal and interest on college and university revenue bonds and notes payable as of June 30, 2005, were as follows (expressed in thousands):

	Principal	Interest	Total
Year ending June 30:			
2006	$ 33,613	$ 41,503	$ 75,116
2007	34,717	40,271	74,988
2008	35,647	38,970	74,617
2009	36,882	37,571	74,453
2010	46,424	35,848	82,272
2011-2015	180,998	153,530	334,528
2016-2020	190,994	112,852	303,846
2021-2025	173,024	67,158	240,182
2026-2030	111,336	33,832	145,168
2031-2035	78,131	9,298	87,429
Total	$ 921,766	$ 570,833	$ 1,492,599

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, 2005, 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 $242:

	Final maturity date	Interest rate(s) %		Balance
Student Loan Revenue Bonds, Series 1994A	2009	3.049	$	23,500
Student Loan Revenue Bonds, Series 1994B	2009	7.25		6,600
Student Loan Revenue Refunding Bonds, Series 1996A	2010	3.10		42,900
Student Loan Revenue Bonds, Series 1997A	2014	2.65		31,150
Student Loan Revenue Refunding Bonds, Series 1997B	2014	9.75		17,400
Student Loan Revenue Refunding Bonds, Series 2000A-1	2030	2.80		55,000
Student Loan Revenue Refunding Bonds, Series 2000A-2	2030	3.12		20,000
Student Loan Revenue Refunding Bonds, Series 2002A-1	2036	2.70		56,000
Student Loan Revenue Refunding Bonds, Series 2002A-2	2009	2.75		5,800
Student Loan Revenue Refunding Bonds, Series 2004 A-1	2038	2.75		60,000
Student Loan Revenue Refunding Bonds, Series 2004 A-2	2038	2.75		59,500
Student Loan Revenue Refunding Bonds, Series 2004 A-3	2038	3.12		15,500
Student Loan Revenue Refunding Bonds, Series 2005A-1	2039	2.90		70,000
Student Loan Revenue Refunding Bonds, Series 2005 A-2	2039	2.90		58,700
Student Loan Revenue Refunding Bonds, Series 2005 A-3	2039	2.90		58,650
Total			$	580,700

Future amounts required to pay principal and interest on revenue bonds at June 30, 2005, were as follows (expressed in thousands):

	Principal	Interest	Total
Year ending June 30:			
2006	$ 30,520	$ 18,281	$ 48,801
2007		17,231	17,231
2008		17,231	17,231
2009	62,030	17,231	79,261
2010	42,900	14,922	57,822
2011-2015	64,850	60,269	125,119
2016-2020		55,330	55,330
2021-2025		55,330	55,330
2026-2030	65,000	55,330	120,330
2031-2035		50,480	50,480
2036-2040	315,400	30,454	345,854
Total	$ 580,700	$ 392,089	$ 972,789

Arkansas Development Finance Authority (the Authority)– Pursuant to Act 1062, the Authority is authorized and empowered to issue bonds and various other debt instruments for the purpose of financing qualified agricultural business enterprises, capital improvement facilities, educational facilities, health care facilities, housing developments, and industrial enterprises.

Bonds and other debt instruments issued by the Authority are special obligations of the Authority payable solely from and collateralized by a first lien on the proceeds, monies, revenues, rights, interests, and collections pledged therefore under the resolutions authorizing the particular issues. The State is not obligated to pay the bonds and other debt instruments, and neither the faith and credit nor the taxing power of the State is pledged to the payment of the principal or redemption price of or interest on the bonds and other debt instruments. The Authority has no taxing power.

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, the Authority issues economic development revenue bonds and multi-family housing revenue bonds on behalf of private companies within the State of Arkansas. The bonds are payable solely from and secured by a pledge of revenues from the private companies to which the bond proceeds were remitted and accordingly, are not obligations of the Authority or the State of Arkansas. At June 30, 2005, the bonds outstanding issued under these programs aggregated $424.5 million.

Bonds and notes payable at June 30, 2005, were as follows (expressed in thousands):

	Final maturity date	Interest rate(s) %	Balance
Single Family Bonds Payable	2035	1.15-10.00	$ 951,282
Multi-Family Bonds Payable	2035	2.75-9.75	125,209
Development Finance Programs Bonds Payable	2040	1.00-8.125	355,635
Tobacco Bond Payable	2042	2.80-5.50	57,765
ADFA General Fund Programs Note Payable	2005	1.21-3.61	8,565
Total			$ 1,498,456

Future amounts required to pay principal and interest on the Authority's debt at June 30, 2005, were as follows (expressed in thousands). The principal amount shown differs from the amount on the balance sheet due to unamortized discounts of approximately $961:

	Principal	Interest	Total
Year ending June 30:			
2006	$ 57,196	$ 70,906	$ 128,102
2007	178,933	65,283	244,216
2008	237,638	59,419	297,057
2009	46,012	52,875	98,887
2010	48,060	50,296	98,356
2011-2015	218,624	218,858	437,482
2016-2020	218,860	159,117	377,977
2021-2025	189,319	109,348	298,667
2026-2030	185,480	57,555	243,035
2031-2035	104,640	16,248	120,888
2036-2040	11,865	1,912	13,777
2041-2045	2,790	117	2,907
Total	$ 1,499,417	$ 861,934	$ 2,361,351

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, 2005, were $518,165 including interest ranging from 5% to 12%.

Aggregate annual maturities of annuity obligations at June 30, 2005, were as follows (expressed in thousands):

Year ending June 30:		Principal
2006	$	1,094
2007		1,045
2008		919
2009		884
2010		872
Thereafter		11,969
Total	$	16,783

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

Governmental Activities

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 $8.6 million are considered defeased at June 30, 2005.

Business-Type Activities

In prior years, the Arkansas Construction Assistance Revolving Loan Fund Program defeased certain bonds by placing proceeds of new bonds in irrevocable trusts to provide for all future debt service payments of old bonds. Accordingly, those trust account assets and the liability for the defeased bonds are not included in these financial statements. Bonds with total outstanding amounts of approximately $14 million were considered defeased at June 30, 2005.

Higher Education

On December 1, 2001, the University of Arkansas at Fort Smith issued $41,500 of student fee revenue bonds, due December 1, 2021, with rates ranging from 2.0% to 5.0% to defease the Series 1997 and Series 1999 bond issues and for construction. A portion of the proceeds on new student fee revenue bonds were placed in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liability for the defeased bonds are not included in the Institution’s financial statements. The final call date of the defeased bonds is April 1, 2009. As of June 30, 2005, the escrow fund established to provide the retirement of the bonds being refunded had a balance of $31.8 million. The remaining principal amount of the outstanding bonds considered defeased was $30.3 million.

Component Units

In prior years, Arkansas Student Loan Authority 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 $14 million are considered defeased at June 30, 2005.

In prior years, Arkansas Development Finance Authority 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 $95.4 million are considered defeased at June 30, 2005. The bonds include the 1997 Drivers' License Revenue Bonds and the 1999 Series A State Agencies Facilities Revenue Bonds.

Current Refundings

Primary Government

During fiscal year 2005, the State issued $31.1 million of College Savings General Obligation Bonds to redeem a portion of the Series 1997A, 1997B and 1998A College Savings General Obligation Bonds resulting in an economic present value savings of $1.7 million and a reduction of $2.1 million in future debt service. The bonds bear interest at rates ranging from 3.0% to 5.0% and mature in 2012, 2015 and 2016 respectively. The proceeds of the new bonds were placed in irrevocable trusts to provide for all interest due on the new bonds until the crossover refunding and accordingly these trust account assets and the liability for the old and new bonds are included in these financial statements until the crossover dates.

During fiscal year 2005, the Arkansas Development Finance Authority, on behalf of the Arkansas State Police, issued $26.1 million to redeem a portion of the Authority's outstanding 1997 Drivers' License Revenue Bonds resulting in an economic present value savings of $1 million and a reduction of $1.4 million in future debt service. The refunding resulted in loss on early retirement of $1.6 million. The bonds bear interest at rates ranging from 2.375% to 5.0% and mature in 2008-2018. More information on the refunding is included in the Arkansas Development Finance Authority's notes to the financial statements.

During fiscal year 2005, the Arkansas Development Finance Authority, on behalf of the Arkansas Department of Correction, issued $33.4 million to redeem the Authority's State Agencies Facilities Revenue Bonds (Department of Correction Project) resulting in an economic present value savings of $1.4 million and a reduction of $1.7 million in future debt service. The refunding resulted in loss on early retirement of $2.3 million. The bonds bear interest at rates ranging from 3.0% to 5.0% and mature in 2005-2019. More information on the refunding is included in the Arkansas Development Finance Authority's notes to the financial statements.

During fiscal year 2005, the Arkansas Development Finance Authority, on behalf of the Arkansas Building Authority, issued $6.9 million to redeem the Authority's State Agencies Facilities Revenue Bonds (Justice Building Project) resulting in an economic present value savings of $349,000 and a reduction of $697,000 in future debt service. The bonds bear interest at rates ranging from 4.7% to 5.35% and mature in 2005-2027. The new bond issue closed on May 26, 2005 and the proceeds were placed in a cash account; however, the refunding bonds will not be redeemed until July 1, 2005 which will be when cash moves from the new bond issue to the refunding issue. More information on these bonds can be obtained from the Arkansas Development Finance Authority.

Higher Education

On December 15, 2004, Arkansas Tech University issued $5.8 million and $4 million in refunding bonds with interest rates from 2.1 to 5 percent on both issues to advance refund $5.6 million of outstanding bonds dated July 1, 1999, with interest rates from 3.75 to 5.3 percent and $3.8 million of outstanding bonds dated March 1, 2000, with interest rate of 6.375%. The net proceeds of $9.2 million (after bond issuance cost of $363,000) from both issues were used to purchase U. S. Government securities. These securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payment on the July 1, 1999, and March 1, 2000, bonds. As a result, the July 1, 1999, and March 1, 2000, bonds are considered to be defeased and the liability for these bonds has been removed from the long-term debt. Excess funds from the bond sales were remitted to the University to be used for construction and debt service.

On October 1, 2004, the University of Arkansas Fayetteville Campus issued $23.5 million in Various Facility Revenue Bonds, Series 2004A, and $7.1 million in Various Facility Revenue Refunding Bonds, Series 2004B. Series 2004A bonds were issued to provide funds to finance several construction projects on the University campus including the Law Library addition, the Central Chilled Water rebuild, Harmon Avenue Parking Facility, the Lewis Epley Band Building addition and various other projects. Series 2004B bonds were issued with an average coupon rate of 3.677% in order to advance refund $6.6 million of Series 1997 Various Facility Revenue Bonds having an average interest rate of 5.198%. Proceeds in the amount of $7 million, plus an additional $169,000, were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments of the refunded 1997 Series bonds. Regularly scheduled interest and principal payments on the 1997 Series issue were made on November 1, 2004, and will continue through November 1, 2007, from the escrow fund. All outstanding refunded Series 1997 bonds will be redeemed on November 1, 2007, at a price equal to 100% of the principal amount plus interest accrued thereon. As a result, the 1997 bonds are considered defeased. The liability for those bonds has been removed from the Statement of Net Assets. The University advance refunded the 1997 Series bonds to reduce its total debt service payments over the next 14 years by $558,000 and to obtain economic gain (difference between the present value of the debt service payments on the old and new debt) of $299,000. The escrow account balance at June 30, 2005, was $7 million.

On March 1, 2005, the University of Arkansas Fayetteville Campus issued $21.1 million in Various Facility Revenue Bonds, Series 2005A, and $60 million in Various Facility Revenue Refunding Bonds, Series 2005B. Series 2005A bonds were issued to provide funds to finance the construction of the Willard Walker Graduate School of Business building, the Center for Academic Excellence building, and the Chemistry building. Series 2005B bonds were issued with an average coupon rate of 4.408% in order to advance refund $44.2 million of Series 2002 Various Facility Revenue Bonds and $12 million of Series 2001 Various Facility Revenue Bonds. The refunded bonds have an average interest rate of 5.472%. Proceeds in the amount of $62.3 million, plus an additional $780,000, were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments of the refunded 2002 and 2001 Series bonds. Regularly scheduled interest and principal payments on the 2002 Series and 2001 Series issues were made on June 1, 2005, and will continue through December 1, 2012, for Series 2002 and through December 1, 2011, for Series 2001, from the escrow fund. All outstanding refunded Series 2002 bonds will be redeemed on December 1, 2012, at a price equal to 100% of the principal amount plus interest accrued thereon. All outstanding refunded Series 2001 bonds will be redeemed on December 1, 2011, at a price equal to 100% of the principal amount plus interest accrued thereon. As a result, those portions of the 2002 Series and 2001 Series bonds are considered defeased. The liability for those bonds has been removed from the Statement of Net Assets. The University advance refunded portions of the 2002 and 2001 Series bonds to reduce its total debt service payments over the next 18 years by $4.1 million and to obtain economic gain (difference between the present value of the debt service payments on the old and new debt) of $2.3 million. The escrow account balance at June 30, 2005, was $62.1 million.

On December 1, 2004, National Park Community College issued National Park Community College (Arkansas) District General Obligation Refunding and Improvement Bonds with a principal amount of $9.7 million. These bonds were issued with an interest rate ranging from 3.0% up to 4.7% to defease the Garland County Community College (Arkansas) District General Obligation Refunding Bonds with a principal amount of $4 million. Proceeds necessary for defeasance were placed in irrevocable trusts with escrow agents to provide for all debt service payments. Accordingly, these trust account assets and liability for the defeased bonds are not included in these financial statements. The economic gain resulting from the advance refunding was $201,000. The difference in cash flows required to service the old debt and those required to service the new debt is $6.7 million. Bonds with total outstanding amounts of approximately $3.96 million are considered defeased at June 30, 2005.

The Board of Trustees of the University of Arkansas System Various Facility Revenue Bonds (University of Arkansas Medical Sciences Campus) Series 2004A and 2004B were issued in November 2004. The 2004A issue refunded $58.3 million of the Various Facility Revenue Bonds 1998 at par value. The bonds bear interest at various fixed interest rates from 4.0% to 5.0%, and principal payments are due annually with interest payments due semiannually until the year 2018. The 2004B issue provided $96 million for the current expansion of the UAMS Hospital to include a new Patient Bed Tower, new Residence Hall, new Psychiatry Building and a new Power Plant. The bonds bear interest at various fixed interest rates from 2.0% to 5.0%, and principal payments are due annually with interest payments due semiannually until the year 2034. The refunding resulted in no difference in the reacquisition price and the net carrying amount of the refunded debt.

On July 1, 2004, the University of Arkansas at Hope Campus issued student fee revenue refunding bonds in the amount of $3.1 million with interest rates of 1.75% to 4.85% to early retire $3.4 million in bonds issued in 1996 with interest rates of 3.9% to 6%. The balance of the 1996 bonds was paid from the 1996 debt reserve.

On May 1, 2005, the University of Arkansas at Morrilton Campus issued revenue bonds totaling $2.1 million. The proceeds were used to refund the 1999 revenue bonds. The refunding resulted in savings of $81 thousand.

Component Units

Arkansas Student Loan Authority – In May of 2005, ASLA issued Series 2005 Bonds in the aggregate principal amount (expressed in thousands) of $187,350. The issue consisted of Student Loan Revenue Bonds Senior Series 2005A-1, 2005A-2, and 2005A-3. The bonds were issued to refund $11,300 of the Authority's Series 1994A Bonds. There was no gain or loss on this refunding.

(10) Arbitrage Rebate and Excess Earnings Liability

Primary Government

The interest paid on most debt issued by state governments is exempt from federal income tax. State governments sometimes temporarily reinvest the proceeds of such tax-exempt debt in materially higher-yielding taxable securities. This practice is known as arbitrage. An excess earnings resulting from arbitrage must be rebated to the federal government. Arbitrage is calculated and rebated at the end of each five-year period that the tax-exempt debt is outstanding (90% of the amount due), as well as at maturity. The State's outstanding bonds are subject to Federal government yield and adjustment excess earnings laws, which limit the earnings rate on funds received by an organization, which issues tax exempt bonds. Additionally, all of the State's outstanding bonds are subject to Federal government arbitrage rebate laws. At June 30, 2005, the State did not owe any arbitrage rebate liability.

Component Units

The Arkansas Student Loan Authority's (ASLA) outstanding bonds are subject to Federal government yield and adjustment excess earnings laws, which limit the earnings rate on funds received by an organization, which issues tax exempt bonds. Additionally, all of the ASLA's outstanding bonds are subject to Federal government arbitrage rebate laws. These laws limit the earnings rate on funds received by an organization which issues tax exempt bonds. A liability for revenues above the arbitrage rebate limit and for excess earnings over the allowable spread between the loan yield and bond yield have been included in accounts payable and accrued expenses in the amounts of approximately $3 million. The Series 1994A and B, Series 1996A and B, Series 1997A and B, and Series 2000 bonds currently have excess earnings and arbitrage rebate provision; there are no such provisions for the Series 1992/3 or Series 2002 Bonds. The ASLA will be subject to such provisions and management has estimated this amount at June 30, 2005 to be approximately $3 million.

The ASLA trust indentures require such excess earnings and arbitrage rebate provisions to be placed in the respective rebate funds and held until the amounts are due to the Federal government, generally five years subsequent to the issuance of the bonds. The excess earnings are periodically adjusted when the calculations reveal changes in the current amount that may be due if the bonds were redeemed. There were no amounts remitted by the ASLA to the Federal government related to its excess earnings liability during the year ending June 30, 2005.

The Internal Revenue Code of 1986 establishes rules and regulation for arbitrage rebates. The Arkansas Development Finance Authority (ADFA) has made provisions for revenues above the rebate limit which must be remitted to the Federal Government. The Internal Revenue Service limits the amount of interest rate spread that an issuer can earn on tax-exempt single family mortgage revenue bonds. In some of its previous bond issues, ADFA earned in excess of the allowed amount. In order to maintain compliance with the IRS, the excess is directed to bond issues earning less than the allowed amount. At June 30, 2005 the present value of excess subsidy was approximately $16.1 million. In the event the cost of long-term bonds exceeds the reserved loan rates, ADFA would utilize this subsidy to limit losses.

(11) 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 Arkansas Development Finance Authority. 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 were as follows (expressed in thousands):

	Governmental activities	Business-type activities
Assets:		
Buildings	$ 207,008	$ 3,767
Machinery and equipment	1,272	25,526
Less: Accumulated depreciation	(54,892)	(13,127)
Total	$ 153,388	$ 16,166

Future minimum commitments under operating and capital leases by fund type as of June 30, 2005, were as follows (expressed in thousands):

	Capital leases	
	Governmental activities	Business-type activities
Year ending June 30:		
2006	$ 2,959	$ 6,352
2007	1,854	5,450
2008	1,189	4,362
2009	891	1,983
2010	833	638
2011-2015	304	2,216
2016-2020		2,048
2021-2025		1,476
2026-2030		1,476
2031-2035		1,451
Total minimum lease payments	8,030	27,452
Less: Interest	(1,103)	(5,982)
Present value of future minimum lease payments	$ 6,927	$ 21,470

	Capital leases with component unit	
	Governmental activities	Business-type activities
Year ending June 30:		
2006	$ 13,566	$ 378
2007	13,759	235
2008	13,891	228
2009	10,497	227
2010	10,493	225
2011-2015	38,197	675
2016-2020	28,753	
2021-2025	14,018	
2026-2030	14,078	
2031-2035	10,704	
Total minimum lease payments	167,956	1,968
Less: interest	(60,434)	(303)
Present value of future minimum lease payments	$ 107,522	$ 1,665

	Operating leases	
	Governmental activities	Business-type activities
Year ending June 30:		
2006	$ 22,568	$ 2,954
2007	13,253	1,586
2008	5,552	550
2009	4,461	177
2010	1,698	35
2011-2015	2,181	
2016-2020	379	
2021-2025	429	
2026-2030		
Total minimum lease payments	$ 50,521	$ 5,302
Total rental expenditure/ expense (2005)	$ 25,894	$ 16,510

(12) Fund Balances/Net Assets

Deficit Net Assets

The Workers' Compensation Commission (WCC) had a $42.1 million deficit in net assets as of June 30, 2005. The deficit is due to a change in actuarial assumptions during the fiscal year ended June 30, 1997. During 1987, the structure of the law changed by tying Workers' Compensation payments to the State's average weekly wage, beginning on January 1, 1989. 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, legislative action may be necessary to (1) increase Workers' Compensation Tax Premiums, or (2) increase the threshold of claims submitted to WCC. Stakeholder groups and interested parties are expected to meet in order to study the actuarial assumptions and recommend a solution.

(13) Pensions

(a) 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 Arkansas Public Employee Retirement System (APERS). Highway is administered by the plan itself. Arkansas District Judge Retirement, a multi-employer defined benefit plan, is also administered by APERS. Each plan provides retirement, disability, and death benefits, in accordance with benefit provisions 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

One Union National Plaza
124 W. Capitol, Suite 400
Little Rock, AR 72201-1015
(501) 682-7800

Arkansas Highway and Transportation Retirement Plan

10324 I-30
Little Rock, AR 72209
(501) 569-2000

Arkansas State Police Retirement Plan

One Union National Plaza
124 W. Capitol, Suite 400
Little Rock, AR 72201-1015
(501) 682-7800

Arkansas District Judge Retirement Plan

One Union National Plaza
124 W. Capitol, Suite 400
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. Capitol, Suite 400
Little Rock, AR 72201
(501) 682-7800

(b) 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	District Judge
Number of participating employers/contributing entities	352	762	1	1	1	94
Contribution rates for the fiscal year ended June 30, 2005 (% of covered payroll):	14.00%	4-22%	12.90%	22.00%	12.00%	18.00%
Covered Payroll (in thousands)	$ 1,962,000	$ 1,215,000	$ 119,000	$ 22,517	$ 16,638	$ 3,222
State Plan Members-contributory plans	6.00%	6.00%	6.00%	9.25%	5.00 and 6.00%	5.00%
Annual pension cost (in thousands)	$ 286,440	$ 135,027	$ 16,060	$ 9,869	$ 4,775	$ 357
Contributions made (in thousands)	$ 286,440	$ 135,027	$ 16,060	$ 7,866	$ 4,775	$ 366

The required contribution amounts (expressed in thousands) 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
2005	Teacher	$ 286,440	100%
	APERS	135,027	100%
2004	Teacher	224,184	100%
	APERS	118,419	100%
2003	Teacher	200,456	100%
	APERS	115,691	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% and 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. Active members of the District Judge plan contribute 5% of their salaries.

The Teacher, Highway, and Judicial plans did not have any investments 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 2005 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 for public school employees. 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)	$ 4,775	$ 9,869
Interest on net pension obligation (asset)		195
Adjustment to annual required contribution		(135)
Annual pension cost	4,775	9,929
Contributions made	8,258	(5,168)
Change in net pension obligation	13,033	4,761
Net pension obligation (asset), beginning of year	(13,033)	(187)
Net pension obligation (asset), end of year	$ 0	$ 4,574

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

No pension liability exists for Highway, District Judge, Teacher or APERS, as the State's contributions to each respective plan for the year ending June 30, 2005, was equal to the ARC.

Three-year trend information for Judicial, Highway and State Police (expressed in thousands) is as follows:

	Year ending		Annual pension cost (APC)	Percentage of APC contributed		Net pension obligation (asset)
Judicial	6/30/2005	$	4,775	100.0%	$	
	6/30/2004		4,126	100.0%		
	6/30/2003		4,065	100.0%		
State Police	6/30/2005		9,869	79.7%		4,574
	6/30/2004		8,376	90.7%		2,510
	6/30/2003		6,298	107.8%		1,728
Highway	6/30/2005		16,060	100.0%		
	6/30/2004		15,810	100.0%		
	6/30/2003		15,581	100.0%		

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 Ark. Code Ann. 23-96-101 et sequens, and liability for losses is insured under this act, to the extent of one-hundred thousand dollars ($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 $268,968,172 at June 30, 2005.

(c) Higher Education

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

The board of trustees of each respective college or university established a defined contribution plan as set forth under Section 403(b) of the Internal Revenue Code. Participation in the plan is authorized under Arkansas Code Annotated and the plan is administered by the president of the college or university or his designee. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earning. The funs available under the plan include VALIC, IDS/American Express, TIAA-CREF, and the Fidelity Fund.

Each college or university contributes a percentage of an employee's salary ranging from 5% to 12%, to a VALIC, TIAA-CREF, IDS/American Express, or Fidelity Fund retirement account, allocated between the funds according to the employee's choice. In addition, employees may make voluntary contributions of any amount up to the individual maximum allowance. During 2005, total employer contributions to VALIC, TIAA-CREF and Fidelity were $72.9 million while contributions to IDS/American Express, were $.1 million. Employee contributions to VALIC, TIAA-CREF and Fidelity were $72.0 million while contributions to IDS/American Express were $.1 million.

(d) 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 $95,681 in 2005.

(14) 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.

(a) Condensed Statement of Net Assets (expressed in thousands):

		Construction Assistance Revolving Loan Fund
Assets		
Current assets	$	43,382
Noncurrent assets		252,140
Total assets	$	295,522
Liabilities		
Current liabilities	$	5,589
Noncurrent liabilities		85,785
Total liabilities		91,374
Net Assets		
Restricted		204,148
Total net assets	$	204,148

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

		Construction Assistance Revolving Loan Fund
Licenses, permits, and fees	$	1,909
Investment earnings (pledged against bonds)		7,589
Amortization expense		(154)
Other operating expense		(4,514)
Operating income (loss)		4,830
Nonoperating revenue/expenses:		
Operating grants and contributions		13,756
Transfers to other funds		(867)
Change in net assets		17,719
Total net assets, beginning of year		186,429
Total net assets, end of year	$	204,148

(c) Condensed Statement of Cash Flows (expressed in thousands):

		Construction Assistance Revolving Loan Fund
Net cash provided (used) by:		
Operating activities	$	1,030
Noncapital financing activities		8,126
Investing activities		(44,058)
Net increase (decrease)		(34,902)
Cash and cash equivalents, beginning		77,369
Cash and cash equivalents, end	$	42,467

(15) Risk Management Program

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

(a) Health and Life Plans

Primary Government

As required by A.C.A. § 21-5-405, the State and Public School Life and Health Insurance Board and the Executive Director of Employee Benefits Division of the Department of Finance and Administration take a risk management approach in designing the State employee benefit program. In addition, the Board ensures that the State employee health benefit program is 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 term life insurance; a cafeteria plan that includes a flexible medical spending account and a dependent daycare/elder care account; and the option to participate in a deferred compensation plan.

Basic group term life insurance and accidental death and dismemberment coverage is offered to all State 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 is $4.60 a month and is paid from the insurance trust fund. Supplemental coverage is offered to State employees. Supplemental life insurance premiums are bracketed by age, annual salary, and amount of coverage. State employees may also purchase dependent coverage.

Claim liabilities for the run out of self-insured medical health insurance plans and the prescription drug plan for State 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 are as follows (expressed in thousands):

	2005	2004
Claim liability, beginning of year	$ 19,750	$ 16,200
Incurred claims	140,968	127,980
Claims payments	(140,718)	(124,430)
Claim liability, end of year	$ 20,000	$ 19,750

The plan has not purchased any annuity contracts on behalf of claimants.

Enterprise Fund

Public School Employee Health and Life Benefit Plan

The State sponsors an insurance plan for participating public school employees. The plan consists of several optional health plans, a pharmacy plan, and a life plan. Through September 30, 2003, the health and life plans were fully insured. Subsequent to that date, the health plan became self-insured and the life component remained fully insured. The pharmacy plan has been self-insured since the inception of the plan. While the health plan was fully insured, most plan participants' premiums for health, life and pharmacy coverage were collected from the school districts by the health insurance companies, and the life and pharmacy components of the premium were paid by the health insurance companies to the life insurance company and the Department of Finance and Administration – Employee Benefits Division, respectively. Premiums for certain retirees and COBRA participants were collected by the Department of Finance and Administration – Employee Benefits Division, and the health and life components were paid to the health and life insurance companies, respectively. Employee contributions and school district matching provide funding for the Public School Employee Health and Life Benefit Plan. Premiums are set by the State and Public School Life and Health Insurance Board, and are based upon family composition and claims history. The mix of employee contributions and school district matching was determined individually by the school districts with school district match being at least $131 and $122 for the 2004-2005 and 2003-2004 school years, respectively. Some school districts provided additional support for their employees through locally generated funding. Act 1745 of 2001 provides the State Legislature the authority to establish the minimum school district matching amount. The plans have not purchased any annuity contracts on behalf of claimants.

Claims liabilities for claims submitted after the close of the plan year or after plan termination of the self-insured medical health plans and the prescription drug plan for 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 Public School Employee Health and Life Benefit Plan Enterprise Fund. An analysis of changes in aggregate liabilities for claims and claims adjustments expenses for the current and prior fiscal year are as follows (expressed in thousands):

		2005		2004
Claim liability, beginning of year	$	16,000	$	1,600
Incurred claims and claim adjustment expense		198,727		164,172
Claims payments		(197,727)		(149,772)
Claim liability, end of year	$	17,000	$	16,000

(b) 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 AMAIT. 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 $50 million in earthquake zones 2 and 3, and $100 million in zones 4 and 5. The State has secured domestic or foreign terrorism insurance 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. Flood coverage is provided with varying limits and deductibles according to the various flood zones. Limits vary from $30 million in zone A ($500,000 deductible) to $100 million in zone X ($100,000 deductible). Both earthquake and flood coverage limits are annual total maximum coverage for the state, not per agency.

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 and is subject to a deductible of $500 or $1,000. In addition, all losses are subject to a $25,000 liability and $25,000 physical damage deductible paid by AMAIT. 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. Two State agencies have elected not to purchase commercial vehicle insurance, and losses on such vehicles are recorded as expenditures in the General Fund as incurred. Liability losses 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. No liability has been recorded in the financial statements.

(c) 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, 2005, is $13.5 thousand.

(d) 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.

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):

	2005	2004
Claim liability, beginning of year	$ 67,445	$ 65,400
Incurred claims	11,335	11,883
Claims payments	(10,082)	(9,838)
Claim liability, end of year	$ 68,698	$ 67,445

(e) 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 and Permanent Total Disability Trust Fund (Disability Trust Fund). The second such plan was created by State law and is known as the Second Injury Trust Fund.

Death and Permanent Total Disability Trust Fund

Initiated Act 4 of 1948, as amended, established the workers' compensation laws to provide for timely payment of temporary and permanent disability payments to all legitimately injured workers who suffer injury or disease arising out of their employment. Employers are required to provide coverage for compensation with insurance carriers authorized to write workers' compensation insurance or to pay benefits directly as a self-insurer. Generally, employers are liable for medical services and supplies for injured employees. Arkansas Code Ann. 11-9-502 provides for the first $75,000 of weekly benefits for death or permanent total disability to be paid by the employer or its insurance carrier. All benefits in excess of $75,000 are the liability of the agency. Accordingly, the Death and Permanent Total Disability Trust Fund was established, in part, to administer this liability. The taxation rate is determined by the Workers' Compensation Commission in accordance with Arkansas Code Ann. 11-9-306 which limits the tax rate to three percent (3%) of written manual premiums of workers compensation insurance written on all risks within the State. Similarly, self-insured employers and public employers are taxed based on what they would have to pay if they were covered by insurance.

Claims liabilities are established based on the present value of future benefits for known cases currently receiving benefits, known cases to receive benefits in the future, and claims incurred but not reported.

Workers' Compensation Second Injury Trust Fund

Initiated Act 4 of 1948, as amended, established the workers' compensation laws to provide for the timely payment of temporary and permanent disability payments to all legitimately injured workers who suffer injury or disease arising out of their employment. Employers are required to provide coverage for compensation with insurance carriers authorized to write workers compensation insurance or to pay benefits directly as a self-insurer. Arkansas Code Ann. 11-9-525 provides that an employer employing a handicapped person will not, in the event the employee suffers an injury on the job, be held liable for a greater disability or impairment than actually occurred while the employee was in his employment. A liability arises to the Agency to the extent of the additional disability or impairment where there has been previous disability or impairment, as determined by an Agency administrative law judge or the Commission. Accordingly, the Workers' Compensation Commission in accordance with Arkansas Code Ann. 11-9-306 which limits the tax rate to three percent (3%) of written manual premiums of workers compensation insurance written on all risks within the State. Similarly, self-insured employers and public employers are taxed based on what they would have to pay if they were covered by insurance.

Changes in the combined balance of the Death and Permanent Total Disability Trust Fund and Second Injury Trust Fund during the current and prior fiscal year are as follows (expressed in thousands):

	2005	2004
Claim liability, beginning of year	$ 191,172	$ 183,751
Incurred claims	26,071	21,309
Claims payments	(13,607)	(13,888)
Claim liability, end of year	$ 203,636	$ 191,172

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

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 up to $1.5 million per occurrence 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 annually as well as any other fees assessed by RAFTA if required. In addition to 100% of fees collected, other monies that fund RAFTA are cost recovered from State funded site work and civil and administrative penalties assessed in excess of the amount needed to keep the Arkansas Emergency Response Fund balance at $150,000. Prior to the use of these funds at an abandoned substance site, the Arkansas Pollution Control and Ecology Commission must approve the addition of the site to the Arkansas Remedial Action Trust Fund Hazardous Substance Site Priority List. This list is currently published as ACP&EC Regulation Number 30.

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

	2005	**2004**
Claim liability, beginning of year	$ 13,364	$ 14,448
Incurred claims	5,669	5,389
Claims payments	(5,918)	(6,473)
Claim liability, end of year	$ 13,115	$ 13,364

(g) 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, four four-year institutions and one two-year institution, the Medical Sciences campuses, and the Arkansas School for Mathematics, Sciences and Arts participate in the health insurance programs, along with the UA System's divisions of Criminal Justice Institute, the University of Arkansas Winthrop Rockefeller Center, Inc., Arkansas Archeological Survey, Division of Agriculture, System Administration, and the University of Arkansas Foundation. Also, all ASU campuses participate in the health insurance programs, which are administered by third parties and that 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):

		2005		2004
Claim liability, beginning of year	$	13,137	$	11,802
Incurred claims		81,062		83,045
Claims payments		(83,141)		(81,710)
Claim liability, end of year	$	11,058	$	13,137

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 $325,000 and $125,000 for the UA System and ASU, respectively.

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

(h) 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, based on evaluation of claims data for those claims that were incurred before year-end and paid after year-end for June 30, 2005, are as follows (expressed in thousands):

		2005		2004
Claim liability, beginning of year	$	1,010	$	939
Incurred claims		7,589		7,631
Claims payments		(7,590)		(7,560)
Claim liability, end of year	$	1,009	$	1,010

(i) 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. Health care 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 July 1, 2005 is $320 per budgeted position.

As of June 30, 2005, there were approximately 6,930 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, 2005, the State paid an aggregate amount for Active employees, COBRA participants, and Retirees of $159.1 million.

(16) Commitments and Contingencies

Primary Government

(a) 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 $10.2 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 $19 million.

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

	2005	2004
Litigation, beginning of year	$ 22,721	$ 5,570
Incurred litigation	1,773	21,543
Litigation payments	(14,245)	(4,392)
Litigation, end of year	$ 10,249	$ 22,721

On November 21, 2002, the Arkansas Supreme Court affirmed a lower court ruling that the current Arkansas school-funding system is unconstitutional. The Court concluded "that the State has not fulfilled its constitutional duty to provide the children of the state with a general, suitable, and efficient school-funding system." The State was given a January 1, 2004 deadline to formulate a solution. The current system of Arkansas public-school finance was established by the General Assembly in the Second Extraordinary Session of 2003. Public schools are to receive "foundation funding" from the State, augmented by "categorical funds" for students with special needs. Act 59, 2nd Extraordinary Session of 2003, set the foundation funding amount at $5,400 per student. With no significant action by the Legislature, a motion was filed with the Supreme Court on January 2, 2004 to hold the state in contempt for failing to comply with the Lake View ruling. On January 22, 2004, the court found the state in "noncompliance" and retook jurisdiction of the case. The Court appointed special masters to evaluate actions of the Legislator and Governor. In 2004, 57 school districts are consolidated and the Legislature obligates spending of more than $400 million in addition to existing education spending. On June 9, 2005, the court reappointed the masters and in October 2005 they concluded that the Legislature retreated from a commitment made by the 84th General Assembly Regular and Extraordinary Sessions of 2003 to make education the state's first priority. On December 15, 2005, the Supreme Court of Arkansas concluded that the public school-funding system continues to be inadequate and that the General Assembly and the Department of Education have until December 1, 2006 to correct the deficiencies. While not yet determinable as to the amount, future appropriations required to comply with this ruling are expected to be material to the State's financial statements.

It is not possible to predict with certainty the ultimate outcome of all lawsuits pending or threatened against the State, including those discussed above. Based on the current status of all of these legal proceedings for which accruals have not been made in the State's financial statements, it is the opinion of the agency's management and the Attorney General that the proceedings will not have a material adverse impact on the State's financial position except as noted above.

(b) 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, 2005, the amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the State expects such amounts, if any, to be immaterial.

(c) 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 $15,000,000 of the loans made to the Little Rock School District was immediately forgiven and the remaining $5,000,000 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, 2005, the State's loan receivable is $4.9 million and is recorded in the General Fund.

(d) Construction and Other Commitments

At June 30, 2005, the State has commitments of approximately $179.6 million for construction and other contracts and approximately $60.9 million for professional service contracts. The Soil and Water Conservation Commission has approved $24.5 million in loans for projects for water systems, waste water, or pollution abatement that have not been disbursed at June 30, 2005.

(e) 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, 2005, total bonds guaranteed by the AEDC Bond Guaranty Reserve Fund were approximately $42.4 million. In addition, AEDC has committed to guarantee approximately $9.1 million in industrial development revenue bonds that have not closed at June 30, 2005.

(f) 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 only reflect the amounts that were received in fiscal year 2005. In fiscal year 2005, the State received a total of $52.8 million with $5 million being transferred to Arkansas Development Finance Authority for the Tobacco Settlement Debt Service Account.

(17) Subsequent Events

Primary Government

(i) On August 16, 2005, the Arkansas Department of Economic Development entered into a loan agreement in the amount of $14,355,000 with the Arkansas Development Finance Authority, a component unit. The proceeds will be used to make loans to five Arkansas companies to purchase, expand or equip new manufacturing facilities.

(ii) On July 1, 2005, the Arkansas Natural Resources Commission refunded the Water General Obligation Bonds from Series 1995B in the amount of $5,805,000. The bonds were issued from the State of Arkansas Water, Waste Disposal and Pollution Abatement Facilities General Obligation Bond program in Refunding Series 2005A with interest rates that vary from 3.25% in 2006 to 4.35% in 2025 and a final maturity date of July 1, 2025.

(iii) On July 1, 2005, the Arkansas Natural Resources Commission refunded the Pollution Abatement General Obligation Bonds from Series 1995A and 1998A in the amount of $9,735,000. The bonds were issued from the State of Arkansas Water, Waste Disposal and Pollution Abatement General Obligation Bond program as Refunding Series 2005B with interest rates that vary from 3.00% in 2006 to 4.75% in 2027 and a final maturity date of July 1, 2027.

(iv) Act 2084 of 2005 established a new contributory program for Arkansas Public Employee Retirement System members hired on or after July 1, 2005 and those non-contributory members who elect to become contributory. Members participating in the contributory program will contribute 5% of their annual compensation, pre-tax. All active system members employed before July 1, 2005 have until December 31, 2005 to elect coverage under the contributory plan.

(v) On September 7, 2005, Glover Construction filed a claim against the Arkansas Highway and Transportation Department via the Arkansas Claims Commission seeking $4,581,000 in alleged damages.

Higher Education

(i) **Henderson State University** – On July 15, 2005, the institution issued $9,500,000 of Auxiliary Enterprise Revenue Secured Bonds. These bonds mature between years 2007 and 2036 and bear an average coupon rate of 4.58%. Proceeds of these bonds will be used to pay a portion of the cost to acquire, construct and equip two new residence halls. It is expected that the institution will issue additional Auxiliary Enterprise Revenue Secured Bonds in January 2006 in the amount of $4,500,000 to complete the funding on the two new residence halls.

(ii) **Arkansas State University –** On September 15, 2005, the University issued refunding bonds of $19,230,000 with interest rates from 3.00% to 5.00% and a final maturity date of April 1, 2025 for the Jonesboro campus and $3,330,000 with interest rates from 2.8% to 4.25% and a final maturity date of December 1, 2023 for the Beebe campus.

(iii) **University of Arkansas**

***Fayetteville Campus* -** On July 13, 2005, the University issued Athletic Facilities Revenue Refunding Bonds in the amount of $9,645,000 with interest rates from 3% to 3.2% and a final maturity date of September 15, 2011.

***Fort Smith Campus* -** The University entered into an agreement to purchase a student housing facility that was built on the Fort Smith campus by a private company under a ground lease agreement. The purchase price of the facility was $12,700,000 which was financed with a $13,055,000 Student Fee Revenue Bond Issue dated September 20, 2005, with interest rates from 3% to 4.375% and a final maturity date of December 1, 2030.

***Monticello Campus* -** The University issued $4,505,000 in refunding bonds dated July 1, 2005 with interest rates from 2.65% to 4% and a final maturity date of June 30, 2019, for the purpose of refunding the Auxiliary Facilities Revenue Bonds dated June 1, 1998.

***Pine Bluff Campus* -** On October 12, 2005, the University issued a total of $23,295,000 in various facilities revenue refunding and construction bonds with interest rates of 2.8% to 5% and a final maturity date of December 1, 2035 for the purpose of financing (1) the transfer of a student housing facility from Delta Student Housing, Inc. in exchange for a amount sufficient to retire Delta's existing debt, (2) capital improvements and repairs to existing facilities on the campus, (3) the refunding of the University's note to the Arkansas Development Finance Authority dated December 28, 1988, (4) the refunding of the University's note to the United States Department of Education, and (5) the refunding of the University's athletic facilities revenue bonds, Series 1997.

Component Units

(i) **Arkansas Development Finance Authority -** On August 16, 2005, the Arkansas Development Finance Authority issued $14,355,000 in bonds dated August 16, 2005, with interest rates ranging from 4.20% to 5.65%. The proceeds will be used to make loans to five Arkansas companies to purchase, expand or equip new manufacturing facilities.


GREAT SEAL OF THE STATE OF ARKANSAS
REGNAT POPULUS
MERCY
JUSTICE

ARKANSAS

Required Supplementary Information

Required Supplementary Information
Schedule of Funding Progress

(Expressed 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	2005	6/30/2005	$ 8,817,000	$ 10,973,000	$ 2,156,000	80.4%	$ 1,962,000	109.9%
	2004	6/30/2004	8,424,000	10,050,000	1,626,000	83.8%	1,748,000	93.7%
	2003	6/30/2003	8,113,000	9,445,000	1,332,000	85.9%	1,683,000	79.1%
Public Employees	2005	6/30/2005	4,584,000	5,619,000	1,035,000	81.6%	1,215,000	85.2%
	2004	6/30/2004	4,438,000	5,005,000	567,000	88.7%	1,176,000	48.2%
	2003	6/30/2003	4,416,000	4,674,000	258,000	94.5%	1,148,000	22.5%
Highway	2005	6/30/2005	1,049,100	1,068,000	18,940	98.2%	119,000	15.9%
	2004	6/30/2004	1,050,200	1,016,100	(34,110)	103.4%	117,800	(29.0)%
	2003	6/30/2003	1,040,400	976,000	(64,340)	106.6%	116,800	(55.1)%
State Police	2005	6/30/2005	200,100	281,280	81,180	71.1%	22,520	360.5%
	2004	6/30/2004	201,830	275,720	73,890	73.2%	22,360	330.5%
	2003	6/30/2003	212,450	261,500	49,050	81.2%	20,500	239.3%
Judicial	2005	6/30/2005	135,062	150,580	15,519	89.7%	16,638	93.3%
	2004	6/30/2004	129,065	141,775	12,710	91.0%	16,282	78.1%
	2003	6/30/2003	126,520	137,925	11,405	91.7%	15,935	71.6%
District Judge	2005	6/30/2005	7,570	24,134	16,564	31.4%	3,222	514.1%
	2004	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	2003	N/A	N/A	N/A	N/A	N/A	N/A	N/A

N/A= no information as District Judge began as of 01/01/2005

Required Supplemental Information
Notes to Schedule of Funding Progress

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:

	Teacher Retirement	Judicial	State Police	Highway	APERS	District Judge
Actuarial valuation date	June 30, 2005	June 30, 2005	June 30, 2005	June 30, 2005	June 30, 2005	June 30, 2005
Actuarial cost method	Entry Age	Entry Age	Entry Age	Entry Age	Entry Age	Entry Age
Amortization method	Level Percentage of Payroll, Open	Level Percentage of Payroll, Open	Level Percentage of Payroll, Open	Level Percentage of Payroll, Open	Level Percentage of Payroll, Open	(a)
Remaining amortization period	38 years	30 years	30 years	3.8 years	22 years	30 years
Asset valuation method	4 Year Smoothing 80%-120% Corridor	4 Year Smoothing Market	4 Year Smoothing Market	5 Year Smoothing Market	4 Year Smoothing Market	4 Year Smoothing Market
Actuarial assumptions:						
Inflation rate	4.00%	3.00%	4.25%	3.50%	4.00%	4.00%
Investment rate of return*	8.00%	7.00%	7.75%	8.00%	8.00%	7.00%
Projected salary increases*	4.00%-10.10%	4.00%	3.50%	4.75%-11.25%	4.70%-9.80%	4.00%
Postretirement benefit increases	3.00% Simple	(b)	3.00% Compounded	3.00% Compounded	3.00% Compounded	(c)

* Includes assumed inflation.

(a) Pre-January 1, 2005, the amortization method was level dollar, closed. Post-January 1, 2005, the amortization method was level percentage of payroll, open.
(b) Pre-July 1, 1983 retiree's benefits are increased or decreased as the salary for the particular Judicial office is increased or decreased. Post June 30, 1983 retirees-3.0% compounded.
(c) 3% annual compounded increase, subject to the Consumer Price Index for service rendered after December 31, 2004.

Required Supplementary Information
Schedule of Expenditures – Budget and Actual
General Fund
For the Year Ended June 30, 2005

(Expressed in thousands)

	Budgeted amounts			
	Original	Final	Actual amounts	Variance with final budget – positive (negative)
Expenditures: *				
Current:				
General government	$ 5,551,026	$ 5,953,036	$ 1,387,429	$ 4,565,607
Education	4,955,236	5,055,901	2,917,462	2,138,439
Health and human services	4,498,758	4,678,361	4,036,562	641,799
Law, justice, and public safety	706,308	790,222	508,277	281,945
Recreation and resource development	215,514	398,288	198,885	199,403
Regulation of business and professionals	180,113	203,349	106,311	97,038
Transportation	665,394	1,142,202	290,215	851,987
Debt service	124,492	134,665	79,356	55,309
Capital outlay	900,514	1,046,248	594,097	452,151
Total expenditures	$ 17,797,355	$ 19,402,272	$ 10,118,594	$ 9,283,678

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

Required Supplemental Information
Notes to Schedule of Expenditures – Budget to Actual
General Fund
For the Year Ended June 30, 2005

(a) 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 Generally Accepted Accounting Principles (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.

(b) 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 (DFA). 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 DFA and 1½% of all special revenues collected by other agencies are first distributed to provide support for the State's elected officials, their staffs, and DFA. 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 DFA. DFA utilizes quarterly allotments 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.

DFA 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 DFA 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 separately issued Budget Compliance Report tracks budget compliance at the funds center and commitment item level.

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	$	10,348,606
Less non-cash federal grant expenditures		(419,232)
Less non appropriated expenditures		(3,415,465)
Plus expenditures eliminated or reclassed as transfers out for reporting purposes		3,209,177
Refunds treated as reduction of revenue for financial statements purposes		368,607
New capital leases reported in capital outlay		(42,265)
Basis of accounting differences		69,166
Total statutory basis expenditures General Fund	$	10,118,594

Required Supplementary Information
Ten-Year Claims Development Information
Employee Benefits Division - Public School Employee Health and Life Benefit Plan

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Premium and Investment Revenues:										
Premium Income		$ 78,812,817	$ 113,050,082	$ 134,445,361	$ 53,791,901	$ 30,953,691	$ 40,709,995	$ 45,694,279	$ 158,499,272	$ 188,910,005
Investment Interest Income		92,223	69,705	89,879	69,154	81,458	32,734	68,853	233,550	522,980
Totals	N/A	$ 78,905,040	$ 113,119,787	$ 134,535,240	$ 53,861,055	$ 31,035,149	$ 40,742,729	$ 45,763,132	$ 158,732,822	$ 189,432,985
Unallocated Expenses:										
Operating Costs		$ 0	$ 26,018	$ 78,701	$ 201,512	$ 153,510	$ 317,988	$ 675,968	$ 905,564	$ 1,234,945
Estimated incurred claims and expenses, end of fiscal year	N/A	80,298,298	117,850,702	109,313,745	27,844,991	32,226,064	33,852,966	35,916,834	164,172,038	198,727,802
Paid (cumulative) claims and claims adjustment expenses:										
End of Fiscal Year	N/A	N/A	N/A	N/A	N/A	N/A	N/A	34,316,834	148,172,038	182,011,002
One Year Later	N/A	N/A	N/A	N/A	N/A	N/A	N/A	35,916,834	163,888,838	
Two Years Later	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A		
Reestimated incurred claims and expenses:										
End of Fiscal Year	N/A	N/A	N/A	N/A	N/A	N/A	N/A	34,316,834	148,172,038	182,011,002
One Year Later	N/A	N/A	N/A	N/A	N/A	N/A	N/A	35,916,834	163,888,838	
Two Years Later	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A		
Increase (decrease) in estimated incurred claims and expense from end of policy year	N/A	0	0	0	0	0	0	0	0	0
Increase (decrease) in net incurred claims and claim adjustment expenses from original estimate	N/A	0	0	0	0	0	0	0	0	0
Number of plan participants	N/A	N/A	N/A	N/A	N/A	N/A	N/A	43,632	44,797	45,463

Note 1: Government Accounting Standards Board Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Activities", effective for fiscal periods beginning after June 15, 1990, requires certain disclosures for public entity risk pools. Note 15 of the financial statements describes the Public School Employee Health and Life Benefit Plan and also provides certain other required information. This schedule provides ten-year claim development information for the program as described by Statement No. 10.

N/A: Information not available

Required Supplementary Information
Ten-Year Claims Development Information
Workers' Compensation Commission - Death and Permanent Total Disability Fund

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Premium and Investment Revenues:										
Premium Income	$10,287,552	$12,748,626	$12,776,324	$11,257,847	$ 6,108,073	$ 9,037,845	$ 8,602,220	$12,640,933	$ 8,380,469	$ 9,236,142
Investment Interest Income	4,567,711	4,746,366	5,473,063	5,861,911	6,374,169	7,331,078	4,556,109	2,036,317	1,672,189	1,932,354
Totals	$14,855,263	$17,494,992	$18,249,387	$17,119,758	$12,482,242	$16,368,923	$13,158,329	$14,677,250	$10,052,658	$11,168,496
Unallocated Expenses:										
Operating Costs (2)	$ 160,074	$ 160,087	$ 185,724	$ 171,410	$ 192,536	$ 194,940	$ 316,858	$ 334,881	$ 321,328	$ 324,698
Estimated incurred claims and expenses, end of fiscal year	$33,343,407	$26,597,490	$ 6,349,189	$ 7,463,918	$ 7,268,688	$ 7,787,442	$ 7,407,010	$ 7,707,310	$ 7,952,310	$ 9,343,245
Paid (cumulative) claims and claims adjustment expenses:										
End of Fund Year	N/A	N/A	0	0	0	0	0	0	0	0
One Year Later	N/A	35,000	0	0	0	0	0	55,000	0	
Two Years Later	60,151	35,000	0	0	25,000	0	0	55,000		
Three Years Later	63,346	75,000	0	0	25,238	38,627	8,844			
Four Years Later	111,205	134,111	156,146	143,853	153,081	196,865				
Five Years Later	273,284	424,702	571,656	534,808	405,983					
Six Years Later	595,812	790,634	1,149,867	1,059,501						
Seven Years Later	1,054,963	1,234,284	1,781,009							
Eight Years Later	1,596,117	1,738,279								
Nine Years Later	2,148,122									
Reestimated incurred claims and expenses:										
End of Fund Year	N/A	N/A	2,047,773	4,741,451	2,753,743	3,408,898	2,711,400	2,829,345	3,767,145	3,968,387
One Year Later	N/A	3,967,443	6,369,002	6,847,954	4,025,027	4,152,446	4,823,740	6,632,484	7,407,958	
Two Years Later	5,137,226	4,757,486	7,185,507	7,422,804	5,064,167	5,528,283	8,885,376	9,082,661		
Three Years Later	6,181,794	5,569,225	7,387,495	8,043,579	5,102,472	8,732,250	13,013,925			
Four Years Later	6,984,067	6,380,977	8,670,321	8,861,604	6,741,258	9,198,291				
Five Years Later	8,078,967	6,646,211	9,515,973	10,103,017	9,223,482					
Six Years Later	8,622,576	7,305,187	10,054,144	11,379,037						
Seven Years Later	9,135,680	7,884,320	11,563,769							
Eight Years Later	9,416,677	8,358,309								
Nine Years Later	10,004,821									
Increase (decrease) in estimated incurred claims and expense from end of policy year	(23,338,586)	(18,239,181)	5,214,580	3,915,119	1,954,794	1,410,849	5,606,915	1,375,351	(544,352)	(5,374,858)
Number of fund participants receiving benefits at end of year	877	977	1,066	1,136	1,229	1,280	1,293	1,336	1,347	1,324

Note 1: Government Accounting Standards Board Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Activities", effective for fiscal periods beginning after June 15, 1990, requires certain disclosures for public entity risk pools. Note 15 of the financial statements describes the Workers' Compensation Commission Death and Permanent Total Disability Fund and also provides certain other required information. This schedule provides ten-year claim development information for the program as described by Statement No. 10.

Note 2: The amounts reflected as operating costs of the program for the respective years are those that were paid from the Workmen's Compensation Trust Fund.

N/A: Information not available

Required Supplementary Information
Ten-Year Claims Development Information
Workers' Compensation Commission - Second Injury Trust Fund

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Premium and Investment Revenues:										
Premium Taxes	$ 30,474	$ 5,000	$ 4,731	$ 500	$ 1,000	$ 466	$ 4,982	$1,784,175	$1,186,860	$1,294,908
Interest Income	858,258	773,943	769,172	704,237	662,251	659,587	344,714	142,761	80,943	60,958
Totals	$ 888,732	$ 778,943	$ 773,903	$ 704,737	$ 663,251	$ 660,053	$ 349,696	$1,926,936	$1,267,803	$1,355,866
Unallocated Expenses:										
Operating Costs (2)	$ 479,517	$ 505,786	$ 511,615	$ 527,391	$ 534,912	$ 546,985	$ 464,976	$ 480,666	$ 526,768	$ 544,817
Estimated incurred claims and expenses, end of fiscal year (3)	N/A	N/A	$3,834,636	$1,435,369	$1,817,172	$1,797,102	$1,709,310	$1,482,175	$1,767,180	$2,491,532
Paid (cumulative) claims and claims adjustment expenses:										
End of Fund Year	N/A	N/A	0	0	0	0	0	0	0	0
One Year Later	N/A	7,304	71,875	12,375	45,650	83,050	25,106	208,690	70,605	
Two Years Later	88,550	188,052	374,146	303,855	248,145	439,698	673,422	814,873		
Three Years Later	281,736	321,177	711,834	631,343	674,745	1,194,737	1,215,361			
Four Years Later	416,486	476,760	968,332	979,363	868,031	1,441,469				
Five Years Later	560,843	572,162	1,133,854	1,146,518	1,132,344					
Six Years Later	584,930	562,851	1,239,414	1,285,688						
Seven Years Later	637,294	627,121	1,318,390							
Eight Years Later	698,026	657,291								
Nine Years Later	744,927									
Reestimated incurred claims and expenses:										
End of Fund Year	N/A	N/A	0	0	0	0	0	0	0	0
One Year Later	N/A	7,304	71,875	12,375	45,650	83,050	32,677	208,690	70,605	
Two Years Later	88,550	594,989	585,794	548,339	248,145	653,704	1,369,710	1,253,217		
Three Years Later	281,736	720,169	1,040,838	1,024,608	1,457,506	1,554,449	2,440,234			
Four Years Later	416,486	878,639	1,364,971	1,443,112	1,711,564	2,298,595				
Five Years Later	594,455	967,144	1,625,285	1,715,146	2,661,354					
Six Years Later	716,303	950,581	1,997,376	1,851,925						
Seven Years Later	765,480	992,157	2,063,886							
Eight Years Later	816,070	1,013,377								
Nine Years Later	1,011,603									
Increase (decrease) in estimated incurred claims and expense from end of policy year (4)	N/A	N/A	(1,770,750)	416,558	844,182	501,493	730,924	(228,958)	1,696,575	(2,491,532)
Number of Fund Participants receiving benefits at end of year	92	94	92	96	95	96	97	102	111	122

Note 1: Government Accounting Standards Board Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Activities", effective for fiscal periods beginning after June 15, 1990, requires certain disclosures for public entity risk pools. Note 15 of the financial statements describes the Workers' Compensation Commission Death and Permanent Total Disability Fund and also provides certain other required information. This schedule provides ten-year claim development information for the program as described by Statement No. 10.

Note 2: The amounts reflected as operating costs of the program for the respective years are those that were paid from the Workmen's Compensation Trust Fund.

Note 3: Prior to the year ended June 30, 1998 there was no actuarial valuation of estimated incurred claims expenses. The Agency recorded liabilities based on the present value of estimated future payment of orders and accepted liabilities of second injury cases ruled on by the Commission. The information presented above on estimated incurred claims and expenses was developed by the actuarial firm Osborn, Carreiro and Associates, Inc.

Note 4: Not available as explained in Note 15.

N/A: Information not available

ARKANSAS

Combining Financial Statements


GREAT SEAL OF THE STATE OF ARKANSAS
REGNAT
POPULUS
MERCY
JUSTICE

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 on 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.

Public School Employee Health and Life Benefit Plan – This program is responsible for providing health and life insurance along with a prescription drug benefit to participating public school employees.

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, 2005

(Expressed in thousands)

	Business-type activities enterprise funds					
Assets	**Employment Security Department**	**War Memorial Stadium Commission**	**Construction Assistance Revolving Loan Fund**	**Public School Employee Health and Life Benefit Plan**	**Other Revolving Loan Funds**	**Total**
Current assets:						
Cash and cash equivalents	$ 123,952	$ 451	$ 42,467	$ 4,751	$ 8,644	$ 180,265
Investments	15,531	552				16,083
Receivables:						
Accounts	80,414	1	283	1,158	345	82,201
Loans					60	60
Interest	53		632		154	839
Due from other funds	1,291	20				1,311
Due from other governments	8,583					8,583
Advances to other funds					405	405
Inventories		21				21
Prepaid items	284			33		317
Total current assets	230,108	1,045	43,382	5,942	9,608	290,085
Noncurrent assets:						
Cash and cash equivalents - restricted		517				517
Investments - restricted			62,281	37,097		99,378
Capital assets:						
Land	2,973					2,973
Buildings	3,710	15,064				18,774
Equipment	5,780	322				6,102
Leasehold improvements	245					245
Other tangibles and intangibles	841					841
Assets under construction	7,841	670				8,511
Less accumulated depreciation	(8,602)	(5,486)				(14,088)
Loans receivable			188,868		52,881	241,749
Advances to other funds					3,549	3,549
Other noncurrent assets			991			991
Total noncurrent assets	12,788	11,087	252,140	37,097	56,430	369,542
Total assets	$ 242,896	$ 12,132	$ 295,522	$ 43,039	$ 66,038	$ 659,627

Combining Statement of Net Assets
Non-major Proprietary Funds
June 30, 2005

(Expressed in thousands)

	Business-type activities enterprise funds					
	Employment Security Department	**War Memorial Stadium Commission**	**Construction Assistance Revolving Loan Fund**	**Public School Employee Health and Life Benefit Plan**	**Other Revolving Loan Funds**	**Total**
Liabilities						
Current liabilities:						
Accounts payable	$ 29,687	$	$ 289	$ 7,388	$ 71	$ 37,435
Accrued interest payable			345		4	349
Accrued and other current liabilities	875	16				891
Due to other funds	511	14		5	142	672
Due to other governments	1,623					1,623
Claims, judgments, compensated absences payable	347	5		16,699		17,051
Deferred revenue		39		2,216	1,987	4,242
Bonds payable			4,955			4,955
Total current liabilities	33,043	74	5,589	26,308	2,204	67,218
Noncurrent liabilities:						
Bonds payable			83,701			83,701
Claims, judgments, compensated absences payable	2,362	36		301		2,699
Deferred revenue			2,084			2,084
Total noncurrent liabilities	2,362	36	85,785	301		88,484
Total liabilities	35,405	110	91,374	26,609	2,204	155,702
Net Assets						
Net assets:						
Invested in capital asset net of related debt	12,788	10,570				23,358
Restricted for unemployment compensation	194,703					194,703
Restricted for capital projects		517				517
Restricted by program requirements			204,148		63,834	267,982
Unrestricted		935		16,430		17,365
Total net assets	207,491	12,022	204,148	16,430	63,834	503,925
Total net assets and liabilities	$ 242,896	$ 12,132	$ 295,522	$ 43,039	$ 66,038	$ 659,627

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Non-major Proprietary Funds
For the Year Ended June 30, 2005

(Expressed in thousands)

	Business-type activities enterprise funds					
	Employment Security Department	War Memorial Stadium Commission	Construction Assistance Revolving Loan Fund	Public School Employee Health and Life Benefit Plan	Other Revolving Loan Funds	Total
Operating revenues						
Charges for sales and services	$	$ 746	$	$ 211,430	$	$ 212,176
Licenses, permits and fees			1,909		455	2,364
Investment earnings			7,589		1,247	8,836
Miscellaneous	1,715					1,715
Total revenue	1,715	746	9,498	211,430	1,702	225,091
Operating expenses						
Cost of sales and services		473		3,169		3,642
Compensation and benefits	26,208	403				26,611
Supplies and services	7,142	303		18,010		25,455
Benefits and aid payments	285,253			180,958		466,211
General and administrative expenses	6,522	150	274		98	7,044
Depreciation	357	501				858
Amortization	64		154			218
Interest			4,240			4,240
Total operating expenses	325,546	1,830	4,668	202,137	98	534,279
Operating income (loss)	(323,831)	(1,084)	4,830	9,293	1,604	(309,188)
Nonoperating revenues (expenses):						
Investment earnings	5,173	18		523		5,714
Taxes	270,604					270,604
Grants and contributions	98,921	5	13,756		21,207	133,889
Loss on sale of fixed assets	(49)					(49)
Total nonoperating revenues (expenses)	374,649	23	13,756	523	21,207	410,158
Income (loss) before transfers	50,818	(1,061)	18,586	9,816	22,811	100,970
Transfer in	380	1,659			2,880	4,919
Transfer out	(1,101)	(14)	(867)	(244)	(1,766)	(3,992)
Change in net assets	50,097	584	17,719	9,572	23,925	101,897
Total net assets-beginning as restated	157,394	11,438	186,429	6,858	39,909	402,028
Total net assets-ending	$ 207,491	$ 12,022	$ 204,148	$ 16,430	$ 63,834	$ 503,925

Combining Statement of Cash Flows
Non-major Proprietary Funds
For the Year Ended June 30, 2005
(Expressed in thousands)

	Business-type activities enterprise funds					
	Employment Security Department	War Memorial Stadium Commission	Construction Assistance Revolving Loan Funds	Public School Employee Health and Life Benefit Plan	Other Revolving Loan Funds	Total
Cash flows from operating activities:						
Cash received from customers	$	$ 1,496	$	$ 215,949	$	$ 217,445
Payments to employees	(26,185)	(417)				(26,602)
Payments of benefits	(289,550)			(179,958)		(469,508)
Payments to suppliers	(13,947)	(938)	(265)	(17,407)	(50)	(32,607)
Interest received (paid)			2,952		1,152	4,104
Loan administration received (paid)			(3,181)		(25,063)	(28,244)
Other receipts (payments)	1,715		1,524	(3,170)	1,082	1,151
Net cash provided (used) by operating activities	(327,967)	141	1,030	15,414	(22,879)	(334,261)
Cash flows from noncapital financing activities:						
Direct lending payments			(4,620)			(4,620)
Taxes	268,717					268,717
Grants and contributions	100,843	5	13,613		21,079	135,540
Net transfers to other funds	(721)	1,659	(867)	(244)	1,155	982
Net cash provided by noncapital financing activities	368,839	1,664	8,126	(244)	22,234	400,619
Cash flows from capital and related financing activities:						
Acquisition and construction of capital assets	(7,608)	(1,265)				(8,873)
Net cash used for capital and related financing activities	(7,608)	(1,265)				(8,873)
Cash flows from investing activities:						
Purchase of investments		(399)	(54,783)	(17,388)		(72,570)
Proceeds from sale and maturities of investments	1,269		10,725			11,994
Interest and dividends on investments	5,140	18		523		5,681
Advance disbursements					(445)	(445)
Advance repayments					355	355
Net cash provided (used) by investing activities	6,409	(381)	(44,058)	(16,865)	(90)	(54,985)
Net increase (decrease) in cash and cash equivalents	39,673	159	(34,902)	(1,695)	(735)	2,500
Cash and cash equivalents-beginning as restated	84,279	809	77,369	6,446	9,379	178,282
Cash and cash equivalents-ending	$ 123,952	$ 968	$ 42,467	$ 4,751	$ 8,644	$ 180,782

Continued on the following page

Combining Statement of Cash Flows
Non-major Proprietary Funds
For the Year Ended June 30, 2005
(Expressed in thousands)

Continued from previous page

	Business-type activities enterprise funds					
	Employment Security Department	War Memorial Stadium Commission	Construction Assistance Revolving Loan Funds	Public School Employee Health and Life Benefit Plan	Other Revolving Loan Funds	Total
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:						
Operating income (loss)	$ (323,831)	$ (1,084)	$ 4,830	$ 9,293	$ 1,604	$ (309,188)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	357	501				858
Amortization	64		154		(67)	151
Net appreciation (depreciation) of investments			8			8
Net changes in assets and liabilities:						
Accounts receivable			(5)	4,886	(30)	4,851
Inventory		8				8
Loans receivable			(3,181)		(25,040)	(28,221)
Other current assets	(284)	729	(188)	(33)	(95)	129
Current liabilities				635		635
Accounts payable and other accrued liabilities	(4,190)	7	(286)	1,000	25	(3,444)
Compensated absences	(83)	(20)				(103)
Deferred revenue			(302)	(367)	724	55
Net cash provided (used) by operating activities	$ (327,967)	$ 141	$ 1,030	$ 15,414	$ (22,879)	$ (334,261)

FIDUCIARY FUNDS

Fiduciary 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 fiduciary funds consist of the following:

Pension Trust Funds – These funds are accounted for in essentially the same manner as proprietary funds. Included in these funds are the Judicial, District Judge, 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, 2005

(Expressed in thousands)

Assets	Teacher	APERS	Highway	State Police	Judicial	District Judge	Total
Cash and cash equivalents	$ 197,461	$ 219,021	$ 497	$ 2,155	$ 1,449	$ 63	$ 420,646
Receivables:							
Employee	10,698	2	52			11	10,763
Employer	40,139	1,268				41	41,448
Interest and dividends	17,499	14,111	5,168	69	618		37,465
Advances to other funds	15,100						15,100
Other	351,621	59,093	6	535	468	15,983	427,706
Investments at fair value:							
Bonds, notes, mortgages and preferred stock	466,470	909,721	307,167		50,279		1,733,637
Common stock	1,989,807	1,559,575	623,192	15,885	58,849		4,247,308
Real estate	80,736	314,938					395,674
International investments	1,586,069	948,244		38,907	21,579	1,096	2,595,895
Mutual funds		482,037				6,361	488,398
Pooled investment funds		202,400		147,928			350,328
Corporate obligations	497,770						497,770
Asset backed securities	59,851	106,052			8,797		174,700
Other	3,928,350		105,919				4,034,269
Securities lending collateral	796,917	651,502					1,448,419
Capital assets	326	53					379
Other assets	60	1,776					1,836
Total assets	10,038,874	5,469,793	1,042,001	205,479	142,039	23,555	16,921,741
Liabilities							
Accounts payable and other liabilities	1,962	7,003	103	326	250	3	9,647
Investment principal payable	428,848	170,394		1,190	2,585		603,017
Obligations under securities lending	796,917	651,502					1,448,419
Due to other funds		116					116
Total liabilities	1,227,727	829,015	103	1,516	2,835	3	2,061,199
Net assets							
Held in trust for employee's pension benefits	8,811,147	4,640,778	1,041,898	203,963	139,204	23,552	14,860,542
Total net assets	$ 8,811,147	$ 4,640,778	$ 1,041,898	$ 203,963	$ 139,204	$ 23,552	$ 14,860,542

Combining Statement of Changes in Fiduciary Net Assets
Pension Trust Funds
For the Year Ended June 30, 2005

(Expressed in thousands)

	Teacher	APERS	Highway	State Police	Judicial	District Judge	Total
Additions:							
Contributions:							
Members	$ 86,103	$ 1,413	$ 7,703	$ 190	$ 832	$ 80	$ 96,321
Employers	286,443	134,211	16,060	4,954	1,953	286	443,907
Supplemental contributions		1,555		763	1,919		4,237
Court fees				1,268	903		2,171
Local municipal judges retirement funds						23,679	23,679
Reinstatement fees				881			881
Total contributions	372,546	137,179	23,763	8,056	5,607	24,045	571,196
Investment income:							
Net increase (decrease) in fair value of investments	619,975	323,252	72,982	13,464	8,188	260	1,038,121
Interest, dividends, and other	208,073	93,678	23,416	3,091	3,473	37	331,768
Real estate operating income (loss)	7,727	(1,761)					5,966
Securities lending income	19,068	16,406		1,170			36,644
Total investment income	854,843	431,575	96,398	17,725	11,661	297	1,412,499
Less investment expense	55,613	30,144	3,981	2,340	765	1	92,844
Net investment income	799,230	401,431	92,417	15,385	10,896	296	1,319,655
Miscellaneous	247	7,099				4	7,350
Total additions (losses)	1,172,023	545,709	116,180	23,441	16,503	24,345	1,898,201
Deductions:							
Benefits paid to participants or beneficiaries	451,979	207,122	54,158	14,816	6,777	495	735,347
Refunds of employee/employer contributions	4,413	526	974		6		5,919
Administrative expenses	6,454	4,129	177	73	43	298	11,174
Total deductions	462,846	211,777	55,309	14,889	6,826	793	752,440
Change in net assets held in trust for:							
Employees' pension benefits	709,177	333,932	60,871	8,552	9,677	23,552	1,145,761
Net assets - beginning	8,101,970	4,306,846	981,027	195,411	129,527		13,714,781
Net assets - ending	$ 8,811,147	$ 4,640,778	$ 1,041,898	$ 203,963	$ 139,204	$ 23,552	$ 14,860,542

Combining Statement of Fiduciary Net Assets
Agency Funds
June 30, 2005

(Expressed in thousands)

Assets	Insurance Department	Other agencies	Total
Cash and cash equivalents	$ 3,925	$ 10,318	$ 14,243
Receivables:			
Interest and dividends		99	99
Other	2	7	9
Inventories		5	5
Investments at fair value:			
Certificates of deposit	1,611	42,113	43,724
Bonds, government securities, notes, mortgages, and preferred stock		51,269	51,269
Financial assurance instruments	338,346		338,346
Total assets	$ 343,884	$ 103,811	$ 447,695
Liabilities			
Liabilities:			
Accounts payable and other liabilities	$	$ 96	$ 96
Due to other governments		89,282	89,282
Due to third parties	343,884	14,433	358,317
Total liabilities	$ 343,884	$ 103,811	$ 447,695

ARKANSAS

Statistical Section


GREAT SEAL OF THE STATE OF ARKANSAS
REGNAT POPULUS
MERCY
JUSTICE

Table 1
Government-Wide Governmental Activities (Unaudited)
Last Four Fiscal Years
(Expressed in thousands)

	2005	2004	2003	2002
Revenues:				
Program Revenues:				
Charges for service	$ 816,391	$ 712,645	$ 719,961	$ 624,197
Operating grants and contributions	3,997,615	3,805,225	3,802,814	3,425,029
Capital grants and contributions	431,739	454,668	15,419	6,707
General Revenues:				
Taxes	5,716,595	5,022,063	4,588,446	4,493,647
Investment earnings	58,348	36,651	46,139	63,121
Miscellaneous income	232,838	295,706	292,716	45,374
Loss on sale of fixed assets			(31,910)	(14,696)
Transfers-internal services	(654,686)	(637,949)	(596,261)	(609,619)
Total Revenues	10,598,840	9,689,009	8,837,324	8,033,760
Expenses:				
Education	2,881,337	2,342,543	2,326,854	2,236,210
Health and human services	4,538,242	4,100,830	3,785,128	3,304,714
Transportation	626,138	606,900	620,424	522,826
Law, justice, and public safety	518,579	529,693	441,258	428,701
Recreation and resources development	175,097	189,406	243,519	218,534
General government	1,042,440	1,071,734	1,048,805	940,426
Regulation of business and professionals	117,525	130,349	115,983	98,494
Interest on long-term debt	60,101	56,906	55,677	51,215
Total Expenses	9,959,459	9,028,361	8,637,648	7,801,120
Change in Net Assets	$ 639,381	$ 660,648	$ 199,676	$ 232,640

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

	2005	2004	2003	2002	
General government	$ 1,058,514	$ 1,029,316	$ 1,044,164	$ 902,922	
Education	2,877,770	2,336,813	2,324,631	2,231,401	
Health and human services	4,526,132	4,065,745	3,772,155	3,293,609	
Law, justice, and public safety	480,246	496,109	416,353	405,434	
Recreation and recourses development	159,709	159,895	221,987	196,731	
Regulation of business and professionals	114,484	125,968	108,378	96,655	
Transportation	319,140	312,688	346,282	257,976	(1)
Debt service	108,494	94,772	91,031	93,392	
Capital outlay	704,117	755,373	692,898	810,947	(1)
Total expenditures	$ 10,348,606	$ 9,376,679	$ 9,017,879	$ 8,289,067	

(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
(Expressed in thousands)

	2005	2004	2003	2002
Taxes:				
Personal and corporate income	$ 2,169,849	$ 1,914,067	$ 1,714,603	$ 1,671,615
Consumer sales and use	2,382,865	1,951,475	1,770,946	1,719,686
Gas and motor carrier	450,269	450,444	439,614	430,735
Other	721,144	694,802	638,510	647,387
Intergovernmental	4,418,148	4,249,189	3,823,171	3,417,665
Licenses, permits, and fees	836,688	717,092	750,872	591,817
Investment earnings	57,999	36,651	46,139	63,167
Other	248,138	313,952	250,566	49,403
Total revenues	$ 11,285,100	$ 10,327,672	$ 9,434,421	$ 8,591,475

2001	2000	1999	1998	1997	1996
$ 681,055	$ 587,147	$ 992,322	$ 724,127	$ 751,164	$ 783,378
2,172,021	2,098,860	1,959,309	1,883,809	1,812,291	1,690,844
2,984,687	2,698,687	2,614,967	2,496,628	2,437,633	2,297,385
509,428	333,211	311,176	265,313	282,258	241,228
196,734	203,358	170,619	177,838	163,937	178,519
120,189	161,703	139,345	121,450	147,064	130,339
788,416	622,061	559,572	635,188	677,638	579,417
69,841	77,244	57,917	54,876	77,360	27,413
132,485	142,227	120,525	110,988	184,003	94,874
$ 7,654,856	$ 6,924,498	$ 6,925,752	$ 6,470,217	$ 6,533,348	$ 6,023,397

2001	2000	1999	1998	1997	1996
$ 1,704,226	$ 1,670,110	$ 1,873,980	$ 1,822,383	$ 1,614,700	$ 1,587,671
1,728,033	1,622,476	1,560,892	1,476,686	1,435,841	1,364,977
257,407	285,113	386,503	368,050	355,586	353,598
373,688	349,969	353,136	361,071	312,704	407,647
2,882,725	2,613,654	2,459,368	2,387,385	2,335,367	2,213,786
480,698	481,078	438,174	414,338	381,498	355,742
107,074	102,158	108,000	90,169	68,888	66,033
623,006	442,979	390,236	241,826	386,352	361,376
$ 8,156,857	$ 7,567,537	$ 7,570,289	$ 7,161,908	$ 6,890,936	$ 6,710,830

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

	Debt Service	Total Revenue	Ratio	Total Expenditures	Ratio
Year ended June 30:					
2005	$ 108,494	$ 11,285,100	0.0096	$ 10,348,606	0.0105
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

Source: Arkansas Department of Finance and Administration Office of Accounting

Table 5
Ratio of Outstanding General Obligation Bonded Debt to Gross General Revenues and Per Capita (Unaudited)
Last Ten Fiscal Years
(Expressed 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:					
2005	2,769	$ 4,730,600	$ 944,858	341.23	0.200
2004	2,753	4,334,500	923,173	335.33	0.213
2003	2,728	4,043,000	920,986	337.60	0.228
2002	2,708	3,930,800	712,939	263.27	0.181
2001	2,692	3,958,000	551,189	204.75	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

Source:

Population and Gross General Revenues:	State of Arkansas Department of Finance and Administration Economic Analysis and Tax Research
General Obligation Bonded Debt:	Arkansas Department of Finance and Administration Office of Accounting

Table 6
Revenue Bond Coverage (Unaudited)
Arkansas Student Loan Authority
Last Ten Years
(Expressed 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:							
2005	$ 92,057 (1)	$ 4,832	$ 87,225	$ 11,300	$ 10,828	$ 22,128	3.94
2004	68,207	4,069	64,139	7,180	5,543	12,723	5.04
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

Source: Arkansas Student Loan Authority.
(1) Gross revenue includes payment of principal loans.

Table 7
Demographic Statistics (Unaudited)
Last Ten Years

Calendar year	Total population	Per capita personal income	Unemployment rate
(forecast)	(in thousands)		
2005	2,769	$ 27,064	5.4%
2004	2,753	25,724	5.7%
2003	2,728	24,226	5.9%
2002	2,708	23,388	5.4%
2001	2,692	23,018	4.7%
2000	2,673	21,925	4.2%
1999	2,557	21,137	4.4%
1998	2,540	20,489	5.0%
1997	2,525	19,590	5.1%
1996	2,507	18,926	5.1%

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

Table 8
Economic Statistics (Unaudited)
Last Ten Years
(Expressed In thousands)

Calendar year	Gross State Product (stated in 2000 dollars)	Personal income
2005	$ 75,154	$ 74,941
2004	72,812	70,810
2003	69,734	66,082
2002	68,060	63,324
2001	66,656	61,967
2000	66,176	58,726
1999	66,628	56,052
1998	63,751	53,810
1997	62,474	50,955
1996	60,691	48,679

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

Table 9
Property Values, Construction Starts, Taxable Sales, Bank Deposits, and Bank Loans (Unaudited)
Last Ten Years
(Expressed in millions - except for construction starts and bank number data)

				Banks			
Calendar year	Assessed property values	Construction starts	Taxable total sales	Number	Deposits	Loans	Assets
2005	$ 29,512	14,223	$ 43,225	156	$ 32,516	$ 26,779	$ 40,336
2004	28,650	13,460	40,056	161	30,214	23,443	37,136
2003	26,352	10,794	38,120	166	27,383	21,026	33,201
2002	25,357	11,444	36,529	196	26,505	20,593	31,878
2001	23,979	12,914	36,275	178	23,536	18,104	28,165
2000	22,696	13,535	35,486	185	21,545	16,599	25,682
1999	21,648	13,592	33,307	195	22,467	16,433	26,725
1998	20,796	12,430	31,873	202	21,503	14,772	25,128
1997	19,895	12,563	30,824	226	24,704	17,159	28,735
1996	18,383	13,953	30,425	233	26,453	17,515	30,633

Sources:

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

Table 10
Twenty-five Largest Private Sector Employers in Arkansas (Unaudited)
June 30, 2005

	Company	Number of employees
1.	Wal-Mart Stores, Inc.	44,638
2.	Tyson Foods, Inc.	24,000
3.	Baptist Health, Inc.	7,618
4.	Triad Hospitals	5,500
5.	Whirlpool Corporation	4,500
6.	Pilgrim's Pride Corp.	4,100
7.	Georgia-Pacific Corporation	4,070
8.	Arkansas Children’s Hospital, Inc.	3,687
9.	ConAgra Foods, Inc.	3,600
10.	Entergy Corporation	3,500
11.	Alltel Corp	3,400
12.	Kroger Co.	3,250
13.	Dillard's, Inc.	3,200
14.	Beverly Enterprises, Inc.	3,093
15.	O.K. Industries, Inc.	3,081
16.	International Paper Company	3,000
17.	J.B. Hunt Transport Services, Inc.	2,832
18.	Union Pacific Railroad Co.	2,824
19.	Arvest Bank	2,792
20.	St. Vincent Health System	2,752
21.	Acxiom Corporation	2,700
22.	Arkansas Blue Cross & Blue Shield	2,682
23.	FedEx Corp.	2,500
24.	Superior Industries International, Inc.	2,500
25.	The Electrolux Group	2,200

Source: Arkansas Business List: Largest Employers

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

School year ended:	Number of schools	Average daily attendance	Number of teachers	Pupil-teacher ratio
2005 *				
2004	1,130	426,399	31,900	13.37
2003	1,139	415,525	30,874	13.46
2002	1,133	420,015	31,429	13.36
2001	1,159	418,906	31,883	13.14
2000	1,149	422,958	31,010	13.64
1999	1,108	421,933	30,745	13.72
1998	1,149	429,892	29,616	14.52
1997	1,104	426,983	29,415	14.52
1996	1,095	420,901	29,344	14.34

* *Numbers not available as of print date*

Sources: 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		
School year ended:	United States	Arkansas	Arkansas Rank	United States	Arkansas	Arkansas Rank
2005	$ 9,102 **	7,011 **	49 **	53.20% **	58.50% **	19 **
2004	8,807	6,663	46	49.10%	61.50%	11
2003	9,014	6,393	49	49.00%	61.50%	10
2002	8,719	6,335	48	49.60%	62.40%	9
2001	7,640	5,966	46	50.20%	62.20%	12
2000	7,146	5,625	46	50.70%	62.90%	12
1999	6,734	5,545	42	49.80%	61.00%	16
1998	6,638	5,848	34	49.10%	60.80%	14
1997	6,335	4,498	48	48.70%	65.90%	6
1996	6,103	4,353	48	47.90%	65.40%	7

** Estimate

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

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

Public Institutions

		Degrees awarded		
	Fall net enrollment	Undergraduate	Graduate	Total
2004-05	115,193	18,225	3,383	21,608
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

Private Institutions

		Degrees awarded		
	Fall net enrollment	Undergraduate	Graduate	Total
2004-05	11,546	2,263	417	2,680
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

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	16,419
State Police Protection:	
Number of Stations	14
Number of State Police	529
Higher Education (State supported):	
Number of Campuses	33
Number of Students	121,925
Recreation:	
Number of State Parks	46
Area of State Parks and Forests	53,028 Acres
Number of State Parks Museums	5