Arkansas

Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2006

Arkansas

Comprehensive Annual Financial Report

For the Year Ended June 30, 2006

Mike Huckabee
Governor

Richard A. Weiss
Director
Department of Finance and Administration

Prepared by
The Department of Finance and Administration
Office of Accounting

The cover photograph depicts the State seal in stain glass located on the first floor of the State Capitol. On the shield of our state seal are a steamboat, a plow, a beehive and a sheaf of wheat, symbols of Arkansas' industrial and agricultural wealth. The Angel of Mercy, the Sword of Justice and the Goddess of Liberty surround a bald eagle. The eagle holds in its beak a scroll inscribed with the Latin phrase "Regnat Populus", our state motto, which means "The People Rule". The seal was adopted in its basic form in 1864 and in its present form in 1907. The photograph is courtesy of the Secretary of State.

Governor Mike Huckabee

STATE OF ARKANSAS
MIKE HUCKABEE
GOVERNOR

December 22, 2006

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

I submit to you the Arkansas Comprehensive Annual Financial Report (CAFR). This annual publication demonstrates our commitment to accurate and timely financial reporting. These financial statements and accompanying disclosures provide a report of the State's financial status and provides a method for the national credit markets to determine the State's credit worthiness.

I am pleased to report that the Fiscal Year 2005 CAFR received the Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting. The State has received this prestigious award seven times in the past.

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

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Special appreciation is given to all personnel throughout the State whose extra effort to contribute accurate, timely financial data for their agencies made this report possible.

Arkansas

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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The white-tail deer was adopted as the Arkansas State Mammal by the General Assembly of 1993. Young white-tail deer have a white-spotted red coat which changes to brownish-gray before the end of its first year. White-tailed deer inhabit open woodlands, brush-lands, mixed pine and hardwoods, pine, forest edges and second growth deciduous forest.

Photo courtesy of: Arkansas Game and Fish Commission

Introductory Section


GREAT SEAL OF THE STATE OF ARKANSAS
REGNAT POPULUS
MERCY
JUSTICE

STATE OF ARKANSAS
Department of Finance and Administration

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December 22, 2006

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, 2006. The report has been prepared by the Department of Finance and Administration and fulfills the requirements set forth in Arkansas Code of 1987 Annotated (ACA) § 19-4-517. 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 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. The internal control structure has been designed to provide reasonable, but not absolute, assurance regarding (1) the safeguarding of assets against loss from unauthorized use or disposition, and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived; and that the valuation of costs and benefits requires estimates and judgments by management.

This Comprehensive Annual Financial Report has been prepared in conformance with Generally Accepted Accounting Principles (GAAP) for governments as promulgated by the Governmental Accounting Standards Board (GASB). It is presented in three sections. The Introductory section includes this transmittal letter with narrative commentary on matters of interest to the reader, the State's organizational chart, and a listing of principal officials. The Financial section includes the independent auditors' report, management's discussion and analysis (MD&A), basic financial statements, notes to the financial statements, required supplementary information (RSI), and combining financial statements. The Statistical section includes selected financial, economic, demographic and operating data for the State on a multi-year basis.

The State of Arkansas Division of Legislative Audit performed the audit for the fiscal year ended June 30, 2006. 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, 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.

Management's Discussion and Analysis, or 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. This letter of transmittal complements MD&A and should be read in conjunction with it. The State's MD&A can be found in the financial section immediately following the report of the independent auditors.

PROFILE OF THE GOVERNMENT

Originally part of the Louisiana Purchase of 1803, Arkansas was organized into a territory in 1819 with the same northern, eastern and southern borders it shares today. In 1836 Arkansas became the 25th state of the United States of America with a new border on the west. It stands as the 26th state in size with an area of 53,225 square miles. Arkansas has grown from vast wilderness to a thriving state with a population of 2.8 million and industries ranging from agriculture to technology to commerce. Officially known as "The Natural State," Arkansas is known throughout the country for its natural beauty, clear lakes and streams and an abundance of natural wildlife.

The Constitution of the State provides for three distinct departments. The executive department of Arkansas state government is comprised of the Governor, Lieutenant Governor, Attorney General, Secretary of State, State Treasurer, State Auditor, and State Land Commissioner, all of whom are elected by state-wide vote every four years. The legislative department is comprised of 35 State Senators and 100 State Representatives. Known collectively as The General Assembly, the Senators and Representatives begin the Legislative Session in January of every odd year. The judicial department is comprised of three levels of courts. They are: the Appellate Courts, which are the Supreme Court and the Court of Appeals, the Circuit Courts, and the District Courts.

The State of Arkansas provides a full range of services including education; health and human services; transportation; law, justice and public safety; recreation and resource development; general government; and regulation of business and professionals.

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.

All agencies, accounts, departments, boards, and commissions that represent the State's reporting entity are included in this report. In addition to these primary government activities, this report includes information related to component units that are financially accountable to the State. Although such information is provided in this report, the MD&A and Basic Financial Statements focus on the primary government and its activities. Separately issued financial statements are available from the significant discretely presented component units and should be read to obtain a better understanding of their financial conditions. Additional information on all discretely presented component units can be found in the notes to the financial statements (see Note 1c).

FACTORS AFFECTING ECONOMIC CONDITION

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the State of Arkansas operates.

Local Economy

Arkansas is noted as a leader in the South for its favorable business climate and low cost of doing business. The average cost of living for all of Arkansas' Metropolitan Statistical Areas is consistently below the national average. Businesses also enjoy low tax obligations through a variety of incentives, exemptions, credits and refunds. Centrally located half way between Canada and Mexico, California and the Carolinas, Arkansas is only a gas-tank away from one-third of the nation's population.

Arkansas is proud of the five homegrown *Fortune* 500 companies headquartered here: Alltel, Dillard's, Murphy Oil, Tyson Foods and Wal-Mart. This year, industry diversity continued to be evident as companies such as Kimberly Clark, ConAgra Foods, Cardinal Health, Entergy, Hino Motors Manufacturing USA, and Atlas Tube, Inc. took action to locate or expand facilities in Arkansas.

Targeted business 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. Businesses targeted are those that grow knowledge-based businesses from the intellectual property generated by the State's research universities. To date, nine businesses have signed financial incentive agreements with the State, bringing in a total investment of $24.5 million.

Economic Condition and Outlook

Employment: In fiscal year 2006, wage and salary employment in Arkansas rose to 1,185,884 jobs. This represented an increase of 17,900 jobs or 1.5 percent compared to fiscal year 2005. In fiscal year 2007, wage and salary employment is expected to reach 1,198,403 jobs. This represents an increase of 12,519 jobs or 1.1 percent from fiscal year 2006. Unemployment has consistently been below the national average for the past 5 years.

Arkansas State Wage and Salary Disbursements, measured in current dollars, reached $39,446 million in fiscal year 2006, an increase of $1,723 million or 4.6 percent over fiscal year 2005. Fiscal year 2007 is estimated at $41,274 million (current dollars), an increase of $1,828 million or 4.6 percent over fiscal year 2006.

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, measured in current dollars, reached a total of $76,764 million in fiscal year 2006. This represented an increase of $3,797 million or 5.2 percent over fiscal year 2005. Fiscal year 2007 is estimated at $81,068 million (current dollars), an increase of $4,304 million or 5.6 percent over fiscal year 2006.

Gross General Revenues: The fiscal year 2007 forecast for gross general revenue is $5,230.3 million, an increase of $89.3 million or 1.7 percent over fiscal year 2006.

Net Available General Revenues: Actual net available general revenues collected totaled $4,227.8 million, of which $3,825.1 million was distributed to State agencies and $402.7 million surplus was deposited to the General Revenue Allotment Reserve Fund. The net available distribution was $195.1 million or 5.4 percent above the net available distribution of fiscal year 2005. The general revenue distribution included a one-time transfer of $18.2 million from the Property Tax Relief Trust Fund.

Collections for fiscal year 2007 are estimated at $4,293.1 million with distribution to State agencies of $4,058.6 million, an increase of $233.6 million or 6.1 percent over fiscal year 2006. This would provide an estimated $234.5 million surplus to be deposited to the General Revenue Allotment Reserve Fund. The net general revenues distributed for fiscal year 2007 are estimated to include $22.0 million from the Property Tax Relief Trust Fund and $34 million from the Revenue Allotment Reserve Fund.

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 Education Adequacy Fund to provide an adequate education system. In fiscal year 2006 $425.2 million was distributed to the Education Adequacy Fund, with the fiscal year 2007 distribution estimated to be $437.7 million.

U.S. Gross Domestic Product: During fiscal year 2006, the United States produced final goods and services valued at $11,246 billion (2000 Dollars). This was an increase of $386 billion or 3.4 percent over fiscal year 2005. In current dollars, the United States produced final goods and services valued at $12,877 billion in fiscal year 2006, an increase of $805 billion or 6.7 percent.

During fiscal year 2007, the United States economy is expected to produce final goods and services valued at $11,540 billion (2000 Dollars), an increase of $253 billion or 2.6 percent. In current dollars, the U.S. gross domestic product is expected to be $13,540 billion, an increase of $663 billion or 5.1 percent.

RELEVANT FINANCIAL POLICIES

Balanced Budget: Arkansas Code Title 19 (Public Finance) requires the Director of the Department of Finance and Administration, who is the Chief Fiscal Officer (CFO) of the State, to be aware of the actual and estimated funds available at all times to ensure that they are sufficient to maintain the State on a sound financial basis without incurring a deficit (operate on a cash basis). Additionally, there are requirements for the Executive Branch to report on a regular basis to the Legislative Branch on the status of the State finances.

The General Assembly authorizes the appropriations provided to State agencies and institutions of higher education each biennium. Each appropriation is required to have at least one funding source. These funding sources are categorized as general, special, federal or other. State spending is limited to available cash or the available appropriation.

The law provides that 60 days prior to the convening of the General Assembly each odd year, the Governor shall issue a General Revenue Forecast. This forecast provides the level of general revenues expected to be collected and the net distributions of those revenues for each year of the biennium. The net available revenue forecast is the basis for the Revenue Stabilization Act which sets the general revenue distribution to State agencies. The annual general revenue distribution determines the “funded level” of appropriation each year.

The Office of Economic Analysis and Tax Research monitors the actual collections of revenues to forecast and the projections of future collections. If there are anticipated shortfalls in general revenue collections, a revised forecast is issued, and the “funded appropriation” levels are reduced to maintain a balanced budget for general revenues.

Special, federal and other revenue collections are monitored by the Office of Budget in the Department of Finance and Administration. Each agency provides their forecast of these revenues as a "Certification of Income" that establishes their "funded appropriation." Fluctuations of anticipated revenue collection require adjustments during the fiscal year to the "funded appropriation" level for these revenues.

General revenue collections in excess of the original general revenue forecast for the biennium are placed into a revenue allotment reserve fund. The General Assembly then determines how the funds will be spent. This general revenue one-time funding source is rarely used to finance general operation appropriations. Special, federal and other revenues generally remain with the agency as funding for their operations.

MAJOR INITIATIVES

Education: In July 2005, the National Governors' Association (NGA) awarded the Arkansas Department of Education (ADE) a $2 million matching grant for the implementation of high school redesign. The two year grant is funding four main goals of the overall high school redesign initiative:

1. Development and proper alignment of a rigorous high school curriculum
2. Development and implementation of a longitudinal system to track student performance
3. Development and implementation of an end-of-course Algebra II examination
4. Development and implementation of a communications strategy concerning the importance of high school redesign.

Arkansas was in the fortunate position of already having a rigorous high school curriculum in place, which is known as Smart Core. In fact, the non-partisan, national organization, Achieve, Inc., released a report in early 2006 recognizing Arkansas as being among the first in the nation to require a rigorous course of study for high school graduation. The Smart Core curriculum is the default high school curriculum beginning with the graduating class of 2010. Parents must sign an opt-out waiver if they want their children to take a less rigorous set of classes.

During the 2005-2006 school year, a team of high school and college-level educators worked to ensure alignment of the curriculum frameworks in each subject area so that each grade of study adequately prepared students to master the content of the classes in the next grade. In addition to alignment from the ninth through twelfth grades, the frameworks also ensure that by the time a student graduates high school, he or she has the foundation to succeed in freshman-level courses in an institution of higher education.

ADE and the Arkansas Department of Higher Education are collaborating on the creation of electronic transcripts that will follow a public school student from grade to grade and from school to school. In addition, these transcripts are transferable to Arkansas institutions of higher education to ease the application/admission process. In addition to the NGA grant, the ADE received a $3 million grant from the U.S. Department of Education to use in creating the technological capabilities for this system. Work has been underway throughout the 2005-2006 school year and the electronic transcripts are expected to be available in fall 2006.

Arkansas is one of about a dozen states that have joined in a coalition to pursue an algebra II end-of-course examination that would indicate college readiness once a student passes it. Currently, Arkansas administers its own end-of-course examinations in algebra I and geometry. By joining together, states can more efficiently administer the exams.

Highways and Transportation: Arkansas State Highway and Transportation Department (AHTD) construction projects have been plentiful across the state. In addition to maintaining over 16,000 miles of highways, AHTD construction projects ranged from simple resurfacing of existing highways to replacing bridges, adding passing lanes, and building new roads.

This year was known as the "Year of the Interstate" across the country because on June 29th, the United States celebrated the 50th Anniversary of our Interstate Highway System. In keeping with that focus, over half of Arkansas' Interstate System has been rehabilitated. As a result, 72 percent of our Interstates have been rated "good." In December, *Overdrive Magazine* rated Interstate 40 in Arkansas as the number one "Most Improved" highway in the country. Interstate 30 in our state ranked third in the same category.

A major project that was completed during this fiscal year is the new smoother, wider section of Interstate 30 from Little Rock to Benton. The project cost over $200 million and involved rebuilding the original four main lanes and adding an additional lane in each direction. The project also added concrete barrier walls and converted the frontage roads to one way operation.

Other projects that made a significant impact this year were the new section of the East-West Arterial in Hot Springs, the final leg of the Ashdown Bypass and the Highway 165 Stuttgart Bypass. These projects, all completed in late 2005, had dedication ceremonies attended by many state and local officials.

Early 2006 saw the dedication of the Corning Arkansas Welcome Center (AWC). The opening of the AWC is a result of Act 345 of 2001. 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. The Corning Center, which is 3,000 square feet, was constructed with a rock and log exterior and offers visitors large-screen televisions broadcasting news, weather and tourist information videos, as well as computer kiosks that feature Internet access.

State Parks: There are 52 state parks encompassing 53,028 acres of wetlands, forest, fish and wildlife habitat, recreational facilities and unique historic and cultural resources. Fifteen of these parks are listed on the National Register of Historic Places and five are National Historic Landmarks. Within the parks are 1,741 full service campsites, five lodges, over 117 fully equipped cabins, marinas, swimming pools, restaurants, an 18-hole golf course and more than 317 miles of hiking trails. In 2006 Arkansas State Parks welcomed nearly 10 million visitors, four times the population of the state. Park interpreters, tour guides and other staff presented 45,000 programs, events and recreational activities to these visitors. This includes 2,000 education programs to teachers and schools. Arkansas State Parks is the largest provider of experience-based, resource-based education programs for schools in the state. An example of our commitment as an educational, cultural and historic resource is the 2006 opening of The African-American Schoolhouse Restoration and Exhibit in Parkin Archeological State Park. Arkansas State Parks is in the "forever business" and its staff is dedicated to providing memories and experiences that will be cherished for a lifetime.

In 1996, voters passed Amendment 75 (the ⅛ cent Conservation Tax) that has had a tremendous impact on renovations, improvements, and tackling the $200 million back-log of much needed repairs, renovations and capital improvements throughout the park system. The funds generated by Amendment 75 have also made it possible to enhance visitors' experiences with the addition of the new Visitor Centers at Lake Dardanelle, Cossatot River and Bull Shoals-White River State Parks. These unique centers have broadened the educational reach of the parks.

New initiatives include the lodge and cabins at Mt. Magazine State Park, and a lodge, conference center and 27-hole Andy Dye signature golf course to be constructed at Village Creek State Park. The $32 million Mt. Magazine project opened May 18, 2006 and was financed by the Arkansas Development Finance Authority by state park revenue bonds. Through September revenue at Mt. Magazine was $2,067,985. Occupancy for the new lodge and cabins through September was 79%. Reservations for the remainder of 2006 are at 51% with more reservations being made daily.

Tourism: Arkansas's tourism industry continues to do well. In fiscal year 2006, the state's 2% tourism tax collections grew at a rate of 8.4% – well above the national average. While it's too early to make any predictions, fiscal year 2007 is off to a fine start.

The state continues to benefit from the Clinton Presidential Center and Park. Other new attractions – such as the lodge at Mount Magazine State Park, the Anthony Chapel at Garvan Woodland Gardens in Hot Springs, the Hammons Convention Center in Rogers, and the Big Dam Bridge in Little Rock – are contributing to the industry's growth. Several other projects which are now underway – the Crystal Bridges Museum of American Art in Bentonville, the Dickey-Stephens baseball park in North Little Rock, and the Lakeport Plantation in Lake Village, among many others – will help maintain the state's momentum.

Health and Human Services: Arkansas Department of Health and Human Services (DHHS) is an umbrella agency for the delivery of state-administered human services including a wide array of health, welfare, and child services. During fiscal year 2006, the department expended $4.2 billion and provided services to over 1,000,000 recipients through 14 divisions/offices.

Act 1954 of 2005 merged the Arkansas Department of Health with the Arkansas Department of Human Services 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 merger formed the largest state agency in Arkansas, the Arkansas Department of Health and Human Services, with a workforce of over 10,000 employees located in almost 200 offices across the state. The Department of Health became the Division of Health effective August 12, 2005.

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 85th General Assembly of the State of Arkansas enacted legislation which became Act 1705 of 2005 and transferred the responsibility for the administration of the Arkansas Transitional Employment Assistance (TEA) Program and the Temporary Assistance to Needy Families (TANF) Block Grant from the DHHS Division of County Operations to the newly named Department of Workforce Services (formerly Employment Security). Workforce Services provides case management services and County Operations continues to determine eligibility and issue TEA cash assistance and diversion payments.

A new state-of-the art public health laboratory was constructed on the existing campus of the Division of Health. Construction of the laboratory began in September 2004 at a cost of approximately $24,600,000. The public health laboratory was dedicated October 4, 2006 and will perform over 800,000 tests each year on nearly 500,000 individual specimens. This laboratory places Arkansas in the forefront in the fight against new infectious diseases and potential bioterroristic agents, as well as providing laboratory support for 94 public health units throughout the state.

During fiscal year 2006, the Emergency Operations Center (EOC) was completed at a cost of approximately $1.7 million. Originally housed in the Freeway Medical Building, the EOC is now located in the Health Division building and designated as an alternate EOC by the Arkansas Department of Emergency Management. Capabilities include communications with Arkansas Nuclear One, the Arkansas Wireless Information Network (AWIN), the Chemical Stockpile Emergency Preparedness Program, the National Warning System, the Shared Resources High Frequency Radio Program, all ambulances and hospitals in the state, as well as all traditional communication media.

Information Technology: Arkansas remains a leader in electronic government. The State received more than a half dozen national awards recognizing achievements in this area. Those awards included a top five finish in the Best of Web state portal competition sponsored by the Center for Digital Government, and a sixth place ranking in the biennial Digital States Survey.

Arkansas.gov offers more than 400 interactive services, including car tag renewals, property tax payments, business tax filings, game and fish licenses, and criminal background searches. Launched in July 1997, the Arkansas.gov portal now supports more than 190 state and local government agencies. Last year more than 2.4 million transactions were processed online. To maximize taxpayer return on investment, Arkansas uses a self-funded solution to provide eGovernment services.

Meanwhile, Office of Information Technology and State Security Office efforts continue to ensure Arkansas is prepared for potential disaster whether natural or man-made. Those efforts also include ensuring the State is technologically ready should any type of pandemic strike.

AWIN is a multi-phased approach to building the infrastructure for a statewide interoperable radio system. The AWIN project supports the state Homeland Security Strategy, which lists Interoperable Communications as the top current issue. Leadership of the AWIN project involves key personnel from state agencies and the local first responder community.

The State of Arkansas seems to be taking a lead in the region in regard to implementing a statewide interoperable radio system. Arkansas is one of only four states in the nation with a statewide digital radio system. The AWIN Management team is working with the southern region of the National Association of State Telecommunication Directors to establish a work group that will address interoperable communication and emergency response. The group will share information on interoperable communications efforts, identify, document and share lessons learned, support legislative efforts and regional planning efforts for interoperability.

"Very few (states) have come as far as Arkansas," according to United States Assistant Secretary for Health John Agwunobi. "It's pretty clear that they're focused on preparing this state and its communities for not only the threat of pandemic but they're approaching this from the ideal perspective, which is pandemics are one of many hazards."

AWARDS AND ACKNOWLEDGEMENTS

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 (CAFR) for the fiscal year ended June 30, 2005. This was the eighth 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.

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, 2005

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.

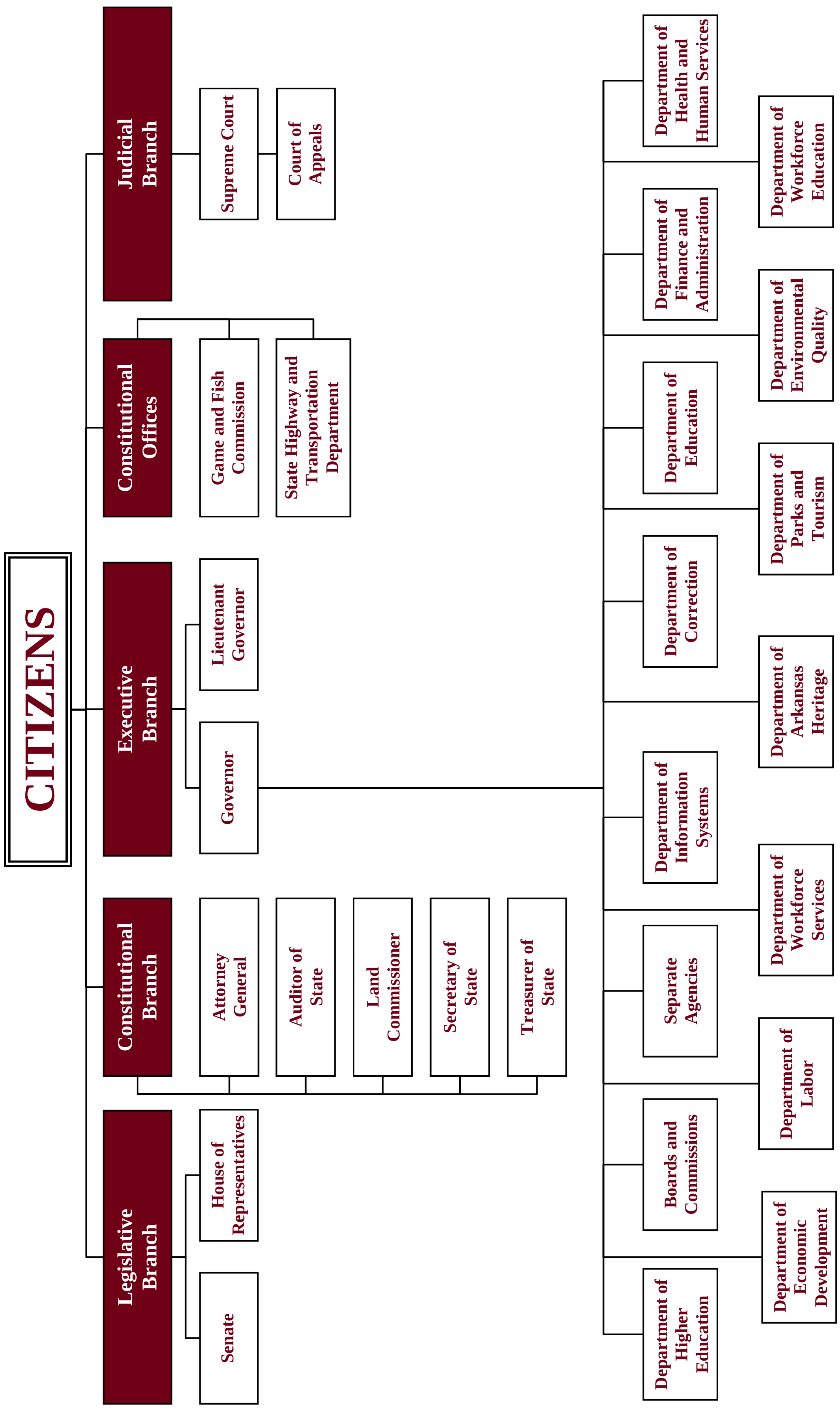
GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

Arkansas

Organizational Chart



Principal Officials

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

Arkansas

Financial Section

The pine was adopted as the Arkansas State Tree by the General Assembly of 1939. The loblolly and shortleaf pines are varieties of southern yellow pine found in our state. Both varieties can be found in our two National Forests, the Ouachita National Forest and the Ozark St. Francis National Forest.

Photo courtesy of: Arkansas Department of Parks and Tourism


GREAT SEAL OF THE STATE OF ARKANSAS
REGNAT POPULUS
MERCY
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, 2006, 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 17% of the assets and 38% of the revenues of the business-type activities opinion unit and 21% 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 2% of the revenues of the business-type activities opinion unit and 2% of the assets and 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, 2006, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2006 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, and 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 106 through 113, 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, 2006
CAFR00106

Arkansas

The square dance was adopted as the Arkansas State American Folk Dance by the General Assembly of 1991. Square dancers perform a variety of steps which are usually told to them during the dance by a person known as a square dance caller.

Photo courtesy of: Arkansas Department of Parks and Tourism

Management's Discussion and Analysis


GREAT SEAL OF THE STATE OF ARKANSAS
REGNAT POPULUS
MERCY
JUSTICE

MANAGEMENT'S DISCUSSION AND ANALYSIS (Introduction)

Management of the State of Arkansas (the State) provides this *Management's Discussion and Analysis* (MD&A) 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, 2006. The State's June 30, 2006 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 MD&A is intended to familiarize readers with the accounting terminology and methods relevant to reporting financial information for the State. The second section of the MD&A 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, 2006 by $13.2 billion (presented as "total net assets"). The net assets of the State increased $937 million during the year. The governmental activities net assets increased by $727 million. Of the total net assets, $2.5 billion (19%) 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, $1.6 billion (12%), represents resources that are subject to external restrictions on how they may be used and are therefore termed "restricted." In fiscal year 2006, Tobacco funds were reclassified to a restricted net asset.

The largest portion of the State's net assets, $9 billion (69%), 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, 2006 was $2.5 billion. Additional debt totaling $474 million was entered into during the year. $362 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, 2006, the State's General Fund reported a fund balance of $2.9 billion. Of this balance, $954 million or 33% of the total fund balance is reserved and $1.9 billion or 67% of the total fund balance is unreserved. The fund balance in the General Fund increased $388 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 Supplementary Information* (schedule of funding progress, budgetary schedule, and ten year claims development information). 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, Department of Workforce Services, 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 the State government and report the State's operations in more detail than the government-wide financial statements. All of the funds of the State can be divided into three categories: *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 balance.

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

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: the Higher Education Fund, the Workers' Compensation Commission, the Department of Workforce Services, 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 the State government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the State's own programs. 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	
	2006	**2005 (restated)**	**2006**	**2005**	**2006**	**2005 (restated)**
Current Assets	$ 3,687,483	$ 3,151,331	$ 1,167,712	$ 1,086,587	$ 4,855,195	$ 4,237,918
Noncurrent Assets	225,372	212,769	2,146,288	1,841,472	2,371,660	2,054,241
Capital Assets	8,852,060	8,574,485	2,190,178	1,927,457	11,042,238	10,501,942
Total Assets	12,764,915	11,938,585	5,504,178	4,855,516	18,269,093	16,794,101
Current Liabilities	920,201	815,009	354,473	296,747	1,274,674	1,111,756
Long-Term Liabilities	1,243,473	1,249,890	2,516,002	2,134,874	3,759,475	3,384,764
Total Liabilities	2,163,674	2,064,899	2,870,475	2,431,621	5,034,149	4,496,520
Net Assets						
Invested in Capital Assets, Net of Related Debt	7,898,984	7,563,452	1,244,773	1,200,731	9,143,757	8,764,183
Restricted	672,391	506,508	879,536	760,011	1,551,927	1,266,519
Unrestricted	2,029,866	1,803,726	509,394	463,153	2,539,260	2,266,879
Total Net Assets	$ 10,601,241	$ 9,873,686	$ 2,633,703	$ 2,423,895	$ 13,234,944	$ 12,297,581

The net assets of the governmental activities increased $727 million while the net assets of the business-type activities increased $210 million. Favorable economic conditions attributed to the increase in governmental activities. In fiscal year 2006, higher interest rates resulted in an increase in investment revenue, while personal and corporate earnings were also higher in fiscal year 2006 resulting in an increase in personal income tax withholdings and higher corporate taxes. Favorable economic conditions also contributed to the business-type activities net assets increase with higher interest rates resulting in an increase to investment revenue along with an increase in tuition revenue.

The book value of capital assets as of June 30, 2006 was $8.9 billion for governmental activities and $2.2 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.

As outlined previously, governmental activities and business-type activities increased the State's net assets by $727 million and $210 million, respectively. Key elements of this increase are as follows:

	Governmental Activities		Business-Type Activities		Totals	
	2006	2005 (restated)	2006	2005	2006	2005 (restated)
Program Revenues:						
Charges for services	$ 834,508	$ 816,391	$ 1,397,718	$ 1,269,348	$ 2,232,226	$ 2,085,739
Operating grants and contributions	4,150,897	3,997,615	566,200	602,649	4,717,097	4,600,264
Capital grants and contributions	392,744	431,739	59,025	70,432	451,769	502,171
General Revenues:						
Personal and corporate taxes	2,374,801	2,164,445			2,374,801	2,164,445
Sales and use taxes	2,509,664	2,380,921			2,509,664	2,380,921
Motor fuel taxes	456,223	450,281			456,223	450,281
Other taxes	760,431	720,948	326,343	310,431	1,086,774	1,031,379
Total Revenues	11,479,268	10,962,340	2,349,286	2,252,860	13,828,554	13,215,200
Expenses:						
Education	3,048,480	2,881,337			3,048,480	2,881,337
Health and human services	4,664,182	4,538,242			4,664,182	4,538,242
Transportation	636,759	626,138			636,759	626,138
Law, justice and public safety	608,052	518,579			608,052	518,579
Recreation and resources development	202,105	175,097			202,105	175,097
General government	1,180,288	1,042,440			1,180,288	1,042,440
Regulation of business and professionals	115,883	117,525			115,883	117,525
Business-type expenses			3,009,848	2,826,162	3,009,848	2,826,162
Interest expense	59,501	60,101			59,501	60,101
Total Expenses	10,515,250	9,959,459	3,009,848	2,826,162	13,525,098	12,785,621
Other:						
Unrestricted investment earnings	96,369	58,348	61,462	48,310	157,831	106,658
Miscellaneous Income	387,101	232,838	88,975	65,988	476,076	298,826
Total Other	483,470	291,186	150,437	114,298	633,907	405,484
Increase (decrease) in net assets before transfers and restatements	1,447,488	1,294,067	(510,125)	(459,004)	937,363	835,063
Transfers-internal activities	(719,933)	(654,686)	719,933	654,686		
Restatements		(29,737)				(29,737)
Total Transfers and Restatments	(719,933)	(684,423)	719,933	654,686		(29,737)
Increase (decrease) in net assets	727,555	609,644	209,808	195,682	937,363	805,326
Net Assets - Beginning, as restated	9,873,686	9,264,042	2,423,895	2,228,213	12,297,581	11,492,255
Net Assets - Ending	$ 10,601,241	$ 9,873,686	$ 2,633,703	$ 2,423,895	$ 13,234,944	$ 12,297,581

As is typical for governmental activities, program expenses exceeded program revenues. The excess program expenses of $5.1 billion were funded by normal State taxing activities.

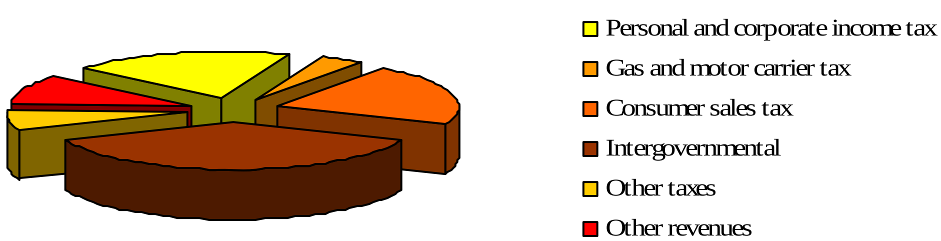
FUND HIGHLIGHTS AND ANALYSIS

General Government Functions

Most State functions are financed through the General Fund. The State's most significant sources of revenues in the General Fund are taxes and intergovernmental. The State's most significant areas of expenditures from the General Fund are the areas of public education and health and human services. The following charts present actual General Fund revenues and expenditures for the fiscal years ended June 30, 2006 and 2005 (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

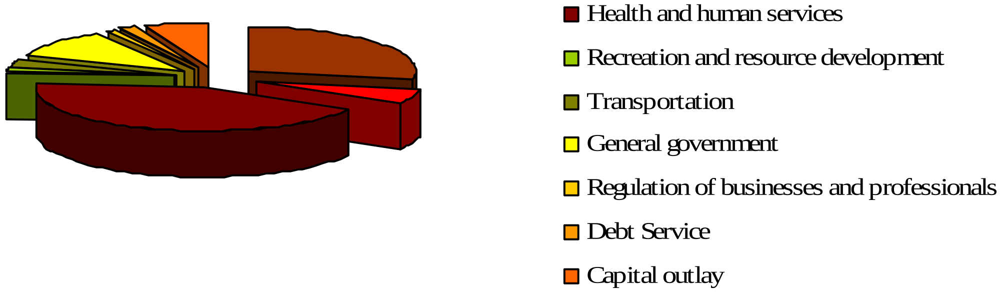
Revenues	2006	2005	Increase (Decrease) Percent
Personal and corporate income tax	$ 2,374,853	$ 2,169,849	9.45%
Gas and motor carrier tax	456,569	450,269	1.40%
Consumer sales tax	2,519,443	2,382,865	5.73%
Intergovernmental	4,540,408	4,418,148	2.77%
Other taxes	760,799	721,144	5.50%
Other revenues	1,255,913	1,142,825	9.90%
Total	$ 11,907,985	$ 11,285,100	5.52%



Governmental revenues increased by 5.52%. The increase was due to higher personal and corporate earnings which led to an increase in personal and corporate income taxes; higher interest rates in fiscal year 2006 attributed to an increase in investment income; and the Department of Health and Human Services' drug rebate revenue was up due to claim utilization growth and a new supplemental Medicaid drug rebate program in fiscal year 2006.

Expenditures by Source - General Fund

Expenditures	2006	2005	Increase (Decrease) Percent
Education	$ 3,044,735	$ 2,877,770	5.80%
Law, justice and public safety	582,086	480,246	21.21%
Health and human services	4,653,553	4,526,132	2.82%
Recreation and resource development	186,137	159,709	16.55%
Transportation	320,417	319,140	0.40%
General government	1,137,458	1,058,514	7.46%
Regulation of business and professionals	112,595	114,484	(1.65%)
Debt Service	159,466	108,494	46.98%
Capital outlay	673,624	704,117	(4.33%)
Total	$ 10,870,071	$ 10,348,606	5.04%



Expenditures increased 5.04%. This increase was due to expenditures related to the Katrina disaster and an increase in principal and interest payments as well as issuance costs on new bonds and loans that were issued in fiscal years 2005 and 2006.

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 2006, the State's General Fund reported an ending fund balance of $2.9 billion, which is an increase of $388 million in comparison to fiscal year 2005.

$1.9 billion or 67% of the total fund balance is the unreserved fund balance, which is available for spending in the coming year. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed for certain items. $954 million or 33% 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 $17.4 billion and the accumulated depreciation was $6.4 billion at June 30, 2006. The net book value was $11 billion. Depreciation expense was $377 million for the governmental activities and $131 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 is constructing a lab with costs of $16 million for fiscal year 2006.
- The Arkansas State Police spent $12.1 million in the current year on the Arkansas Wireless Information Network (AWIN) project.
- The Department of Veterans Affairs constructed a veterans' home in Fayetteville for a cost of $6.7 million.
- The Military Department recorded costs of $17.1 million for an Army Aviation Support Facility.
- The Secretary of State expended $10.4 million in the current year for acquisitions of equipment and software to comply with the Help America Vote Act (HAVA).
- The Department of Parks and Tourism recorded costs of $13.5 million for the Mt. Magazine Lodge.
- Infrastructure assets increased $473 million due to highway improvements under the State's Interstate Rehabilitation Plan.

Additional information on the State's capital assets can be found in Note 7 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 $1.153 billion in bonds, notes payable, and capital leases outstanding at June 30, 2006 versus $1.183 billion at June 30, 2005. The net decrease is approximately $30 million. Following are significant bonds issued during the year:

- The Arkansas Natural Resources Commission issued $44 million of Series 2005A, 2005B, 2006A and 2006B Pollution Revenue Bonds.
- The Department of Correction entered into a capital lease with Arkansas Development Finance Authority for the construction of the Malvern Facility for $40 million.

Notes payable and capital leases to component units increased $45 million during the year which included an advance refunding of debt decrease of $6.5 million. Bonds payable decreased $90 million with $72 million representing principal payments made during the year and $18 million of defeased bonds. Notes payable and capital leases to outside entities decreased $4 million for principal payments made during the year.

The State's governmental activities have approximately $159 million of claims and judgments outstanding at June 30, 2006, compared to $113 million at June 30, 2005. Other obligations include accrued sick leave and vacation pay of $116 million at June 30, 2006.

Business-type Activities

The State's business-type activities had $1.299 billion in bonds, notes payable, and capital leases outstanding at June 30, 2006 versus $1.033 billion at June 30, 2005. The net increase was $266 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:

- $243.1 million in revenue bonds were issued by the University of Arkansas System.
- Other revenue bonds issued were:
    - Arkansas Tech University, $14.5 million;
    - Arkansas State University, $48.7 million;
    - Henderson State University, $18.9 million;
    - University of Central Arkansas, $32 million

The colleges and universities also entered into capital leases totaling $11.3 million as well as notes payable totaling $6.5 million. Bonds, notes payable, and capital leases decreased $114 million due to principal payments made during the year.

The State's business-type activities had approximately $248 million of claims and judgments outstanding at June 30, 2006 compared to $232 million at June 30, 2005. Other obligations included accrued sick leave and vacation pay of $74 million at June 30, 2006.

More detailed information about the State's liabilities is presented in Note 8 of the notes to the financial statements.

GENERAL FUND BUDGETARY HIGHLIGHTS

	Budgeted Amounts		Actual
Functions	**Original**	**Final**	**amounts**
General government	$ 6,219,610	$ 6,034,957	$ 1,441,434
Education	3,322,978	3,421,993	3,078,750
Health and human services	4,956,514	4,984,177	4,232,844
Law, justice and public safety	780,344	818,645	626,353
Recreation and resources development	875,911	887,067	218,570
Regulation of business and professionals	191,341	189,280	109,395
Transportation	518,144	506,244	294,860
Debt service	179,678	185,381	130,663
Capital outlay	1,067,665	996,953	581,107
Total	$ 18,112,185	$ 18,024,697	$ 10,713,976

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 amounts 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, investors, and creditors. This financial report seeks to demonstrate the State's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: State of Arkansas, Department of Finance and Administration, PO Box 3278, Little Rock, Arkansas, 72203.


GREAT SEAL OF THE STATE OF ARKANSAS
REGNAT POPULUS
MERCY
JUSTICE

Arkansas

The mockingbird was adopted as the Arkansas State Bird by the General Assembly of 1929. The mockingbird can imitate the song of many other birds, often loudly and in rapid succession.

Photo courtesy of: Secretary of State

Basic Financial Statements

Statement of Net Assets
June 30, 2006
(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	$ 451,959	$ 406,406	$ 858,365	$ 30	$ 132,831
Investments	2,243,151	415,460	2,658,611	45,167	1,067
Receivables, net:					
Accounts	166,916	272,495	439,411		320
Taxes	460,051		460,051		
Medicaid	180,233		180,233		
Loans	16,403	10,274	26,677	12,412	2,007
Interest	17,993	3,479	21,472	11,089	7,897
Trust funds	58	1	59		
Other	24,317		24,317		
Internal balances	(243)	243			
Due from component unit	4		4		
Due from other governments	76,196	19,976	96,172		
Due from primary government					268
Prepaid items	8,098	2,755	10,853		
Inventories	42,006	19,015	61,021		
Deposits with bond trustee		11,997	11,997		
Current deferred charges	339		339		
Other current assets	2	5,611	5,613		
Total current assets	3,687,483	1,167,712	4,855,195	68,698	144,390
Noncurrent assets:					
Cash and cash equivalents, restricted		54,900	54,900		
Deposit with component unit	46,472	204	46,676		
Deposits with bond trustee		326,230	326,230		
Investments	2,792	448,632	451,424	294,469	1,050,994
Accounts receivable, net		317,643	317,643		
Loans and mortgages receivable	170,272		170,272	426,824	193,183
Loans and capital leases receivable from primary government					229,100
Capital leases receivable					7,098
External portion of investment pool		985,585	985,585		
Deferred charges				8,603	5,365
Financial assurance instruments		5,300	5,300		
Internal balances	1,055	(1,055)			
Other noncurrent assets	4,781	8,849	13,630	459	731
Total noncurrent assets	225,372	2,146,288	2,371,660	730,355	1,486,471
Capital assets (net of accumulated depreciation):					
Land	485,308	93,166	578,474		
Land improvements	95,240		95,240		
Infrastructure	5,396,286	85,761	5,482,047		
Buildings	606,000	1,460,385	2,066,385		
Equipment	183,283	174,954	358,237		172
Improvements other than building		8,221	8,221		
Leasehold improvements	679	156	835		
Construction in progress	2,072,566	320,370	2,392,936		
Other capital assets	12,698	47,165	59,863		
Total capital assets, net of depreciation	8,852,060	2,190,178	11,042,238		172
Total noncurrent assets and capital assets	9,077,432	4,336,466	13,413,898	730,355	1,486,643
Total assets	$ 12,764,915	$ 5,504,178	$ 18,269,093	$ 799,053	$ 1,631,033

Statement of Net Assets
June 30, 2006
(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	$ 53,290	$ 88,995	$ 142,285	$ 10,806	$ 2,668
Accrued interest	13,468	1,764	15,232		19,241
Accrued and other current liabilities	102,768	99,983	202,751		
Medicaid payable	244,317		244,317		
Income tax refunds payable	235,430		235,430		
Due to other governments	59,978	1,944	61,922		
Due to primary government					4
Workers' compensation benefits payable		12,909	12,909		
Funds held in trust for others		7,739	7,739		
Due to component unit	3	265	268		
Bonds, notes, and leases payable	92,926	54,911	147,837		210,404
Claims, judgments, and compensated absences	93,560	42,409	135,969		
Deferred revenue	24,461	43,554	68,015		
Total current liabilities	920,201	354,473	1,274,674	10,806	232,317
Long-term liabilities:					
Workers' compensation benefits payable		202,194	202,194		
External portion of investment pool		985,585	985,585		
Bonds, notes, and leases payable	1,059,849	1,244,562	2,304,411	753,780	1,215,504
Claims, judgments, and compensated absences	181,517	64,385	245,902		
Deposits held on behalf of primary government					46,676
Other noncurrent liabilities		16,812	16,812		6,503
Deferred revenue		2,464	2,464		6,598
Net pension obligation	2,107		2,107		
Total long-term liabilities	1,243,473	2,516,002	3,759,475	753,780	1,275,281
Total liabilities	2,163,674	2,870,475	5,034,149	764,586	1,507,598
Net Assets					
Net assets:					
Invested in capital assets, net of related debt	7,898,984	1,244,773	9,143,757		172
Restricted for:					
Unemployment compensation		257,019	257,019		
Debt service	98,777	14,246	113,023		
Other capital projects	158,575	61,929	220,504		
Bond and resolution program					46,478
Program requirements	310,039	309,812	619,851		
Tobacco settlement	105,000		105,000		
Non-expendable		76,097	76,097		
Expendable-capital projects, debt service, loans, and other		160,433	160,433	34,467	
Unrestricted	2,029,866	509,394	2,539,260		76,785
Total net assets	10,601,241	2,633,703	13,234,944	34,467	123,435
Total liabilities and net assets	$ 12,764,915	$ 5,504,178	$ 18,269,093	$ 799,053	$ 1,631,033

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

UNIVERSITY OF ARKANSAS FOUNDATION, INC.
Discretely Presented Component Unit
Consolidated Statement of Financial Position
June 30, 2006
(Expressed in thousands)

Assets

Cash	$	6,706
Contributions receivable, net of allowance for doubtful accounts of $754		51,243
Interest receivable		2,641
Notes and other receivables		197
Cash value of life insurance		501
Land		1,430
Buildings and equipment, net of accumulated depreciation of $574		111
Investments		561,076
Total assets	$	623,905

Liabilities and Net Assets

Liabilities:		
Accounts payable	$	4,272
Annuity obligations		18,524
Total liabilities		22,796
Net Assets:		
Unrestricted		60,450
Temporarily restricted		128,697
Permanently restricted		411,962
Total net assets		601,109
Total liabilities and net assets	$	623,905

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

UNIVERSITY OF ARKANSAS FAYETTEVILLE CAMPUS FOUNDATION, INC.
Discretely Presented Component Unit
Consolidated Statement of Financial Position
June 30, 2006
(Expressed in thousands)

Assets		
Investments	$	438,625
Net Assets		
Temporarily restricted	$	8,489
Permanently restricted		430,136
Total net assets	$	438,625

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

Statement of Activities
For the Fiscal Year Ended June 30, 2006
(Expressed in thousands)

		Program Revenues		
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Primary government:				
Governmental activities:				
General government	$ 1,180,288	$ 261,161	$ 127,095	$ 712
Education	3,048,480	13,501	534,832	166
Health and human services	4,664,182	217,429	3,232,242	3,134
Transportation	636,759	133,993	69,882	376,518
Law, justice, and public safety	608,052	63,251	159,905	12,214
Recreation and resources development	202,105	55,223	22,855	
Regulation of business and professionals	115,883	89,950	4,086	
Interest expense	59,501			
Total governmental activities	10,515,250	834,508	4,150,897	392,744
Business-type activities:				
Higher Education	2,422,557	1,160,194	440,969	59,025
Workers' Compensation Commission	36,629			
Department of Workforce Services	322,205		95,911	
War Memorial Stadium Commission	4,310	1,436	8	
Public School Employee Health and Life Benefit Plan	219,544	233,250		
Revolving Loans	4,603	2,838	29,312	
Total business-type activities	3,009,848	1,397,718	566,200	59,025
Total primary government	$ 13,525,098	$ 2,232,226	$ 4,717,097	$ 451,769
Component units:				
Arkansas Student Loan Authority	$ 27,492	$ 35,494	$	
Arkansas Development Finance Authority	94,720	52,125	17,511	
Total component units	$ 122,212	$ 87,619	$ 17,511	

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
$ (791,320)	$	$ (791,320)		
(2,499,981)		(2,499,981)		
(1,211,377)		(1,211,377)		
(56,366)		(56,366)		
(372,682)		(372,682)		
(124,027)		(124,027)		
(21,847)		(21,847)		
(59,501)		(59,501)		
(5,137,101)		(5,137,101)		
	(762,369)	(762,369)		
	(36,629)	(36,629)		
	(226,294)	(226,294)		
	(2,866)	(2,866)		
	13,706	13,706		
	27,547	27,547		
	(986,905)	(986,905)		
(5,137,101)	(986,905)	(6,124,006)		
			$ 8,002	$
				(25,084)
			8,002	(25,084)
2,374,801		2,374,801		
2,509,664		2,509,664		
456,223		456,223		
760,431	326,343	1,086,774		
6,101,119	326,343	6,427,462		
96,369	61,462	157,831		
387,101	88,975	476,076		
(719,933)	719,933			
5,864,656	1,196,713	7,061,369		
727,555	209,808	937,363	8,002	(25,084)
9,873,686	2,423,895	12,297,581	26,465	148,519
$ 10,601,241	$ 2,633,703	$ 13,234,944	$ 34,467	$ 123,435

UNIVERSITY OF ARKANSAS FOUNDATION, INC.
Discretely Presented Component Unit
Consolidated Statement of Activities
For the Year Ended June 30, 2006
(Expressed in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other support:				
Contributions	$ 14,198	$ 25,412	$ 28,946	$ 68,556
Sponsored programs	1,717	304		2,021
Interest and dividends	6,080	6,891	390	13,361
Net realized and unrealized gains (losses) on long-term investments	2,592	8,168	20,677	31,437
Other	128	155		283
Net assets released from restrictions	35,345	(35,345)		
Total revenues, gains, and other support	60,060	5,585	50,013	115,658
Expenses and losses:				
Program services:				
Construction	15,239			15,239
Research	3,967			3,967
Faculty/staff support	11,499			11,499
Scholarships and awards	6,181			6,181
Public/staff relations	2,872			2,872
Equipment	3,059			3,059
Sponsored programs	1,775			1,775
Other	11,604			11,604
Total program services	56,196			56,196
Supporting services:				
Management and general	620			620
Fund raising	2,730			2,730
Change in value of split-interest agreements			672	672
Provision for loss on uncollectible pledges	26	341	75	442
Total supporting services	3,376	341	747	4,464
Total expenses and losses	59,572	341	747	60,660
Change in net assets	488	5,244	49,266	54,998
Net assets - beginning	59,963	123,453	362,695	546,111
Net assets - ending	$ 60,451	$ 128,697	$ 411,961	$ 601,109

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

UNIVERSITY OF ARKANSAS FAYETTEVILLE CAMPUS FOUNDATION, INC.
Discretely Presented Component Unit
Consolidated Statement of Activities
For the Year Ended June 30, 2006
(Expressed in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other support:				
Interest and dividends	$	$ 4,034	$ 1,695	$ 5,729
Net realized and unrealized gains (losses) on long-term investments		7,086	28,360	35,446
Net assets released from restrictions	13,554	(13,554)		
Total revenues, gains, and other support	13,554	(2,434)	30,055	41,175
Expenses and losses:				
Program services:				
Construction	3			3
Research	3,166			3,166
Faculty/staff support	655			655
Scholarships and awards	6,706			6,706
Equipment and technology	2,534			2,534
Other	188			188
Total program services	13,252			13,252
Supporting services:				
Management and general	302			302
Total supporting services	302			302
Total expenses and losses	13,554			13,554
Change in net assets		(2,434)	30,055	27,621
Net assets - beginning		10,923	400,081	411,004
Net assets - ending	$	$ 8,489	$ 430,136	$ 438,625

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

Balance Sheet
Governmental Fund
June 30, 2006
(Expressed in thousands)

		General Fund
Assets		
Cash and cash equivalents	$	451,959
Investments		2,245,943
Receivable, net:		
Accounts		166,916
Taxes		460,051
Medicaid		180,233
Loans		186,675
Interest		17,993
Other		24,317
Due from other funds		2,269
Due from component unit		4
Due from other governments		76,196
Prepaid items		8,098
Inventories		42,006
Advances to other funds		1,055
Deposits with component unit		46,472
Total assets	$	3,910,187
Liabilities and Fund Balance		
Liabilities:		
Accounts payable	$	53,290
Accrued and other current liabilities		102,768
Deferred revenue		289,760
Income tax refunds payable		235,430
Due to other governments		59,978
Due to other funds		2,454
Advances from other funds		13,408
Due to component unit		3
Medicaid claims payable		244,317
Total liabilities		1,001,408
Fund balance:		
Reserved for:		
Prepaid items		8,098
Inventories		42,006
Debt service		111,587
Loans		186,675
Advances		1,055
Grant programs		188,432
Capital projects		99,577
Transportation programs		167,930
Tobacco settlement		148,655
Unreserved		1,954,764
Total fund balance		2,908,779
Total liabilities and fund balance	$	3,910,187

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, 2006
(Expressed in thousands)

Total fund balances:		
Governmental fund		$ 2,908,779
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	$ 627,920	
Infrastructure assets	9,425,616	
Other capital assets	3,728,011	
Accumulated depreciation	(4,929,487)	
Total capital assets		8,852,060
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.		5,120
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.		265,301
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	$ (1,129,095)	
Claims, judgments, and compensated absences	(275,077)	
Loss of early retirement	5,542	
Unamortized bond issue premium	(17,743)	
Net pension obligation	(2,107)	
Accrued interest on bonds, notes, and leases	(13,468)	
Unamortized bond issue discounts	1,929	
Total long-term liabilities		(1,430,019)
Net assets of governmental activities		$ 10,601,241

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

Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Fund
For the Year Ended June 30, 2006
(Expressed in thousands)

		General Fund
Revenues:		
Taxes:		
Personal and corporate income	$	2,374,853
Consumers sales and use		2,519,443
Gas and motor carrier		456,569
Other		760,799
Intergovernmental		4,540,408
Licenses, permits, and fees		858,136
Investment earnings		96,369
Miscellaneous		301,408
Total revenues		11,907,985
Expenditures:		
Current:		
General government		1,137,458
Education		3,044,735
Health and human services		4,653,553
Transportation		320,417
Law, justice, and public safety		582,086
Recreation and resources development		186,137
Regulation of business and professionals		112,595
Debt service:		
Principal retirement		97,583
Interest		61,065
Bond issuance costs		818
Capital outlay		673,624
Total expenditures		10,870,071
Excess of revenues over expenditures		1,037,914
Other financing sources (uses):		
Issuance of debt		71,993
Proceeds of bond refunding		15,540
Bond discounts		(285)
Bond premiums		2,252
Payment to refunding escrow agent		(24,371)
Capital leases		2,223
Sale of capital assets		2,297
Transfers in		47,254
Transfers out		(767,047)
Total other financing sources and uses		(650,144)
Net change in fund balance		387,770
Fund balance - beginning		2,521,009
Fund balance - ending	$	2,908,779

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

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Fund to the Statement of Activities
For the Year Ended June 30, 2006
(Expressed in thousands)

Net change in fund balance-governmental fund		$ 387,770
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	$ 673,624	
Depreciation expense	(377,124)	
Excess of capital outlay over depreciation expense		296,500
The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins and donations) is to decrease net assets.		(12,875)
Bond proceeds provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the statement of net assets.		(87,533)
Bonds issued at a premium provide current financial resources to governmental funds, but increase the long-term liabilities in the statement of net assets.		(2,252)
Bonds issued at a discount reduce current financial resources to governmental funds, but decrease the long-term liabilities in the statement of net assets.		285
Bond issuance costs are expenditures to governmental funds, but are current deferred charges in the statement of net assets.		818
Loss on early retirement of bonds		(370)
Payments to refunding escrow agent use current financial resources to governmental funds but reduces long-term liabilities in the statement of net assets.		24,371
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.		(2,223)
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		97,583
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.		81,100
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	$ (540)	
Increase in claims, judgments, and compensated absences	(50,425)	
Amortization of bond premium, discount, and issuance costs	1,936	
Loss on sale of capital assets	(5,915)	
Capital assets transferred out	(139)	
Guarantee on defaulted bonds	(3,118)	
Decrease in net pension obligation	2,467	
Decrease in accrued interest	115	
Total additional expenditures		(55,619)
Change in net assets of governmental activities		$ 727,555

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

Statement of Net Assets
Proprietary Funds
June 30, 2006
(Expressed in thousands)

	Enterprise Funds			
Assets	**Higher Education**	**Workers' Compensation Commission**	**Non-Major Enterprise Funds**	**Total**
Current assets:				
Cash and cash equivalents	$ 298,748	$ 21,103	$ 86,555	$ 406,406
Investments	83,375	130,498	201,587	415,460
Receivables, net				
Accounts	180,134	10,108	82,253	272,495
Loans	10,213		61	10,274
Interest	766	1,816	897	3,479
Due from other funds	843	515	1,357	2,715
Due from other governments	9,848		10,128	19,976
Advances to other funds			435	435
Inventories	18,999		16	19,015
Prepaid items	2,696	35	24	2,755
Deposits with bond trustee	11,997			11,997
Other current assets	5,611			5,611
Total current assets	623,230	164,075	383,313	1,170,618
Noncurrent assets:				
Cash and cash equivalents - restricted	54,900			54,900
Investments				
Endowment	15,941			15,941
Restricted	29,655	94	91,128	120,877
Unrestricted	311,814			311,814
Receivables, net	43,448		274,195	317,643
Capital assets:				
Land	89,613	580	2,973	93,166
Infrastructure	156,050		10	156,060
Buildings	2,356,379	2,272	27,587	2,386,238
Equipment	521,655	1,505	6,341	529,501
Improvements other than building	15,583			15,583
Leasehold improvements			245	245
Construction in progress	319,431		939	320,370
Other depreciable assets	138,622	112	972	139,706
Less accumulated depreciation	(1,433,270)	(2,399)	(15,022)	(1,450,691)
External portion of investment pool	985,585			985,585
Advances to other funds			3,760	3,760
Deposits with bond trustee	326,230			326,230
Deposits with component unit		204		204
Financial assurance instruments		5,300		5,300
Other noncurrent assets	7,991		858	8,849
Total noncurrent assets	3,939,627	7,668	393,986	4,341,281
Total assets	$ 4,562,857	$ 171,743	$ 777,299	$ 5,511,899

Statement of Net Assets
Proprietary Funds
June 30, 2006
(Expressed in thousands)

	Enterprise Funds			
	Higher Education	Workers' Compensation Commission	Non-Major Enterprise Funds	Total
Liabilities				
Current liabilities:				
Accounts payable	$ 49,876	$ 3	$ 39,116	$ 88,995
Accrued interest payable	1,416	18	330	1,764
Accrued and other current liabilities	98,550	291	1,142	99,983
Advances from other funds	435			435
Due to other funds	1,981	10	480	2,471
Due to component unit			265	265
Due to other governments			1,944	1,944
Funds held in trust for others	7,739			7,739
Workers' compensation benefits payable		12,909		12,909
Bonds, notes, and leases payable	49,561	170	5,180	54,911
Claims, judgments, and compensated absences	19,486	88	22,835	42,409
Deferred revenue	41,141		2,413	43,554
Total current liabilities	270,185	13,489	73,705	357,379
Noncurrent liabilities:				
Workers' compensation benefits payable		202,194		202,194
External portion of investment pool	985,585			985,585
Advances from other funds	4,815			4,815
Bonds, notes, and leases payable	1,164,838	1,175	78,549	1,244,562
Claims, judgments, and compensated absences	60,585	601	3,199	64,385
Deferred revenue	670		1,794	2,464
Other noncurrent liabilities	11,512	5,300		16,812
Total noncurrent liabilities	2,228,005	209,270	83,542	2,520,817
Total liabilities	2,498,190	222,759	157,247	2,878,196
Net Assets				
Net assets:				
Invested in capital assets, net of related debt	1,220,806		23,967	1,244,773
Restricted for:				
Unemployment compensation			257,019	257,019
Debt service	14,246			14,246
Capital projects	61,929			61,929
Program requirements	2,805		307,007	309,812
Nonexpendable	76,097			76,097
Expendable - capital projects, debt service, loans and other	160,433			160,433
Unrestricted	528,351	(51,016)	32,059	509,394
Total net assets (deficit)	2,064,667	(51,016)	620,052	2,633,703
Total liabilities and net assets	$ 4,562,857	$ 171,743	$ 777,299	$ 5,511,899

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, 2006
(Expressed in thousands)

	Enterprise Funds			
	Higher Education	Workers' Compensation Commission	Non-Major Enterprise Funds	Total
Operating revenues:				
Charges for sales and services	$ 857,778	$	$ 234,686	$ 1,092,464
Licenses, permits and fees	302,416		2,838	305,254
Grants and contributions	289,604			289,604
Investment earnings			10,647	10,647
Miscellaneous	71,845	95	1,642	73,582
Total operating revenues	1,521,643	95	249,813	1,771,551
Operating expenses:				
Cost of sales and services			3,502	3,502
Compensation and benefits	1,514,700	8,638	29,501	1,552,839
Supplies and services	609,465	930	34,090	644,485
General and administrative expenses	2,478	713	3,413	6,604
Scholarships and fellowships	118,166	20		118,186
Benefit and aid payments		26,143	474,886	501,029
Depreciation and amortization	129,614	129	1,028	130,771
Amortization of bond costs			147	147
Interest			4,077	4,077
Total operating expenses	2,374,423	36,573	550,644	2,961,640
Operating income (loss)	(852,780)	(36,478)	(300,831)	(1,190,089)
Nonoperating revenues (expenses):				
Investment earnings	39,244	3,511	8,079	50,834
Unrealized gains/(losses) on investments	(19)			(19)
Taxes	21,981		280,637	302,618
Insurance tax		23,725		23,725
Grants and contributions	151,367		125,229	276,596
Interest and amortization expense	(39,508)	(56)		(39,564)
Loss on sale of fixed assets	(8,626)		(18)	(8,644)
Other nonoperating revenue (expense)	15,393			15,393
Total nonoperating revenues (expenses)	179,832	27,180	413,927	620,939
Income (loss) before transfers and contributions	(672,948)	(9,298)	113,096	(569,150)
Transfers in	760,649	393	6,005	767,047
Transfers out	(44,277)	(1)	(2,976)	(47,254)
Capital grants and contributions*	59,163		2	59,165
Change in net assets	102,587	(8,906)	116,127	209,808
Total net assets(deficit) - beginning	1,962,080	(42,110)	503,925	2,423,895
Total net assets(deficit) - ending	$ 2,064,667	$ (51,016)	$ 620,052	$ 2,633,703

* $140 of capital asset transfers were reclassified from capital contributions to transfers in on the government-wide financial statements.

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, 2006
(Expressed in thousands)

	Enterprise Funds			
	Higher Education	Workers' Compensation Commission	Non-major Enterprise Funds	Total
Cash flows from operating activities:				
Cash received from customers	$ 299,914	$	$ 232,135	$ 532,049
Cash received from other government agencies	381,851			381,851
Auxiliary enterprise charges	846,531			846,531
Payments to employees	(1,196,324)	(8,563)	(28,922)	(1,233,809)
Payments of benefits	(207,180)	(14,675)	(469,812)	(691,667)
Payments to suppliers	(671,683)	(1,671)	(35,684)	(709,038)
Interest received (paid)	8,405		6,187	14,592
Loan administration received (paid)	(13,109)		(32,450)	(45,559)
Other receipts (payments)	(147,155)	95	1,576	(145,484)
Net cash used in operating activities	(698,750)	(24,814)	(326,970)	(1,050,534)
Cash flows from noncapital financing activities:				
Gifts and grants	126,699			126,699
Direct lending receipts	126,128			126,128
Direct lending payments	(126,090)		(4,955)	(131,045)
Taxes	19,015	22,446	280,366	321,827
Grants and contributions	28,870		125,066	153,936
Other receipts (payments)	7,036			7,036
Net transfers to other funds	716,510	393	3,123	720,026
Net cash provided by noncapital financing activities	898,168	22,839	403,600	1,324,607
Cash flows from capital and related financing activities:				
Principal paid on capital debts and leases	(94,638)	(170)		(94,808)
Interest paid on capital debts and leases	(34,241)	(58)		(34,299)
Acquisition and construction of capital assets	(309,294)	(41)	(2,131)	(311,466)
Proceeds from governmental sources	9,199			9,199
Proceeds from long-term borrowings	381,083			381,083
Proceeds from sale of capital assets	498			498
Other receipts (payments) *	(49,812)			(49,812)
Net cash used in capital and related financing activities	(97,205)	(269)	(2,131)	(99,605)
Cash flows from investing activities:				
Purchase of investments	(336,694)	(1,553)	(117,022)	(455,269)
Proceeds from sale and maturities of investments	238,259		64,450	302,709
Interest and dividends on investments	19,036	2,441	8,040	29,517
Advance repayments (disbursements)			(242)	(242)
Net cash provided by (used in) investing activities	(79,399)	888	(44,774)	(123,285)
Net increase (decrease) in cash and cash equivalents	22,814	(1,356)	29,725	51,183
Cash and cash equivalents - beginning as restated	330,834	22,459	56,830	410,123
Cash and cash equivalents - ending	$ 353,648	$ 21,103	$ 86,555	$ 461,306

* Includes items such as capital allocation of property taxes, bond escrow activity, and capital gifts and contributions.

Continued on the following page

Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2006
(Expressed in thousands)

Continued from the previous page

	Enterprise Funds			
	Higher Education	Workers' Compensation Commission	Non-major Enterprise Funds	Total
Reconciliation of operating loss to net cash used in operating activities:				
Operating loss	$ (852,780)	$ (36,478)	$ (300,831)	$ (1,190,089)
Adjustments to reconcile operating loss to net cash used in operating activities:				
Depreciation	129,614	129	808	130,551
Amortization	6		275	281
Net appreciation (depreciation) of investments			(440)	(440)
Other operating activities	155			155
Net changes in assets and liabilities:				
Accounts receivable	(10,499)		(314)	(10,813)
Loans receivable	(81)		(32,446)	(32,527)
Inventory	(816)		6	(810)
Prepaid items		(3)		(3)
Other current assets	614		609	1,223
Current liabilities	1,096		5	1,101
Accounts payable and other accrued liabilities	12,820	11,489	7,060	31,369
Compensated absences	8,371	49	287	8,707
Deferred revenue	12,750		(1,989)	10,761
Net cash used in operating activities	$ (698,750)	$ (24,814)	$ (326,970)	$ (1,050,534)
Non-cash investing, capital, and financing activities:				
Fixed asset acquisition paid for by the State of Arkansas	$ 14,528	$	$	$ 14,528
Fixed asset acquisition directly from bond proceeds	10,150			10,150
Borrowing under capital leases	11,512			11,512
Donated capital assets	382			382
Capital assets donated by other state agencies	(38)			(38)
Capital gifts	48,476			48,476
Proceeds receivable from issuance of revenue bonds	36,775			36,775
Debt obligation from the issuance of bonds	(36,775)			(36,775)
Payments to bond escrow directly from bond proceeds	29,919			29,919

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

Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2006
(Expressed in thousands)

	Pension Trust Funds	Agency Funds
Assets		
Cash and cash equivalents	$ 490,125	$ 32,806
Receivables:		
Employee	11,058	
Employer	40,657	
Interest and dividends	42,962	96
Advances to other funds	13,408	
Other	130,556	11
Due from other funds	2	
Total receivables	238,643	107
Inventories		7
Investments at fair value:		
Certificates of deposit		42,828
Bonds, notes, mortgages, and preferred stock	1,887,767	48,142
Common stock	5,133,727	
Real estate	440,489	
International investments	3,133,172	
Mutual funds	520,441	
Pooled investment funds	2,962,855	
Corporate obligations	541,885	
Asset backed securities	351,537	
Other	1,227,478	
Total investments	16,199,351	90,970
Securities lending collateral	1,801,920	
Financial assurance instruments		314,804
Capital assets	202	
Other assets	1,768	
Total assets	18,732,009	438,694
Liabilities		
Accounts payable and other liabilities	9,221	181
Investment principal payable	364,052	
Obligations under securities lending	1,801,920	
Due to other governments		101,228
Due to other funds	61	
Due to third parties		337,285
Total liabilities	2,175,254	438,694
Net Assets		
Held in trust for employees' pension benefits	16,556,755	
Total net assets	$ 16,556,755	$

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, 2006
(Expressed in thousands)

		Pension Trust Funds
Additions:		
Contributions:		
Members	$	106,952
Employers		493,658
Supplemental contributions		5,654
Court fees		2,171
Local municipal judges retirement funds		(11)
Reinstatement fees		1,031
Total contributions		609,455
Investment income:		
Net increase (decrease) in fair value of investments		1,554,113
Interest, dividends, and other		323,466
Real estate operating income		3,924
Securities lending income		74,794
Total investment income		1,956,297
Less investment expense		124,273
Net investment income		1,832,024
Miscellaneous		8,797
Total additions (losses)		2,450,276
Deductions:		
Benefits paid to participants or beneficiaries		809,039
Refunds of employee/employer contributions		7,179
Administrative expense		10,894
Total deductions		827,112
Change in net assets held in trust for employees' pension benefits		1,623,164
Net assets - beginning as restated		14,933,591
Net assets - ending	$	16,556,755

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

Notes to the Financial Statements – Table of Contents

(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, health care, infrastructure projects, jails, and prisons. ADFA also offers direct loans for housing, small minority businesses, agriculture, and exporting.

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

Arkansas Student Loan Authority
101 East Capitol, Suite 401
Little Rock, AR 72201
(501) 682-2952

Arkansas Development Finance Authority
423 Main Street, Suite 500
Little Rock, AR 72201
(501) 682-5900

***Component Units Relating to Higher Education* -** In May 2002, GASB issued Statement No. 39, *Determining Whether Certain Organizations are Component Units,* which amends GASB No. 14 to provide additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with a primary government. Under the standard, which became effective with the fiscal year ending June 30, 2004, the financial activities of qualifying legally separate, tax-exempt entities are to be included in the financial statements of the primary government through discrete presentations. There were two qualifying foundations for the State of Arkansas: the University of Arkansas Foundation, Inc. and the University of Arkansas Fayetteville Campus Foundation, Inc. (the foundations). Although the State does not control the timing or amount 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. (the foundation) operates for charitable, educational purposes, including administering and investing gifts and other amounts received directly or indirectly for the benefit of the University of Arkansas. The Board of Directors of the foundation includes four members who are also members 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 six members, including two 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.
535 Research Center Blvd., Suite 120
Fayetteville, AR 72701

The University of Arkansas Fayetteville Campus Foundation, Inc.
700 Research Center Blvd.
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 government-wide, component units, and fiduciary fund financial statements, respectively:

Governmental activities - a decrease in net assets in the amount of $30 million represents a restatement of capital assets which were erroneously recorded as State property. The restated government-wide net assets are as follows (in thousands):

Beginning Net Assets	$ 9,903,423
Adjustment	(29,737)
Restated Beginning Net Assets	$ 9,873,686

Component Unit – the Arkansas Student Loan Authority reduced net assets by approximately $5.2 million to correct an error in their special allowance income due to billing issues with their servicers. The restatement to account for the funds remitted to the U.S. government is as follow (in thousands):

Beginning Net Assets	$ 31,654
Adjustment	(5,189)
Restated Beginning Net Assets	$ 26,465

Pension trust fund - an increase in net assets in the amount of $73 million to correct the fair value of investments recorded by the Arkansas Teacher Retirement Plan. The restated pension fund net assets are as follows (in thousands):

Beginning Net Assets	$ 14,860,542
Adjustment	73,049
Restated Beginning Net Assets	$ 14,933,591

(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, fiduciary funds 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 the 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. 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.

Since government-wide financial statements are presented using the accrual basis of accounting and governmental fund financial statements are presented using the modified accrual basis of accounting, a reconciliation between the two statements is presented in the basic financial statement section.

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 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.

(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, 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.

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 needed.

(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 a 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, are 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 Department of Workforce Services, 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 Fund Balance

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, mutual funds, real estate, limited partnerships, asset backed securities, guaranteed investment contracts, 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, 2006, five universities, the University of Arkansas Cooperative Extension Service, and three foundations participated in the Pool. The foundations hold approximately $985.6 million (external portion) of the investments in the Pool, which are reported separately along with the related liability in the Higher Education Fund and in the business-type activities column of the government-wide financial statements. Participation in or withdrawal from the Pool is based on the daily market value of the units within the Pool. Income from the Pool is allocated to the participants in the Pool based on the market value per unit from the previous day. The Pool issues a publicly available financial report, which may be obtained by writing or calling the University of Arkansas System, 2404 North University Avenue, Little Rock, Arkansas, 72207, (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" (if the balance will be paid within one year) or "advances to/from other funds" (if the balance will be paid in more than one year). 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 using the consumption method which records 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."

Noncurrent Cash and Investments

Cash and investments that are externally restricted to make debt service payments, maintain sinking or reserve funds, or purchase capital or other noncurrent assets, are classified as noncurrent assets in the statement of net assets. Cash, cash equivalents, and investments relating to university endowments are also reflected as noncurrent assets in the statement of net assets.

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, 2006 is $38 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 & building improvements	20-50
Infrastructure	10-30
Land improvements	10-40
Leasehold improvements	10-50
Other capital 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 amount reported as income tax refunds payable at June 30, 2006 is related to projected refund estimates attributable to fiscal year 2006 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 the end of the year.

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.

Net Assets Restricted by Enabling Legislation

Enabling legislation is limited to legislation that the government itself approves. It establishes restrictions "if it includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation." Legally enforceable means that a government can be compelled by an external party such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation. At June 30, 2006, the government-wide statement of net assets reported $672 million of restricted net assets for governmental activities, of which $204 million were restricted by enabling legislation.

Donor-Restricted Endowments

The State has donor-restricted endowments with net appreciation of $30.7 million on investments which are available for expenditure by the respective governing boards. Such amounts are included in Restricted Net Assets in accordance with the restrictions of the gift instrument. Three sections of the Arkansas Code outline the restrictions placed on the endowment fund and the net appreciation. First, Arkansas Code Annotated § 28-69-603 restricts the expenditure of endowment funds that the governing body determines to be prudent under the standard established by Arkansas Code Annotated § 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. Second, Arkansas Code Annotated § 28-69-604 states the restriction on the expenditures may not be implied for endowment funds. Third, Arkansas Code Annotated § 28-69-607 states that members of a governing board shall exercise ordinary business care and prudence in decision making and retaining investments and shall consider long and short term needs of the institution's financial requirements.

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. 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 health care, health care 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. 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. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, establishes guidance for the exchange of an interest in the governments expected cash flows from collecting specific receivables or specific future revenues for immediate cash payments. Criteria established by the statement will be used by the government to ascertain whether the proceeds received should be reported as revenue or as a liability. Additional guidance is provided by the statement to be used for sales of receivables and future revenues within the same financial reporting entity. This statement also includes guidance to be used for recognizing other assets and liabilities arising from a sale of specific receivables or future revenues, including residual interests and recourse provisions. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2006 (i.e. fiscal year 2008).

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, establishes standards to enhance the usefulness and comparability of pollution remediation obligation information reported by state and local governments by setting uniform standards requiring more timely and complete reporting of these obligations. Additionally, the standard requires all governments to account for pollution remediation obligations in the same manner, including required reporting of pollution remediation obligations that previously may not have been reported. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2007 (i.e. fiscal year 2009).

(2) Deposits and Investments

The deposits and investments of the State are exposed to risks that have the potential to result in losses. The following information discloses risks related to credit, interest rate, and foreign currency risks, as well as policies related to these risks. 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.

The State's 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. Institutions of higher education do not have a deposit policy for custodial credit risk. The retirement systems' policy is to place deposits only in collateralized or insured accounts.

At June 30, 2006, the reported bank balances of the general fund were $1,180,759,188. Of this amount, $648,113 was uninsured and uncollateralized, $12,021,210 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 $11,814,494 was uninsured and collateralized with securities held by the pledging financial institution.

At June 30, 2006, the reported bank balances of the enterprise funds were $505,612,193. Of this amount, $129,164 was uninsured and uncollateralized, and $28,999,036 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, 2006, the reported bank balances of the fiduciary funds were $110,279,191. Of this amount, $15,232,684 was uninsured and uncollateralized, $1,926,976 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 $383,803 was uninsured and collateralized with securities held by the pledging financial institution.

At June 30, 2006, the reported bank balances of the component units were $5,895,164. Of this amount, $3,367,771 was uninsured and uncollateralized, and $1,386,000 was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent but not in the State's name.

(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 except securities used as collateral in repurchase agreements, Arkansas Capital Corporation Bonds, and State Board of Finance and State Building Services Certificates of Indebtedness. 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, 2006, the State of Arkansas had the following debt investments and maturities (expressed in thousands):

Investment Type	Fair Value	Investment Maturities (in years) Less Than 1	1 to 5	6 to 10	More Than 10
General Funds					
U.S. Treasuries	$ 32,798	$ 15,867	$ 16,931	$	$
U.S. Treasury STRIPS	3		1	1	1
Municipal Bonds	1		1		
U.S. Government Agencies	596,536	176,951	414,796		4,789
Other Loans	40,165	771	613	38,781	
Subtotal	669,503	193,589	432,342	38,782	4,790
Enterprise Funds					
U.S. Treasuries	3,493	1,080		2,413	
U.S. Government Agencies	126,281	70,745	54,529	864	143
Corporate Bonds	23,408	3,118	16,157	3,203	930
Mutual Bond Fund	681		681		
Mutual Funds	186,343	177,587	2,288	6,468	
Guaranteed Investment Contracts	6,513		3,640	2,873	
Preferred Stock	4				4
Other Loans	3,315	64	50	3,201	
Subtotal	350,038	252,594	77,345	19,022	1,077
Fiduciary Funds					
U.S. Treasuries	272,499	10,284	79,872	27,938	154,405
U.S. Government TIPS	8,109		7,515	594	
U.S. Government Agencies	643,645	18,078	111,567	87,530	426,470
Convertible Bonds	502,275	8,172	78,853	25,109	390,141
Collateralized Obligations	183,021		8,806	9,830	164,385
Municipal Bonds	14,550	107	3,311	2,103	9,029
Corporate Bonds	617,033	76,318	228,741	191,493	120,481
Domestic Fixed Income Commingled	131,578			131,578	
High Yield Income Fund	36,030		14,882	21,148	
Emerging Markets Bond Fund	5,894				5,894
Commercial Loans	3,654			3,654	
Global Corporate Fixed	40,797	2,377	17,342	16,770	4,308
Emerging Markets	15,381		4,956	5,622	4,803
U.S. Corporate Floating Rate	162,037		162,037		
Bank Obligations	80,660		80,660		
Certificates of Deposit	151,039	50,004	101,035		
Asset Backed Securities	510,448	39,922	221,401	31,872	217,253
External Investment Pools	2,735,195	1,163,560	40,289	1,472,955	58,391
Repurchase Agreements	66,976	66,976			
Mortgage Loans	57,545	3,199	27,079	27,267	
Other Loans	1,421	27	22	1,372	
Subtotal	6,239,787	1,439,024	1,188,368	2,056,835	1,555,560
Component Units					
U.S. Treasuries	92,767	33,495	58,328	801	143
U.S. Government Agencies	42,048	2,515	34,298	5,195	40
Municipal Bonds	452		452		
Repurchase Agreements	1,377	253	1,124		
Guaranteed Investment Contracts	705,972	178,118	252,951	242,393	32,510
Money Market Mutual Fund	174,019	174,019			
Mortgage Backed Securities	502,047		61	19	501,967
Subtotal	1,518,682	388,400	347,214	248,408	534,660
Total	$ 8,778,010	$ 2,273,607	$ 2,045,269	$ 2,363,047	$ 2,096,087

Convertible Corporate Bonds

As of June 30, 2006, the Arkansas Public Employees Retirement System (APERS) held convertible bonds with a fair value of $147,675,496. 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. A variable coupon varies directly with movements in interest rates. Of the $147,675,496 total bonds held by APERS at June 30, 2006, $13,773,345 are considered highly sensitive to interest rate changes.

Issuer	Trade Date	Cost	Maturity Date	Rate Calculation	Reset Date	Market Value
ADC Telecom	6/1/2006	$ 1,386,417	6/15/2013	6-Month LIBOR +.375%	Semi-Annual	$ 1,279,700
Bristol Myer	6/27/2006	1,433,835	9/15/2023	3-Month LIBOR -.50%	Quarterly	1,422,328
Ceasers Int	10/14/2005	1,974,672	4/15/2024	3-Month LIBOR	Quarterly	1,943,146
Lockheed Martin	10/26/2005	1,817,930	8/15/2033	3-Month LIBOR -.25%	Quarterly	1,954,888
Prudential Financial	5/23/2006	1,754,984	11/15/2035	3-Month LIBOR -2.76%	Quarterly	1,757,272
SLM Corp	6/13/2006	1,441,302	7/25/2035	3-Month LIBOR -.50%	Quarterly	1,437,982
Wells Fargo Co	6/13/2006	1,447,926	5/1/2033	3-Month LIBOR -.25%	Quarterly	1,443,194
Wyeth	12/16/2003	2,476,875	1/15/2024	6-Month LIBOR -.50%	Semi-Annual	2,534,835
		$13,733,941				$13,773,345

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 BBB 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, 2006 is as follows (expressed in thousands):

Standard and Poor's		Moody's Investor's Service	
Rating	**Fair Value**	**Rating**	**Fair Value**
General Fund			
AAA	$ 1,525,950	Aaa	$ 1,543,838
AA	18,566	Unrated	42,592
Unrated	41,914		
Subtotal	1,586,430		1,586,430
Enterprise Funds			
AAA	343,956	Aaa	267,163
AA	12,020	Aa	634
A	7,300	A	717
BBB	3	Baa	246
BB	384	Ba	828
B to A	6,468	C and below	123
B and Below	568	Unrated	731,664
Unrated	630,676		
Subtotal	1,001,375		1,001,375
Fiduciary Funds			
AGY	294,109	AGY	280,859
AAA	1,066,194	Aaa	1,039,832
AA	189,675	Aa	374,141
A	554,214	A	335,047
A-1	50,004	P-1	50,004
BBB	301,607	Baa	306,638
BB	144,131	Ba	131,458
B	148,756	B	126,424
CCC or Lower	12,722	C or Lower	8,776
Unrated	3,099,429	Unrated	3,207,662
Subtotal	5,860,841		5,860,841
Component Units			
AAA	718,114	Aaa	167,134
Unrated	452	Unrated	551,432
Subtotal	718,566		718,566
Total	$ 9,167,212		$ 9,167,212

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 institutions of higher education do not have a formal custodial credit risk policy.

At June 30, 2006, the reported amount of the enterprise funds' investments was $1,195,222,617. Of this amount, $2,773,656 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, 2006, the reported amount of the component units' investments was $1,518,682,004. Of this amount, $1,376,596 was uninsured and unregistered with securities held by the counterparty.

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.

The State Treasury's concentration of credit risk policy is that the investments, exclusive of funds managed by security lending agent, will not exceed the following percentages of the total portfolio: 15% in Bankers Acceptances, 15% in Commercial Paper and 10% in Certificates of Deposit. Investment policies for funds managed by the State Treasurer for the State Treasury Certificate Deposit Investment Program state that an institution can receive no more that 10% of the total distribution.

The State places no limit on the amount the State Treasury may invest in U.S. government agency securities. The State Treasury's investment in Federal Home Loan Bank securities represent 19.4% of the primary government's total investments.

Arkansas Development Finance Authority (ADFA), a component unit of the State, places no limit on the amount that may be invested in any one issuer. ADFA's investments in the following represent investments in a single issuer that exceed 5% of total component units' investments:

Investment	Amount	Percentage
GNMA	$ 475,629,826	31%
AIG Matched Funding Corp	168,239,000	11%
Bayerische Landesbank Giozentrale	152,630,000	10%

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, 2006 is as follows (expressed in thousands):

Currency	Fair Value	Fixed Income Securities	Equities	Foreign Currency Contract	Cash
Australian Dollar	$ 73,181	$ 1,338	$ 72,707	$ 457	$ (1,321)
Brazilian Real	3,443	558	2,117	713	55
British Pound Sterling	344,208	3,833	386,161	(42,788)	(2,998)
Canadian Dollar	61,830	1,564	81,982	(21,748)	32
Danish Krone	604,769		599,850	4,917	2
Euro	95,479	11,136	172,369	(98,192)	10,166
Hong Kong Dollar	51,408		51,369	38	1
Hungarian Forint	(209)	3,278		(3,487)	
Indian Rupee	731				731
Japanese Yen	580,505	396	531,989	45,744	2,376
Mexico Nuevo Peso	6,343	1,730		4,535	78
New Taiwan Dollar	15,682		15,682		
New Zealand Dollar	2				2
Norwegian Krone	3,647		6,019	(3,629)	1,257
Polish Zloty	(162)	2,903		(3,065)	
Renminbi Yuan	5,249		3,740	1,509	
Singapore Dollar	37,439		15,518	21,786	135
South African Rand	27,067	1,380	16,932	8,480	275
South Korean Won	68,456		68,456		
Swedish Krona	82,895	2,423	40,582	39,805	85
Swiss Franc	180,203		177,014	1,893	1,296
Thailand Baht	17,008			17,008	
Total Fair Value	$ 2,259,174	$ 30,539	$ 2,242,487	$ (26,024)	$ 12,172

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

The Arkansas Public Employees Retirement System (APERS) and the 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 realized 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 the net increase (decrease) in fair value of investments in the statement of changes in plan net assets. At June 30, 2006, the retirement systems referred to above were party to outstanding foreign exchange currency contracts to purchase foreign currencies with contract amounts of $182.3 million, collectively. Fair values of these outstanding contracts were $189.8 million resulting in a net unrealized gain of $7.5 million. The retirement systems also had outstanding foreign contracts to sell foreign currency with contract amounts of $215.5 million at June 30, 2006. Fair values of these contracts were $215.8 million resulting in an unrealized loss of approximately $.3 million. Settlement dates range from July through November 2006.

To Be Announced Short Contracts

Teacher participates in To Be Announced Short Contracts (TBA's) as part of the overall diversification investment plan by their fixed income managers. TBA's are underlying contracts on mortgage-backed securities to buy or sell mortgage-backed securities which will be delivered at an agreed-upon date in the future. The maturity dates of the TBA's are over ten years. At June 30, 2006, the costs of these TBA's were $35.1 million, collectively. Fair values were $34.9 million resulting in a net unrealized loss of approximately $.2 million.

Mortgage-Backed Securities

APERS, 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 fair value of the underlying assets.

Asset-Backed Securities

As of June 30, 2006, APERS and Teacher held asset-backed securities with the fair value of $183 million and $168.5 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 Judge Retirement System (District Judge), Arkansas Judicial Retirement System (Judicial) and State Police had approximately $543.5 million, $1.4 million, $23.1 million and $43.1 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 payment pattern and the fair value of the underlying assets.

Interest Rate Swaps

ADFA has entered into an interest rate swap agreement to effectively convert $10 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 and the Board of Trustee policies, 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 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, 2006 includes domestic and international equities, domestic and international corporate fixed income securities, U.S. Treasury securities, U.S. government 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 $1.8 billion. At June 30, 2006, 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) Receivables

Receivables at June 30, 2006 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	$ 245,745	$ 663,676 (1)	$	$ 180,233	$ 194,890	$ 17,993	$ 24,755 (2)	$ (291,103)	$1,036,189
Higher Education Fund	1,051,297				60,703	766		(878,205)	234,561
Workers' Compensation Commission	10,108					1,816			11,924
Non-major Enterprise Funds	104,445				274,256	897		(22,192)	357,406
Pension Trust			51,715			42,962	130,556		225,233
Agency						96	11		107
Total	$1,411,595	$ 663,676	$ 51,715	$ 180,233	$ 529,849	$ 64,530	$ 155,322	$ (1,191,500)	$1,865,420

(1) Receivable balances of $59,347 are not expected to be collected within one year of the date of the financial statements.
(2) Includes amounts receivable from component units.

Component Units

	Accounts	Loans	Capital Lease Receivable	Investment-Related	Contributions	Other Receivables	Allowance for Uncollectibles	Net Receivable by Component Unit
Arkansas Student Loan Authority	$	$ 440,961	$	$ 11,089	$	$	$ (1,725)	$ 450,325
Arkansas Developmental Finance Authority	320	345,948	106,277	7,897		268	(20,837)	439,873
University of Arkansas Foundation		197		2,641	51,997		(754)	54,081
Total	$ 320	$ 787,106	$ 106,277	$ 21,627	$ 51,997	$ 268	$ (23,316)	$ 944,279

(6) Intergovernmental Activity

Interfund Receivables and Payables (expressed in thousands):

	Due From					
Due To	General Fund	Higher Education Fund	Workers' Compensation Commission	Non-major Enterprise Funds	Pension Trust	Total
General Fund	$	$ 1,724	$ 10	$ 475	$ 60	$ 2,269
Higher Education Fund	843					843
Workers' Compensation Commission	252	257		5	1	515
Non-major Enterprise Funds	1,357					1,357
Pension Trust Funds	2					2
Total	$ 2,454	$ 1,981	$ 10	$ 480	$ 61	$ 4,986

Interfund receivables and payables include $1.7 million due from the Higher Education Fund to the General Fund for workers' compensation unemployment contributions, $1.4 million due from the General Fund to the Department of Workforce Services for unemployment insurance program contributions, $.8 million due from the General Fund to the Higher Education Fund for financial aid, payroll reimbursement, and insurance premiums paid to the Insurance Department. All amounts are expected to be repaid within one year.

Advances To/From Other Funds – Primary Government (expressed in thousands):

	Advances To		
Advances From	General Fund	Higher Education Fund	Total
General Fund	$	$ 1,055	$ 1,055
Non-Major Enterprise Funds		4,195	4,195
Pension Trust Funds	13,408		13,408
Total	$ 13,408	$ 5,250	$ 18,658

Advances include: (1) an outstanding balance of $13.4 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; (2) advances in the amount of $1 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 $4.2 million to provide low interest loans to community and technical colleges for capitalizable education and general projects with variable interest rates.

Transfers (expressed in thousands):

	Transfers In				
Transfers Out	General Fund	Higher Education Fund	Workers' Compensation Commission	Non-major Enterprise Funds	Total
General Fund	$	$ 760,649	$ 393	$ 6,005	$ 767,047
Higher Education Fund	44,277				44,277
Workers' Compensation Commission	1				1
Non-Major Enterprise Funds	2,976				2,976
Total	$ 47,254	$ 760,649	$ 393	$ 6,005	$ 814,301

The transfer of $760 million from the General Fund to the Higher Education Fund was for State funding of higher education institutions. The transfer of $44 million from the Higher Education Fund to the Department of Health and Human Services within the General Fund was for the transfer of a portion of the State funding provided to the University of Arkansas Medical School to be used for the Medicaid Program. The transfer of $6 million included $2.1 million from Arkansas Natural and Cultural Resources Council for the renovation to War Memorial Stadium and $3.4 million from the Environmental Protection Agency to reimburse Arkansas Natural Resources Commission for assistance in building clean drinking water facilities. The transfer from non-major enterprise funds to the General Fund ($.8 million from the Construction Assistance Loan Fund and $1.7 million from Other Revolving Loan Funds) was also a grant from the Environmental Protection Agency for reimbursement of administrative expenses and monitoring of public drinking water facilities to ensure compliance with federal guidelines.

On the Government-wide financial statements, additional transfers of $140 thousand are reported which represent capital asset transfers from the General Fund to the Higher Education Fund of $138 thousand and capital asset transfers from the General Fund to the Department of Workforce Services (a Non-major Enterprise Fund) of $2 thousand. On the Enterprise Fund financial statements, these amounts were reported as capital contributions.

(7) Capital Assets

Primary Government

Capital asset activity for the year ended June 30, 2006 was as follows (expressed in thousands):

	Balance July 1, 2005 (as restated)	Adjustments/ Transfers (1)	Additions	Deletions	Balance June 30, 2006
Governmental activities:					
Capital assets, not being depreciated:					
Land	$ 445,410	$ 2,679	$ 37,671	$ (452)	$ 485,308
Construction in progress	2,041,364	(531,711)	563,020	(107)	2,072,566
Other non-depreciable assets	3,701	285	212	(4)	4,194
Total capital assets, not being depreciated	2,490,475	(528,747)	600,903	(563)	2,562,068
Capital assets, being depreciated:					
Land improvements	130,974	11,106	636	(104)	142,612
Infrastructure	8,989,226	451,368	188	(15,166)	9,425,616
Leasehold improvements	1,117	8			1,125
Buildings	933,743	69,350	13,676	(2,668)	1,014,101
Equipment (2)	614,034	2,507	56,600	(49,622)	623,519
Other depreciable assets	8,449	2,457	1,621	(21)	12,506
Total capital assets, being depreciated	10,677,543	536,796	72,721	(67,581)	11,219,479
Subtotal	13,168,018	8,049	673,624	(68,144)	13,781,547
Less accumulated depreciation for:					
Land improvements	(41,964)	(1,612)	(3,815)	19	(47,372)
Infrastructure	(3,743,943)	954	(301,507)	15,166	(4,029,330)
Leasehold improvements	(394)	(1)	(51)		(446)
Buildings	(380,985)	(3,378)	(25,029)	1,291	(408,101)
Equipment	(423,823)	(16,767)	(45,382)	45,736	(440,236)
Other depreciable assets	(2,424)	(255)	(1,340)	17	(4,002)
Total accumulated depreciation	(4,593,533)	(21,059)	(377,124)	62,229	(4,929,487)
Governmental activities capital assets, net	$ 8,574,485	$ (13,010)	$ 296,500	$ (5,915)	$ 8,852,060

(1) Includes transfers within the primary government, assets that were not previously reported, accounting errors and other changes.

(2) Balance June 30, 2005 restated by ($29,737).

	Balance July 1, 2005	Adjustments/ Transfers (1)	Additions	Deletions	Balance June 30, 2006
Business-type activities:					
Capital assets, not being depreciated:					
Land	$ 95,451	$ (9,666)	$ 7,383	$ (2)	$ 93,166
Construction in progress	218,406	(27,110)	225,371	(96,297)	320,370
Total capital assets, not being depreciated	313,857	(36,776)	232,754	(96,299)	413,536
Capital assets, being depreciated:					
Improvements other than building	16,211	(867)	253	(14)	15,583
Leasehold improvements	291			(46)	245
Buildings	2,207,525	26,564	161,047	(8,898)	2,386,238
Equipment	483,629	(404)	77,279	(31,003)	529,501
Other capital assets	131,022		11,428	(2,744)	139,706
Infrastructure	135,290	11,147	10,163	(540)	156,060
Total capital assets, being depreciated	2,973,968	36,440	260,170	(43,245)	3,227,333
Subtotal	3,287,825	(336)	492,924	(139,544)	3,640,869
Less accumulated depreciation for:					
Improvements other than building	(7,628)	974	(708)		(7,362)
Leasehold improvements	(80)	(1)	(8)		(89)
Buildings	(865,635)	749	(67,704)	6,737	(925,853)
Equipment	(339,082)	315	(46,787)	31,007	(354,547)
Other capital assets	(85,072)	2	(9,150)	1,679	(92,541)
Infrastructure	(62,871)	(1,042)	(6,414)	28	(70,299)
Total accumulated depreciation	(1,360,368)	$ 997	$ (130,771)	$ 39,451	(1,450,691)
Business-type activities capital assets, net	$ 1,927,457	$ 661	$ 362,153	$ (100,093)	$ 2,190,178

(1) Includes transfers within the primary government, assets that were not previously reported, accounting errors and other changes.

Discretely Presented Component Units

Activity for ADFA for the year ended June 30, 2006 was as follows (expressed in thousands):

	Balance July 1, 2005	Additions/ Deletions	Balance June 30, 2006
ADFA:			
Capital assets being depreciated:			
Equipment	$ 515	$ 97	$ 612
Less accumulated depreciation for:			
Equipment	(377)	(63)	(440)
ADFA capital assets, net	$ 138	$ 34	$ 172

Activity for ASLA for the year ended June 30, 2006 was as follows (expressed in thousands):

	Balance July 1, 2005	Additions/ Deletions	Balance June 30, 2006
ASLA:			
Capital assets being depreciated:			
Equipment	$ 345	$	$ 345
Less accumulated depreciation for:			
Equipment	(343)	(2)	(345)
ASLA capital assets, net	$ 2	$ (2)	$ 0

Activity for U of A Foundation, Inc. for the year ended June 30, 2006 was as follows (expressed in thousands):

	Balance July 1, 2005	Additions/ Deletions	Balance June 30, 2006
U of A Foundation:			
Capital assets not being depreciated:			
Land	$ 2,009	$ (579)	$ 1,430
Capital assets being depreciated:			
Buildings and equipment	775	(90)	685
Less accumulated depreciation for:			
Buildings and equipment	(582)	8	(574)
Total Assets being depreciated, net	193	$ (82)	111
Total Assets U of A Foundation	$ 2,202		$ 1,541

Depreciation

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

Primary Government

Governmental Activities:	
Education	$ 4,510
Health and human services	9,971
Transportation	311,159
Law, justice, and public safety	22,854
Recreation and resources development	15,131
General government	11,952
Regulation of business and professionals	1,547
Total depreciation expense – governmental activities	$ 377,124
Business-type Activities:	
Enterprise Funds	$ 130,771
Total depreciation expense – business-type activities	$ 130,771

Discretely Presented Component Units

ADFA	$ 63
ASLA	2
U of A Foundation	34
Total depreciation expense – component units	$ 99

(8) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2006 are summarized as follows (expressed in thousands):

	Balance July 1, 2005	Additions	Accretion on capital appreciation bonds	Reductions	Balance June 30, 2006	Due within one year	Due greater than one year
Governmental Activities:							
Bonds payable:							
General obligation	$ 944,858	$ 44,235	$ 540	$ 89,231	$ 900,402 (1)	$ 71,629 (2)	$ 828,773
Special obligation	370			165	205	100	105
Revenue Bond Guaranty Fund		3,120		132	2,988	133	2,855
Add (deduct):							
Deferred bond refunding loss:							
General Obligation	(958)	(961)		(90)	(1,829)		(1,829)
Debt to Component Unit	(3,849)	(144)		(280)	(3,713)		(3,713)
Issuance premium (discount):							
General Obligation	14,552	(12)		2,114	12,426	2,105	10,321
Debt to Component Unit	1,589	1,978		179	3,388	221	3,167
Total bonds payable	956,562	48,216	540	91,451	913,867	74,188	839,679
Notes payable to component unit	96,683	40,308		13,735	123,256	7,107	116,149
Note payable to pension trust fund	15,100			1,692	13,408	1,828	11,580
Notes payable to health care financing administration	171			171			
Capital leases	6,927	19		2,526	4,420	1,568	2,852
Capital leases with component unit	107,522	5,192		14,890	97,824	8,235	89,589
Total notes and leases payable	226,403	45,519		33,014	238,908	18,738	220,170
Total bonds, notes, and leases payable	1,182,965	93,735	540	124,465	1,152,775	92,926	1,059,849
Claims and judgments	113,071	215,336		169,157	159,250	79,972	79,278
Compensated absences	111,579	102,261		98,013	115,827	13,588	102,239
Total claims, judgments, and compensated absences	224,650	317,597		267,170	275,077	93,560	181,517
Net pension obligation	4,574			2,467	2,107		2,107
Governmental activity total	$ 1,412,189	$ 411,332	$ 540	$ 394,102	$ 1,429,959	$ 186,486	$ 1,243,473

(1) includes accretion on capital appreciation bonds of $ 70,975.
(2) includes accretion on capital appreciation bonds of $ 540.

The compensated absences liabilities will be liquidated by the applicable funds that account for the salaries and wages of the related employees.

	Balance July 1, 2005 (as reclassed)	Additions	Reductions	Balance June 30, 2006	Due within one year	Due greater than one year
Business-type Activities:						
Bonds payable:						
Special obligation:						
Construction Assistance Revolving Loan Fund	$ 88,910	$	$ 4,955	$ 83,955	$ 5,180	$ 78,775
College and University Revenue Bonds	891,880 (1)	357,267	93,474	1,155,673	36,051	1,119,622
Add (deduct):						
Deferred bond refunding loss	(4,183) (2)	(437)	(272)	(4,348)	(296)	(4,052)
Issuance premiums/ (discounts)	8,313 (3)	5,555	717	13,151	21	13,130
Total bonds payable	984,920	362,385	98,874	1,248,431	40,956	1,207,475
Notes payable	17,128	6,454	5,652	17,930	6,711	11,219
Notes payable with component unit	8,728		2,062	6,666	808	5,858
Total notes payable	25,856	6,454	7,714	24,596	7,519	17,077
Capital leases	21,470	11,279	7,657	25,092	6,256	18,836
Capital leases with component unit	1,665		311	1,354	180	1,174
Total lease payable	23,135	11,279	7,968	26,446	6,436	20,010
Total bonds, notes, and leases payable	1,033,911	380,118	114,556	1,299,473	54,911	1,244,562
Claims and judgments	231,694	335,482	319,599	247,577	44,868	202,709
Compensated absences	64,907	44,607	35,194	74,320	10,450	63,870
Total claims, judgments, and compensated absences	296,601	380,089	354,793	321,897	55,318	266,579
Business-type activity total	$ 1,330,512	$ 760,207	$ 469,349	$ 1,621,370	$ 110,229	$ 1,511,141

(1) $4,030 reclassified to deferred bond refunding loss ($4,183) and issuance premium $8,213.
(2) Deferred bond refunding loss reclassified from bonds payable ($4,183).
(3) Issuance premiums/(discounts) includes adjustment for UAMS balance reclassified from bonds $8,213.

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Due within one year	Due greater than one year
Component units:						
Arkansas Student Loan Authority:						
Bonds payable:						
Revenue	$ 580,700	$ 203,600	$ 30,520	$ 753,780	$	$ 753,780
Less: Deferred bond refunding loss	(241)		(241)			
Total bonds payable ASLA	580,459	203,600	30,279	753,780		753,780
Arkansas Development Finance Authority:						
Bonds payable	1,173,362	163,170	222,414	1,114,118	45,435	1,068,683
Notes payable	326,055	84,657	98,405	312,307	164,969	147,338
Less: Issuance discounts	(961)	161	(283)	(517)		(517)
Total bonds and notes payable ADFA	1,498,456	247,988	320,536	1,425,908	210,404	1,215,504
U of A Foundation						
Annuity Obligations	16,783	3,746	2,005	18,524	960	17,564
Component units total	$ 2,095,698	$ 455,334	$ 352,820	$ 2,198,212	$ 211,364	$ 1,986,848

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, 2006 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	5.50	$ 153,700
2001A Series Federal Highway G.O. Bonds	2013	4.50-5.25	168,700
2002 Series Federal Highway G.O. Bonds	2014	3.50-5.00	206,970
Arkansas Natural Resources Commission Bonds:			
2000A Series Water, Waste, and Pollution	2007	4.85	4,855
2001A Series Water, Waste, and Pollution	2011	5.85-6.30	5,510
2001B Series Water, Waste, and Pollution	2011	4.00-4.45	1,970
2002A Series Water, Waste, and Pollution	2026	4.00-5.00	12,490
2002B Series Water, Waste, and Pollution	2025	4.25-5.00	6,110
2002C Series Water, Waste, and Pollution	2020	3.50-5.00	7,075
2002D Series Water, Waste, and Pollution	2017	3.50-4.75	7,495
2002E Series Water, Waste, and Pollution	2012	4.75-5.80	1,325
2002F Series Water, Waste, and Pollution	2012	3.25-4.20	1,760
2002G Series Water, Waste, and Pollution	2035	2.85-4.95	4,915
2002H Series Water, Waste, and Pollution	2017	4.50-5.35	1,700
2002I Series Water, Waste, and Pollution	2026	3.00-4.75	9,995
2002K Series Water, Waste, and Pollution	2026	3.00-4.88	7,995
2003A Series Water, Waste, and Pollution	2020	2.60-5.30	2,085
2003B Series Water, Waste, and Pollution	2027	2.00-4.65	2,805
2003C Series Water, Waste, and Pollution	2033	2.50-4.75	18,185
2004A Series Water, Waste, and Pollution	2036	3.00-5.00	14,375
2005A Series Water, Waste, and Pollution	2025	3.25-4.35	5,600
2005B Series Water, Waste, and Pollution	2027	3.00-4.75	9,435
2006A Series Water, Waste, and Pollution	2016	5.00	18,505
2006B Series Water, Waste, and Pollution	2036	3.50-4.50	10,190
College Savings Bonds:			
1991A Series, G.O. Bonds	2011	6.85-7.00	8,479
1991B Series, G.O. Bonds	2012	6.95-7.00	14,802
1991C Series, G.O. Bonds	2013	6.80-6.90	10,737
1993 Series, G.O. Bonds	2014	5.70-5.95	14,339
1995 Series, G.O. Bonds	2015	5.40-5.90	14,033
1996A Series, G.O. Bonds	2016	5.20-5.65	16,889
1996B Series, G.O. Bonds	2016	5.70-6.30	13,032
1996C Series, G.O. Bonds	2016	5.45-6.00	18,482
1997A Series, G.O. Bonds	2017	5.50-6.05	21,690
1997B Series, G.O. Bonds	2017	5.00-5.60	22,026
1998A Series, G.O. Bonds	2017	4.75-5.35	31,022
2005 Series, G.O. Bonds	2016	3.00-5.00	31,126
Total			$ 900,402

Future amounts required to pay principal and interest on general obligation bonds at June 30, 2006, including accrued accreted interest of approximately $71 million on capital appreciation bonds, were as follows (expressed in thousands):

	Principal	Interest	Total
Year ending June 30:			
2007	$ 72,807	$ 46,201	$ 119,008
2008	72,757	43,205	115,962
2009	75,366	41,051	116,417
2010	78,619	38,099	116,718
2011	83,321	34,423	117,744
2012-2016	377,210	118,450	495,660
2017-2021	29,802	23,836	53,638
2022-2026	23,190	7,594	30,784
2027-2031	8,855	3,099	11,954
2032-2036	7,500	968	8,468
Total	$ 829,427	$ 356,926	$ 1,186,353

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 an 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 Arkansas Soil and Water Conservation Commission (subsequently the Arkansas Natural Resources 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 2006 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 (subsequently the Arkansas Natural Resources 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 2006 fiscal year.

State Water, Waste Disposal, and Pollution Abatement Facilities General Obligation Bonds – Act 607 of 1997 authorized the Arkansas Soil and Water Conservation Commission (subsequently the Arkansas Natural Resources 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 fiscal year 2006, $28.7 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 limited the total principal amount to approximately $300 million with no more than $100 million being 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. No bonds were issued under this act in 2006 fiscal year.

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, 2006 were as follows (expressed in thousands):

	Final maturity date	Interest rates %	Balance
Vocational and Technical Education – Capital Improvements – 1992A Series	2008	5.00-6.38	$ 205

Future amounts required to pay principal and interest on special obligation bonds at June 30, 2006 were as follows (expressed in thousands):

	Principal	Interest	Total
Year ending June 30:			
2007	$ 100	$ 13	$ 113
2008	105	7	112
Total	$ 205	$ 20	$ 225

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.

Revenue Bond Guaranty Fund **-** Under the Arkansas Development Finance Authority Bond Guaranty Act of 1985, the Arkansas Department of Economic Development (ADED) may guarantee amortization payments on industrial development revenue bonds issued by counties and municipalities within the State of Arkansas. At June 30, 2006, total bonds guaranteed by the Revenue Bond Guaranty Fund amounted to $53.3 million. As of June 30, 2006, one loan agreement, in the amount of $2.9 million underlying these issues, was in default.

ADED has security interest in property, plant, and equipment purchased with proceeds of revenue bonds guaranteed by the Revenue Bond Guaranty Fund. Assets held by ADED, as a result of bankrupt companies defaulting on revenue bonds, are capitalized for financial statement purposes at an amount equal to the outstanding principal of the defaulted bond issue. ADED maintains these facilities until a buyer can be found. At June 30, 2006, the equity interest in industrial facilities, which totaled approximately $2.2 million, were either rented or vacant.

The bonds assumed by the Revenue Bond Guaranty Fund and outstanding at June 30, 2006 were as follows (expressed in thousands):

	Final maturity date	Interest rates %	Balance
Revenue Bond Guaranty Fund	2021	3.45-5.75	$ 2,988

Future amounts required to pay principal and interest on Revenue Bond Guaranty Fund at June 30, 2006 were as follows (expressed in thousands):

	Principal	Interest	Total
Year ending June 30:			
2007	$ 133	$ 146	$ 279
2008	137	141	278
2009	143	135	278
2010	147	130	277
2011	153	123	276
2012-2016	880	495	1,375
2017-2021	1,395	232	1,627
Total	$ 2,988	$ 1,402	$ 4,390

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, 2006 were as follows (expressed in thousands):

	Principal	Interest	Total
Year ending June 30:			
2007	$ 6,950	$ 5,117	$ 12,067
2008	8,308	5,861	14,169
2009	7,619	5,048	12,667
2010	7,711	4,772	12,483
2011	7,190	4,478	11,668
2012-2016	40,270	16,984	57,254
2017-2021	26,664	8,004	34,668
2022-2026	16,379	3,170	19,549
2027-2031	2,165	592	2,757
Total	$ 123,256	$ 54,026	$ 177,282

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, 2006 were as follows (expressed in thousands):

	Principal	Interest	Total
Year ending June 30:			
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	2,487	413	2,900
2012	2,685	215	2,900
Total	$ 13,408	$ 3,992	$ 17,400

Business-Type Activities

Special obligation bonds outstanding at June 30, 2006, 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 rates %	Balance
Construction Assistance Revolving Loan Fund	2022	2.00-5.50	$ 83,955

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 redemption price of or interest on the bonds.

Future amounts required to pay principal and interest on the special obligation bonds at June 30, 2006 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 $226:

	Principal	Interest	Total
Year ending June 30:			
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	7,165	2,886	10,051
2012-2016	38,735	9,003	47,738
2017-2021	12,455	1,749	14,204
2022-2026	1,235	57	1,292
Total	$ 83,955	$ 27,838	$ 111,793

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, 2006, 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 $13,377 and unamortized deferred bond refunding losses of $4,348:

	Final maturity date	Interest rates %	Balance
Henderson State University	2035	3.00-7.00	$ 29,595
Southern Arkansas University-Magnolia	2031	1.40-5.35	13,523
Southern Arkansas University Tech-Camden	2015	6.02	510
Arkansas State University-Beebe	2035	3.00-6.60	30,035
Arkansas State University-Jonesboro	2034	Variable	91,524
Arkansas State University-Mountain Home	2017	3.81	4,510
Arkansas State University-Newport	2028	4.13	4,600
Arkansas Tech University	2035	1.10-5.65	38,795
University of Arkansas at Fayetteville	2036	Variable	333,284
University of Arkansas at Little Rock	2029	4.25-4.43	56,050
University of Arkansas for Medical Sciences	2019	Variable	276,385
University of Arkansas at Monticello	2035	Variable	13,235
University of Arkansas at Pine Bluff	2035	Variable	26,539
University of Central Arkansas	2034	2.00-7.75	84,101
University of Arkansas Community College at Hope	2021	3.80-5.125	5,945
University of Arkansas Community College at Batesville	2018	Variable	4,489
University of Arkansas Community College at Morrilton	2022	2.25-5.25	4,555
University of Arkansas at Fort Smith	2030	1.00-6.50	57,657
East Arkansas Community College	2012	3.50-6.00	950
National Park Community College	2030	3.00-4.70	9,490
Mid-South Community College	2033	4.35-5.10	12,640
Arkansas Northeastern College	2031	4.00-5.35	4,875
North Arkansas College	2016	3.00-5.10	2,065
Phillips Community College of the University of Arkansas	2017	3.50-5.00	4,740
Rich Mountain Community College	2022	Variable	1,730
Northwest Arkansas Community College	2030	3.00-5.00	23,591
Black River Technical College	2028	1.35-4.25	3,060
Pulaski Technical College	2035	1.70-5.15	38,945
Ouachita Technical College	2008	2.99	260
Ozarka College	2027	4.90	2,591
Total			$ 1,180,269

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, 2006 were as follows (expressed in thousands):

	Principal	Interest	Total
Year ending June 30:			
2007	$ 43,572	$ 52,603	$ 96,175
2008	41,012	51,599	92,611
2009	43,564	50,012	93,576
2010	53,400	48,072	101,472
2011	43,290	46,091	89,381
2012-2016	213,270	203,687	416,957
2017-2021	232,964	152,772	385,736
2022-2026	208,794	98,761	307,555
2027-2031	163,778	55,760	219,538
2032-2036	131,457	17,085	148,542
2037-2041	5,168	129	5,297
Total	$ 1,180,269	$ 776,571	$ 1,956,840

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. These revenue bonds do not constitute general debt of the State.

Revenue bonds outstanding at June 30, 2006 were as follows (expressed in thousands):

	Final maturity date	Interest rates %	Balance
Student Loan Revenue Bonds, Series 1994A	2009	5.32	$ 23,500
Student Loan Revenue Bonds, Series 1994B	2009	7.25	6,600
Student Loan Revenue Refunding Bonds, Series 1996A	2010	3.72	42,900
Student Loan Revenue Bonds, Series 1997A	2014	3.7	31,150
Student Loan Revenue Refunding Bonds, Series 1997B	2014	9.75	10,980
Student Loan Revenue Refunding Bonds, Series 2000 A-1	2030	3.95	50,000
Student Loan Revenue Refunding Bonds, Series 2000 A-2	2030	5.32	20,000
Student Loan Revenue Refunding Bonds, Series 2002 A-1	2036	3.89	48,850
Student Loan Revenue Refunding Bonds, Series 2002 A-2	2009	3.92	2,800
Student Loan Revenue Refunding Bonds, Series 2004 A-1	2038	4.00	51,050
Student Loan Revenue Refunding Bonds, Series 2004 A-2	2038	4.00	59,500
Student Loan Revenue Refunding Bonds, Series 2004 A-3	2038	4.00	15,500
Student Loan Revenue Refunding Bonds, Series 2005 A-1	2039	3.95	70,000
Student Loan Revenue Refunding Bonds, Series 2005 A-2	2039	3.95	58,700
Student Loan Revenue Refunding Bonds, Series 2005 A-3	2039	3.95	58,650
Student Loan Revenue Bonds, Series 2006 A-1	2040	3.85	44,000
Student Loan Revenue Bonds, Series 2006 A-2	2040	3.85	58,500
Student Loan Revenue Bonds, Series 2006 A-3	2040	3.85	61,100
Student Loan Revenue Bonds, Series 2006 A-4	2040	3.85	25,000
Student Loan Revenue Bonds, Series 2006 B-1	2040	3.85	15,000
Total			$ 753,780

Future amounts required to pay principal and interest on revenue bonds at June 30, 2006 were as follows (expressed in thousands):

	Principal	Interest	Total
Year ending June 30:			
2007	$	$ 25,793	$ 25,793
2008		25,793	25,793
2009	62,030	25,793	87,823
2010	42,900	23,396	66,296
2011	29,850	21,982	51,832
2012-2016	35,000	103,296	138,296
2017-2021		99,846	99,846
2022-2026	65,000	99,846	164,846
2027-2031		97,796	97,796
2032-2036	41,250	89,596	130,846
2037-2041	477,750	53,478	531,228
Total	$ 753,780	$ 666,615	$ 1,420,395

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, 2006, the bonds outstanding issued under these programs aggregated $91.9 million.

Bonds and notes payable at June 30, 2006 were as follows (expressed in thousands):

	Final maturity date	Interest rates %	Balance
Single Family Bonds Payable	2036	1.80-10.00	$ 835,358
Multi-Family Bonds Payable	2035	3.50- 9.72	110,658
Bond Guaranty Program	2024	2.40- 8.48	62,325
State and Health Facilities Bonds Payable	2040	2.00- 7.00	288,855
Economic Development Bonds and Notes Payable	2017	1.00-12.50	13,207
Tobacco Bond Payable	2046	3.60-5.50	91,746
General Fund Bonds and Note Payable	2041	4.21-5.156	24,276
Total			$ 1,426,425

Future amounts required to pay principal and interest on the Authority's debt at June 30, 2006 were as follows (expressed in thousands). The principal amount shown differs from the amount on the balance sheet due to unamortized discounts of approximately $517:

	Principal	Interest	Total
Year ending June 30:			
2007	$ 210,404	$ 63,839	$ 274,243
2008	191,550	56,910	248,460
2009	42,011	49,660	91,671
2010	43,762	47,223	90,985
2011	42,003	44,775	86,778
2012-2016	199,885	192,101	391,986
2017-2021	170,288	141,032	311,320
2022-2026	185,148	96,389	281,537
2027-2031	166,445	51,991	218,436
2032-2036	101,205	17,556	118,761
2037-2041	25,897	6,423	32,320
2042-2046	42,956	105	43,061
2047-2051	4,871		4,871
Total	$ 1,426,425	$ 768,004	$ 2,194,429

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, 2006 were $716,957 including interest ranging from 5% to 12%.

Aggregate annual maturities of annuity obligations at June 30, 2006 were as follows (expressed in thousands):

	Principal
Year ending June 30:	
2007	$ 960
2008	995
2009	973
2010	957
2011	886
Thereafter	13,753
Total	$ 18,524

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 were considered defeased at June 30, 2006.

Higher Education

On October 1, 2004, the University of Arkansas Fayetteville Campus issued $7.1 million in Various Facility Revenue Refunding Bonds. The 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 were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments of the refunded 1997 Series bonds. 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. The escrow balance at June 30, 2006 was $6.8 million.

On March 1, 2005, the University of Arkansas Fayetteville Campus issued $60 million in Various Facility Revenue Refunding Bonds. 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 $12.1 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 $779,632, 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. 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 escrow balance at June 30, 2006 was $61.4 million.

Component Units

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 $91.9 million were considered defeased at June 30, 2006. The bonds include the 1997 Drivers' License Revenue Bonds, 1979 Series A Single Family Conventional Bonds, and the 1999 Series A State Agencies Facilities Revenue Bonds.

Current Refundings

Primary Government

Governmental Activities

During fiscal year 2006, the State issued $15.5 million of Water, Waste Disposal and Pollution Abatement Facilities General Obligation Bonds to defease Series 1995A and 1998A Water, Waste Disposal and Pollution Abatement Facilities General Obligation Bonds and 1995B Water Resources Development General Obligation Bonds resulting in an economic present value savings of $1.2 million and a reduction of $1.2 million in future debt service. The bonds bear interest at rates ranging from 3.0% to 5.0% and mature in 2027 and 2016.

During fiscal year 2005, the Arkansas Development Finance Authority, on behalf of the Arkansas Building Authority, issued $6.9 million to defease the Authority's State Agencies Facilities Revenue Bonds (Justice Building Project) resulting in an economic present value savings of $.3 million and a reduction of $.7 million 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 were redeemed on July 1, 2005 and the cash moved 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 April 1, 2006, Henderson State University issued student fee secured refunding bonds in the amount of $2.9 million with interest rates of 3.35% to 4.20% and the University issued auxiliary revenue secured revenue refunding bonds in the amount of $1.9 million with interest rates of 3.35% to 4.20%. The purpose of these issues was to early retire $1.9 million of bonds issued in 1998 with interest rates of 3.65% to 4.80% and $2.8 million in bonds issued in 1999 with interest rates of 4.25% to 6.0%. As a result, the various bonds are considered to be defeased and the liability for these bonds has been removed from the general long-term debt.

On September 15, 2005, Arkansas State University issued $3.3 million in refunding bonds, for the Beebe campus, with interest rates of 2.8% to 4.15% to advance refund $3.3 million of outstanding bonds dated December 1, 1998 with interest rates of 3.85% to 5%. Net bond proceeds of $3.2 million, with a contribution from the University of $136,000, were used to advance refund the 1998 bonds. As a result, the 1998 bonds are considered to be defeased and the liability for these bonds has been removed from the long-term debt. An additional $4,693 was received by the University as a result of the refunding to be applied for debt service of the new issue. The 1998 bonds were called for redemption on October 15, 2005. The University advance refunded the bonds to reduce its total debt service payments over the next nineteen (19) years by $432,696 and to obtain an economic gain of $171,960.

On September 15, 2005, Arkansas State University issued $19.2 million in refunding bonds, for the Jonesboro campus, with interest rates of 3% to 5% to advance refund $14.4 million of outstanding bonds dated May 1, 1999 and $4.9 million dated April 1, 2000 with interest rates of 3.5% to 6.125%. Net bond proceeds of $18.8 million, after payment of $382,184 bond issuance costs, and a premium of $1.5 million were remitted to an escrow agent to provide for all future payments of the defeased bonds. The May 1, 1999 bonds will be called on April 1, 2007 and the April 1, 2000 bonds will be called on April 1, 2008. The University advance refunded the bonds to reduce its total debt service payments by $1.1 million over the next nineteen (19) years and to obtain an economic gain of $1.1 million. The University received accrued interest of $34,936 from the bond issue to apply toward the debt payments of the new issue. At June 30, 2006, the outstanding principal of the May 1, 1999 and the April 1, 2000 bonds was $13.9 million and $4.8 million, respectively. U.S. Treasury obligations of $19.1 million, purchased by the escrow agent, were pledged for the retirement of these bonds.

On July 1, 2005, the University of Arkansas Fayetteville Campus issued $9.6 million in Athletic Facilities Revenue Refunding Bonds, Series 2005. The Series 2005 bonds were issued with an average coupon rate of 3.162% in order to refund $9.5 million Athletic Facilities Revenue Refunding Bonds, Fayetteville Campus, Series 1997 Bonds, having an average interest rate of 4.962%. Proceeds in the amount of $8.6 million were deposited along with the University's contribution of $153,561 for interest due on the Series 1997 Bonds through July 13, 2005, and $956,097 released from the Series 1997 Debt Service Reserve Fund into an irrevocable trust with an escrow agent to provide for the refunding of all the outstanding Series 1997 Bonds except for the Series 1997 Bonds maturing on September 15, 2005. The balance in the escrow account was paid out on September 15, 2005 to fully redeem the bonds to be refunded. The University refunded the 1997 Series bonds to reduce its total debt service payments over the next 5 years by $351,245 and to obtain economic gain (difference between the present value of the debt service payments on the old and new debt) of $324,968.

On October 12, 2005, the University of Arkansas Pine Bluff Campus issued $19.6 million in Various Facility Revenue Refunding and Construction Bonds, Series 2005A, and $3.3 million in Various Facility Revenue Refunding Bonds, Series 2005B. Series 2005A bonds were issued for the purpose of financing (1) the transfer of a student housing facility from Delta Student Housing, Inc. in exchange for $10.2 million to retire Delta's existing debt; (2) the refunding of the university's note to the Department of Education in the amount of $2.7 million; (3) the refunding of the university's note to the Arkansas Development Finance Authority in the amount of $668,968; (4) and the capital repairs and improvements to existing facilities on campus. Series 2005B bonds were issued with average coupon rate of 3.53% in order to advance refund $3.3 million of Series 1997 Athletic Facilities Revenue Bonds having an average interest rate of 5.23%. Proceeds in the amount $3.4 million were deposited in trust with an escrow agent to provide for the all future debt service payments of the refunded 1997 Series bonds.

On March 31, 2006, the University of Central Arkansas issued $13 million in general obligation bonds collectively referred to as Series 2006A, 2006B, and 2006C. The bond proceeds were used to refund and pay the respective fees of the bonds referred to as the 1996A, 1996B, and 1996C issue. This issue was based on a warrant agreement approved by the Board of Trustees on December 23, 2003, between the University and Bank of America. Bank of America made an advance payment of $675,000 to the University of Central Arkansas in December 2003 for the right to issue the bonds at a later point. This payment was based on the estimated net present value of the savings after issuance costs. Since the University received the cash payment for the savings in advance of the refunding, the principal and interest payments of each issue are identical.

On April 27, 2006, the University of Central Arkansas issued $19.1 million in general obligation bonds collectively referred to as 2006D, 2006E, and 2006F and dated as April 1, 2006. The series 2006D bonds ($7.2 million) are secured by a pledge of a portion of auxiliary revenues and the proceeds will be used to fund the construction of a student health facility and to provide additional parking facilities. The series 2006E bonds ($3.8 million) are secured by a pledge of a portion of the general tuition and fee revenue and it will be used to construct and improve intramurals and practice fields for educational and general purposes. The series 2006F bonds ($8.1 million) are secured by a pledge of a portion of student housing revenues and will refund the series 2000 bonds of the College Square Retirement Center. This issuance created a net present value savings of $803,000 by the advance refunding of the 2000 Series bonds refunded through the 2006F Series bonds. The 2000 issue would have required principal and interest payments of $14.8 million.

(9) 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. Any 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, 2006, 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 $3.2 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 and 1993 or Series 2002 Bonds.

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, 2006.

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, 2006, the present value of excess subsidy was approximately $12.3 million. In the event the cost of long-term bonds exceeds the reserved loan rates, ADFA would utilize this subsidy to limit losses. Subsequent to year end, ADFA utilized $6.8 million of the $12.3 million in subsidy for a single family mortgage revenue bond issue.

(10) Leases

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

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

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

The State also has direct-financing lease agreements with 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	$ 232,857	$ 3,767
Machinery and equipment	123	31,918
Less: Accumulated depreciation	(63,164)	(13,370)
Total	$ 169,816	$ 22,315

Future minimum commitments under operating and capital leases by fund type as of June 30, 2006 were as follows (expressed in thousands):

	Capital leases	
	Governmental activities	**Business-type activities**
Year ending June 30:		
2007	$ 1,843	$ 7,241
2008	1,196	6,694
2009	892	4,415
2010	833	2,962
2011	304	1,690
2012-2016		2,183
2017-2021		1,931
2022-2026		1,476
2027-2031		1,476
2032-2036		1,157
Total minimum lease payments	5,068	31,225
Less: Interest	(648)	(6,133)
Present value of future minimum lease payments	$ 4,420	$ 25,092

	Capital leases with component unit	
	Governmental activities	Business-type activities
Year ending June 30:		
2007	$ 14,971	$ 235
2008	13,784	228
2009	11,587	227
2010	11,531	225
2011	11,460	227
2012-2016	43,150	448
2017-2021	36,138	
2022-2026	19,005	
2027-2031	16,644	
2032-2036	10,225	
2037-2041	657	
Total minimum lease payments	189,152	1,590
Less: Interest	(91,328)	(236)
Present value of future minimum lease payments	$ 97,824	$ 1,354

	Operating leases	
	Governmental activities	Business-type activities
Year ending June 30:		
2007	$ 25,562	$ 12,665
2008	15,023	8,652
2009	11,354	5,865
2010	7,695	3,033
2011	6,092	2,044
2012-2016	14,970	9,677
2017-2021	12,676	4,224
2022-2026	31,336	4,346
Total minimum lease payments	$ 124,708	$ 50,506
Total rental expenditure/ expense (2006)	$ 30,072	$ 15,300

(11) Fund Balance/Net Assets

Deficit Net Assets

The Workers' Compensation Commission (WCC) had a $51 million deficit in net assets as of June 30, 2006. 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.

(12) 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 Arkansas Code Title 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 Arkansas Code Title 24. Each plan issues a publicly available financial report, which may be obtained by writing or calling the appropriate plan:

Arkansas Teacher Retirement Plan
1400 West Third Street
Little Rock, AR 72201
(501) 682-1517

Arkansas Public Employees Retirement Plan
One Union National Plaza
124 W. Capital, Suite 400
Little Rock, AR 72201
(501) 682-7800

(b) Funding Policies

Arkansas Code 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	344	754	1	1	1	94
Contribution rates for the fiscal year ended June 30, 2006 (% of covered payroll):	14.00%	4.00%-22.00%	12.90%	22.00%	12.00%	18.00%
Covered Payroll (in thousands)	$ 2,080,000	$ 1,267,000	$ 118,500	$ 23,380	$ 17,009	$ 3,313
State Plan Members - contributory plans	6.00%	5.00%	6.00%	9.25%	5.00% or 6.00%	5.00%
Annual pension cost (in thousands)	$ 311,714	$ 158,152	$ 15,952	$ 9,989	$ 4,905	$ 1,858
Contributions made (in thousands)	$ 311,714	$ 158,152	$ 15,952	$ 9,648	$ 4,905	$ 2,045

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

Fiscal year	Plan	Annual required contribution	Percentage contributed
2006	Teacher	$ 311,714	100%
	APERS	158,152	100%
2005	Teacher	286,443	100%
	APERS	135,027	100%
2004	Teacher	224,184	100%
	APERS	118,419	100%

The State Police plan consists 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 and automatically applied to all members after that date. All nonretired members of the State Police are now covered by noncontributory benefits.

APERS consists of both a contributory plan, which has been in effect since the beginning of the plan, 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 and automatically applied to all members hired between January 1, 1978 and June 30, 2005. All new APERS members beginning July 1, 2005 are required to contribute 5% of their earnings by Act 2084 of 2005 and all other noncontributory members were given the opportunity to become contributory if they so elected by December 31, 2005.

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 either 5% or 6% of their salaries depending upon the member's appointment date. 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 2006 contribution to APERS represented 100% of total contributions required of all participating entities. Beginning with the 1997 fiscal year, the State no longer contributes to Teacher. As required by Act 1194 of 1995, the State increased the local state supported school appropriations so that such retirement contributions come directly from the school districts.

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

	State Police
Annual required contributions (ARC)	$ 9,989
Interest on net pension obligations	(16)
Adjustment to annual required contributions	11
Annual pension cost	9,984
Contributions made	(12,451)
Change in net pension obligations (asset)	(2,467)
Net pension obligation (asset), beginning of year	4,574
Net pension obligation (asset), end of year	$ 2,107

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

The annual pension cost and net pension obligation (asset) to District Judge for the current year is as follows (expressed in thousands):

	District Judge
Annual required contributions (ARC)	$ 1,859
Interest on net pension obligations	(1)
Annual pension cost	1,858
Contributions made	(2,045)
Change in net pension obligations (asset)	(187)
Net pension obligation (asset), beginning of year	(8)
Net pension obligation (asset), end of year	$ (195)

The net pension obligation (asset) for District Judge is not recorded in the state's financial statements since the state is not a participating employer.

No pension liability exists for Teacher, APERS, Highway, or Judicial as the State's contributions to each respective plan for the year ending June 30, 2006 was equal to the ARC.

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

	Year ending	Annual pension cost (APC)	Percentage of APC contributed	Net pension obligation (asset)
Highway	6/30/2006	$ 15,952	100.00%	$
	6/30/2005	16,060	100.00%	
	6/30/2004	15,810	100.00%	
State Police	6/30/2006	9,984	96.60%	2,107
	6/30/2005	9,846	79.90%	4,574
	6/30/2004	8,376	90.70%	(187)
Judicial	6/30/2006	4,905	100.00%	
	6/30/2005	4,775	100.00%	
	6/30/2004	4,126	100.00%	
District Judge	6/30/2006	1,858	110.00%	(195)
	6/30/2005	357	365.00%	(8)
	6/30/2004	N/A (1)	N/A (1)	N/A (1)

(1) District Judge began 1/01/2005, so there is no information for fiscal years ending 6/30/2004 and partial information is reported for fiscal year ending 6/30/05.

(c) Actuarial Assumptions

	Teacher	APERS	Highway	State Police	Judicial	District Judge
Actuarial valuation date	June 30, 2006	June 30, 2006	June 30, 2006	June 30, 2006	June 30, 2006	June 30, 2006
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 Pay, Open	Level Percentage of Payroll, Open	Level Percentage of Payroll, Open	(a)
Remaining amortization period	36 years	19.3 years	8.6 years	30 years	30 years	30 years
Asset valuation method	4 Year Smoothing 80%-120% Corridor	4 Year Smoothing Market	5 Year Smoothing Market	4 Year Smoothing Market	4 Year Smoothing Market	4 Year Smoothing Market
Actuarial assumptions:						
Inflation rate	4.00%	4.00%	3.50%	4.25%	3.00%	4.00%
Investment rate of return*	8.00%	8.00%	8.00%	7.75%	7.00%	7.00%
Projected salary increases*	4.00%-10.10%	4.70%-9.80%	4.75%-11.25%	3.50%	4.00%	4.00%
Postretirement benefit increases	3.00% Simple	3.00% Compounded	3.00% Compounded	3.00% Compounded	(b)	(c)

* Includes assumed inflation.

(a) Level percent of payroll, Open-liability after December 31, 2004. Level dollar, Closed-liability before January 1, 2005.

(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) Pre-July 1, 1983 hires benefits are increased or decreased as the salary for the particular Judicial office is increased or decreased. Post June 30, 1983 hires – 3.0% compounded.

(d) 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 Arkansas Code Annotated § 23-96-101 et.seq., 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 $305.7 million at June 30, 2006.

(e) 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 earnings. The funds 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 2006, total employer contributions to VALIC, TIAA-CREF, and Fidelity were $82.0 million while contributions to IDS/American Express were $.1 million. Employee contributions to VALIC, TIAA-CREF and Fidelity were $76.2 million while contributions to IDS/American Express were $.1 million.

(f) 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 $77,534 in 2006.

(13) Additional Information – Enterprise Funds

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

Condensed Statement of Net Assets (expressed in thousands):

	Construction Assistance Revolving Loan Fund
Assets	
Current assets	$ 65,229
Noncurrent assets	242,425
Total assets	307,654
Liabilities	
Current liabilities	5,957
Noncurrent liabilities	80,343
Total liabilities	86,300
Net Assets	
Unrestricted	221,354
Total net assets	$ 221,354

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

	Construction Assistance Revolving Loan Fund
Licenses, permits, and fees	$ 1,966
Investment earnings (pledged against bonds)	8,636
Other operating expense	(4,507)
Operating income (loss)	6,095
Nonoperating revenue/expenses:	
Operating grants and contributions	11,999
Transfers to other funds	(888)
Change in net assets	17,206
Total net assets, beginning of year	204,148
Total net assets, end of year	$ 221,354

Condensed Statement of Cash Flows (expressed in thousands):

	Construction Assistance Revolving Loan Fund
Net cash provided (used) by:	
Operating activities	$ (7,834)
Noncapital financing activities	6,365
Investing activities	23,606
Net increase (decrease)	22,137
Cash and cash equivalents, beginning	42,467
Cash and cash equivalents, end	$ 64,604

(14) Risk Management Program

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

(a) Health and Life Plans

Primary Government

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

The Board provides the following employee benefits to State employees: a self-funded comprehensive major medical plan that includes basic dental, vision, and prescription drug benefits, a health savings account, a fully-funded mental health parity and employee assistance program, and a fully-funded basic and supplemental group term life insurance. EBD offers a cafeteria plan that includes a flexible medical spending account and a dependent daycare/elder care account. In addition, State employees are given 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 is provided to all full-time active state employees and is paid from the insurance trust fund. Coverage amounts and cost are based on the age of the employee. The basic life insurance premium for active State employees up to age 64 is $4.60 a month for a $10,000 benefit. For ages 65-69, the cost is $2.30 a month for a $5,000 benefit. Supplemental coverage is offered to state employees for employee and dependent coverage. Supplemental life insurance premiums are based upon age and amount of coverage.

Claim liabilities for claims submitted after the close of the plan year or after plan termination of the self-insured medical health insurance plan 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 (expressed in thousands) are as follows:

	2006	2005
Claim liability, beginning of year	$ 20,000	$ 19,750
Incurred Claims:		
Provision for insured events of current year	139,471	140,968
Total incurred claims and claim adjustment expense	139,471	140,968
Payments:		
Claims payments attributed to insured events of current year	138,221	140,718
Total Payments	138,221	140,718
Claim liability, end of year	$ 21,250	$ 20,000

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

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 for fiscal year 2006. 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.

Basic group term life insurance and accidental death and dismemberment coverage are offered to all public school employees. Basic life insurance is provided to all full-time active public school employees and is paid from the insurance trust fund. Coverage amounts and cost are based on the age of the employee. Upon enrollment in the health insurance plan, public school employees are provided with basic life insurance in the amount of $5,000. The basic life insurance premium for public school employees is $.65 per month. Supplemental coverage is offered to public school employees for employee and dependent coverage. Supplemental life insurance premiums are based upon age and amount of coverage for public school employees.

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 (expressed in thousands) are as follows:

	2006	**2005**
Claim liability, beginning of year	$ 17,000	$ 16,000
Incurred Claims:		
Provision for insured events of current year	220,170	198,727
Total incurred claims and claim adjustment expense	220,170	198,727
Payments:		
Claims payments attributed to insured events of current year	198,823	182,011
Claims payments attributed to insured events of prior years	16,597	15,716
Total Payments	215,420	197,727
Claim liability, end of year	$ 21,750	$ 17,000

(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 replacement cost subject to $100,000 deductible from the Arkansas Multi Agency Trust Fund (AMAIT), ACT 1762, 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 and 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 $1,000,000 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 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 amount of claims at June 30, 2006, is $4 million.

(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 fiscal year are as follows (expressed in thousands):

	2006	2005
Claim liability, beginning of year	$ 68,698	$ 67,445
Incurred Claims:		
Provision for insured events of current year	16,190	13,972
Increase (decrease) in provision for insured events of prior years	(3,871)	(2,637)
Total incurred claims and claim adjustment expense	12,319	11,335
Payments:		
Claims payments attributed to insured events of current year	4,232	2,831
Claims payments attributed to insured events of prior years	6,468	7,251
Total Payments	10,700	10,082
Claim liability, end of year	$ 70,317	$ 68,698

(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 & 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 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. Generally, employers are liable for medical services and supplies for injured employees. Arkansas Code Annotated § 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 (TDP) was established, in part, to administer this liability. The taxation rate is determined by the Workers' Compensation Commission in accordance with Arkansas Code Annotated § 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. The following represents the changes in claims liabilities for the fund during the last two fiscal years (expressed in thousands):

	2006	2005
Claim liability, beginning of year	$ 184,372	$ 173,615
Incurred Claims:		
Provision for insured events of current year	10,612	9,343
Increase (decrease) in provision for insured events of prior years	1,780	3,802
Increase due to decrease in discount period	8,939	8,420
Total incurred claims and claim adjustment expense	21,331	21,565
Payments:		
Claims payments attributed to insured events of prior years	11,482	10,808
Total Payments	11,482	10,808
Claim liability, end of year	$ 194,221	$ 184,372

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 Annotated § 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 employed. 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 Annotated § 11-9-306 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 Second Injury Trust Fund during the current and prior fiscal years are as follows (expressed in thousands):

	2006	2005
Claim liability, beginning of year	$ 19,264	$ 17,557
Incurred Claims:		
Provision for insured events of current year	2,830	2,492
Increase (decrease) in provision for insured events of prior years	1,068	1,207
Increase due to decrease in discount period	884	807
Total incurred claims and claim adjustment expense	4,782	4,506
Payments:		
Claims payments attributed to insured events of prior years	3,164	2,799
Total Payments	3,164	2,799
Claim liability, end of year	$ 20,882	$ 19,264

(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 million per occurrence with a $7,500 deductible as well as third-party property claims or bodily injury claims for damages up to $1 million per occurrence, also with a $7,500 deductible. The Storage Tank Fund is funded by an environmental assurance fee of three tenths of a cent for each 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 (RATFA) 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. Should this occur, the State is required to match 10% of the monies needed to clean up the site. Funding for RATFA is generated mostly by fees collected from companies that require disposal of large quantities of hazardous waste annually as well as any other fees assessed by RATFA if required. In addition to 100% of fees collected, other monies that fund RATFA are costs recovered from state funded site work and civil and administrative penalties assessed. Prior to the use of these funds at an abandoned hazardous substance site, the Arkansas Pollution Control & Ecology Commission (APC&EC) 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 APC&EC Regulation Number 30.

	2006	2005
Claim liability, beginning of year	$ 13,115	$ 13,364
Incurred Claims:		
Provision for insured events of current year	8,030	5,669
Total incurred claims and claim adjustment expense	8,030	5,669
Payments:		
Claims payments attributed to insured events of current year	5,880	5,918
Total Payments	5,880	5,918
Claim liability, end of year	$ 15,265	$ 13,115

(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, one two-year institution, the Medical Sciences campuses, and the Arkansas School for Mathematics, Sciences and the Arts participate in the health insurance programs, along with the UA System's divisions of Criminal Justice Institute, the 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):

	2006	2005
Claim liability, beginning of year	$ 11,058	$ 13,137
Incurred Claims:		
Provision for insured events of current year	89,587	86,142
Increase (decrease) in provision for insured events of prior years	(1,594)	(5,080)
Total incurred claims and claim adjustment expense	87,993	81,062
Payments:		
Claims payments attributed to insured events of current year	80,379	75,858
Claims payments attributed to insured events of prior years	9,154	7,283
Total Payments	89,533	83,141
Claim liability, end of year	$ 9,518	$ 11,058

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 $350,000 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, 2006, are as follows (expressed in thousands):

	2006	2005
Claim liability, beginning of year	$ 1,009	$ 1,010
Incurred Claims:		
Provision for insured events of current year	1,191	7,589
Increase (decrease) in provision for insured events of prior years	8,171	
Total incurred claims and claim adjustment expense	9,362	7,589
Payments:		
Claims payments attributed to insured events of current year	7,219	7,590
Claims payments attributed to insured events of prior years	1,576	
Total Payments	8,795	7,590
Claim liability, end of year	$ 1,576	$ 1,009

(i) Other Post Employment Benefits

Employee 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 July 1, 2006 has been set at $320 per budgeted position.

As of June 30, 2006, there were approximately 7,190 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, 2006, the State paid an aggregate amount for active employees, COBRA participants, and retirees of $176.3 million.

Arkansas State Police

Pursuant to Arkansas Code Annotated § 12-8-210, the Arkansas State Police offers active uniformed members and uniformed members who retire post employment health care benefits. The Arkansas State Police Human Resource section serves as Plan Administrator. A contracted third party administrator (TPA) is selected each Plan year to serve as claims processor. The TPA also administers the COBRA Act of 1985 and provides certain actuarial estimates for the Plan. Health care benefits are funded by employer and retired employee contributions and Act 1500 of 2001. Act 1500 stipulates that for every Arkansas Driver's license sold, six (6) dollars of the license fee is used to fund the Arkansas State Police Health Plan. The Plan is partially self-funded; reinsurance stop loss coverage for aggregate benefit utilization is contracted for each Plan year. Plan years cover January 1 through December 31 of any given year. Employer contribution rates are set by the Arkansas State Police with final approval by the Arkansas State Police Commission. The Arkansas State Police Commission is authorized by Arkansas Code Annotated § 12-8-210 to direct the Plan. The current monthly budgeted premium, set on July 1, 2005, is $504 per budgeted position.

As of June 30, 2006, the Plan consisted of 324 retired member contracts receiving health care benefits. Retired members pay monthly premiums in advance for the next month's coverage. For the 12 month period ending June 30, 2006, the Arkansas State Police Health Plan paid an aggregate amount for active employees, COBRA participants, and retirees of $8.8 million.

(15) Commitments and Contingencies

Primary Government

Governmental Activities

(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 $50.8 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 $25.4 million.

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

	2006	2005
Litigation, beginning of year	$ 10,249	$ 22,721
Incurred litigation	46,155	1,773
Litigation payments	(5,562)	(14,245)
Litigation, end of year	$ 50,842	$ 10,249

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 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 were consolidated and the Legislature obligated 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 continued to be inadequate and that the General Assembly and the Department of Education had until December 1, 2006 to correct the deficiencies. The General Assembly met again in the First Extraordinary Session of 2006 and provided additional funding for education. Act 19 of that session increased the foundation funding per student to $5,486 for fiscal year 2006 and to $5,620 for fiscal year 2007. 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, 2006, 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 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 had obtained 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, 2006, the State's loan receivable is $4.7 million and is recorded in the General Fund.

(d) Construction and Other Commitments

At June 30, 2006, the State has commitments of approximately $851.7 million for construction and other contracts and approximately $293.5 million for professional service contracts. The Natural Resources Commission has approved $45 million in loans for projects for water systems, waste water, or pollution abatement that have not been disbursed at June 30, 2006.

(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, 2006, total bonds guaranteed by the AEDC Bond Guaranty Reserve Fund were approximately $53.3 million. In addition, AEDC has committed to guarantee approximately $4.1 million in industrial development revenue bonds that have not closed at June 30, 2006. As of June 30, 2006, one loan underlying these issues was in default. The aggregate principal amount outstanding under such agreement on such date was $2.9 million.

(f) Tobacco Settlement

In November 1998, the Attorney General joined 46 other states and five territories in a settlement with the nation's largest tobacco manufacturers. The settlement includes base payments to states totaling $206 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, included in the General Fund, and the amounts remaining shall be distributed to the Tobacco Settlement Program Account.

The Arkansas Tobacco Settlement Commission, created by The Arkansas Tobacco Settlement Funds Act of 2000, is directed to conduct monitoring and evaluation of programs established in the Tobacco Proceeds Act, to establish program goals for related programs, and to develop performance indicators to monitor programmatic functions to ensure optimal impact on improving the health of Arkansans. The programs include prevention and cessation programs, targeted State needs programs, health issues with specific emphasis on smoking and the use of tobacco products, and Medicaid Expansion program.

During 2001, Arkansas Development Finance Authority (ADFA) issued $60 million of revenue bonds associated with the State of Arkansas' Tobacco Settlement Revenue (TSR) to be used by participating colleges to construct and equip three facilities outlined by the Arkansas Tobacco Settlement Funds Act of 2000. The bonds are to be repaid from the first $5 million of annual TSR's paid to the State. The bond proceeds for the construction of the three facilities were expended during year ending June 30, 2005.

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 2006. In fiscal year 2006, the State received a total of $48.4 million with $5 million being transferred to ADFA for the Tobacco Settlement Debt Service Account.

Business-Type Activities

(a) Litigation

The State's business activities and employees may be 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, 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 relating to the overpayment of unemployment insurance taxes. The State has accrued liabilities in the approximate amount of $1.2 million for the payment of the claim.

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

	2006
Litigation, beginning of year	$
Incurred litigation	1,206
Litigation, end of year	$ 1,206

(16) Subsequent Events

Primary Government

Governmental Activities

On July 1, 2006, the Arkansas Natural Resources Commission refunded the Water, Waste Disposal and Pollution Abatement Facilities General Obligation Bond from Series 2000A in the amount of $4,855,000. The bonds were issued from the State of Arkansas Water, Waste Disposal and Pollution Abatement Facilities General Obligation Bond program in Refunding Series 2006C with interest rates that vary from 4.125% in 2007 to 4.633% in 2033 and a final maturity of July 1, 2033.

Higher Education

Arkansas State University

(i) On July 6, 2006, the construction contract for a building at the Beebe campus was increased by $8.3 million.

(ii) On July 28, 2006, the construction contract for a building at the Beebe campus-Heber Springs Center was increased by $11.5 million.

(iii) On August 21, 2006, the University accepted a bid of $127,817 for renovation of a warehouse storage facility at the Newport campus.

Component Unit

Arkansas Development Finance Authority

(i) In July 2006, the Arkansas Development Finance Authority executed a bond purchase agreement and agreed to sell $49 million in bonds as part of the Single Family Mortgage Revenue Bonds 2006 Series C bond issue.

(ii) In July 2006, the Arkansas Development Finance Authority executed a bond purchase agreement and agreed to sell $7.4 million in bonds as part of the Economic Development Revenue Bonds 2006 Series A and B.

(iii) On August 22, 2006, the Arkansas Development Finance Authority issued approximately $400 million in special obligation notes in the Single Family Mortgage Revenue Notes Series 2006 with the understanding that these notes are issued as draw-down bonds. The Authority drew down approximately $51.4 million on the date of issuance.

(iv) On November 7, 2006, voters authorized the Arkansas Development Finance Authority to issue State of Arkansas Higher Education General Obligation Bonds in a total principal amount of $250 million for the purpose of financing the cost of developing technology and facility improvement projects for State institutions of higher education and financing the cost of refunding bonds issued under the Arkansas College Savings Bond Act of 1989.


GREAT SEAL OF THE STATE OF ARKANSAS
REGNAT POPULUS
MERCY
JUSTICE

Arkansas

The honeybee was adopted as the Arkansas State Insect by the General Assembly of 1973. Honeybees carry pollen from flower to flower. The bees also produce honey which is collected and sold by beekeepers. An old fashioned dome beehive is one of the symbols on the Great Seal of Arkansas.

Photo courtesy of: Secretary of State

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
Highway	2006	6/30/2006	$1,068,600	$1,107,600	$ 38,970	96.5%	$ 118,500	32.9%
	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)%
State Police	2006	6/30/2006	210,340	291,170	80,820	72.2%	23,380	345.7%
	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%
Judicial	2006	6/30/2006	145,050	156,510	11,459	92.7%	17,009	67.0%
	2005	6/30/2005	135,062	150,580	15,519	89.7%	16,638	93.0%
	2004	6/30/2004	129,065	141,775	12,710	91.0%	16,282	78.0%
District Judge	2006	6/30/2006	10,141	25,458	15,317	39.8%	3,313	462.3%
	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

N/A: no information as District Judge began as of 1/1/2005
Actuarial assumptions are presented in Note 12.

Required Supplementary Information
Schedule of Expenditures – Budget and Actual
General Fund
For the Year Ended June 30, 2006
(Expressed in thousands)

	Budgeted amounts		Actual	Variance with final budget – positive
	Original	Final	amounts	(negative)
Expenditures: *				
Current:				
General government	$ 6,219,610	$ 6,034,957	$ 1,441,434	$ 4,593,523
Education	3,322,978	3,421,993	3,078,750	343,243
Health and human services	4,956,514	4,984,177	4,232,844	751,333
Law, justice, and public safety	780,344	818,645	626,353	192,292
Recreation and resource development	875,911	887,067	218,570	668,497
Regulation of business and professionals	191,341	189,280	109,395	79,885
Transportation	518,144	506,244	294,860	211,384
Debt service	179,678	185,381	130,663	54,718
Capital outlay	1,067,665	996,953	581,107	415,846
Total expenditures	$ 18,112,185	$ 18,024,697	$ 10,713,976	$ 7,310,721

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

Required Supplementary Information
Notes to Schedule of Expenditures – Budget and Actual
General Fund
For the Year Ended June 30, 2006

(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. The General Assembly, which has full authority to amend the budget, adopts a line item expenditure 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	$ 10,870,071
Less non-cash federal grant expenditures	(427,874)
Less non appropriated expenditures	(3,497,528)
Plus expenditures eliminated or reclassed as transfers out for reporting purposes	3,412,332
Refunds treated as reduction of revenue for financial statements purposes	418,560
New capital leases recorded in appropriated funds	(20)
Basis of accounting differences	(61,565)
Total statutory basis expenditures General Fund	$ 10,713,976

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

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
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	$ 209,344,487	$ 230,564,982
Investment Interest Income	92,223	69,705	89,879	69,154	81,458	32,734	68,853	233,550	586,801	1,570,234
Totals	$ 78,905,040	$ 113,119,787	$ 134,535,240	$ 53,861,055	$ 31,035,149	$ 40,742,729	$ 45,763,132	$ 158,732,822	$ 209,931,288	$ 232,135,216
Unallocated Expenses:										
Operating Costs	$	$ 26,018	$ 78,701	$ 201,512	$ 153,510	$ 317,988	$ 675,968	$ 905,564	$ 1,234,945	$ 1,175,832
Reinsurance Premium Expense	0	0	0	0	0	0	0	0	0	0
Totals	$	$ 26,018	$ 78,701	$ 201,512	$ 153,510	$ 317,988	$ 675,968	$ 905,564	$ 1,234,945	$ 1,175,832
Estimated incurred claims and expenses, end of fiscal year	$ 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	$ 220,169,782
Paid (cumulative) claims and claims adjustment expenses:										
End of Fiscal Year	N/A	N/A	N/A	N/A	N/A	N/A	34,316,834	148,172,038	181,727,802	198,419,782
One Year Later	N/A	N/A	N/A	N/A	N/A	N/A	35,916,834	163,888,838	198,426,902	
Two Years Later	N/A	N/A	N/A	N/A	N/A	N/A	N/A	164,172,038		
Reestimated incurred claims and expenses:										
End of Fiscal Year	N/A	N/A	N/A	N/A	N/A	N/A	34,316,834	148,172,038	181,727,802	198,419,782
One Year Later	N/A	N/A	N/A	N/A	N/A	N/A	35,916,834	163,888,838	198,426,902	
Two Years Later	N/A	N/A	N/A	N/A	N/A	N/A	N/A	164,172,038		
Increase (decrease) in estimated incurred claims and expense from end of policy year	0	0	0	0	0	0	0	0	0	0
Increase (decrease) in net incurred claims and claim adjustment expenses from original estimate	0	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	43,632	44,797	45,463	47268

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 14 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 Trust Fund

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Premium and Investment Revenues:										
Premium Income	$ 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	$ 8,326,813
Investment Interest Income	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	4,055,947
Totals	$ 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	$ 12,382,760
Unallocated Expenses:										
Operating Costs (2)	$ 160,087	$ 185,724	$ 171,410	$ 192,536	$ 194,940	$ 316,858	$ 334,881	$ 321,328	$ 324,698	$ 123,637
Estimated incurred claims and expenses, end of fiscal year	$ 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	$ 10,612,346
Paid (cumulative) claims and claims adjustment expenses:										
End of Fund Year	N/A	0	0	0	0	0	0	0	0	0
One Year Later	35,000	0	0	0	0	0	55,000	0	12,500	
Two Years Later	35,000	0	0	25,000	0	0	55,000	60,000		
Three Years Later	75,000	0	0	25,238	38,627	8,844	125,695			
Four Years Later	134,111	156,146	143,853	153,081	196,865	193,912				
Five Years Later	424,702	571,656	534,808	405,983	645,390					
Six Years Later	790,634	1,149,867	1,059,501	753,768						
Seven Years Later	1,234,284	1,781,009	1,681,033							
Eight Years Later	1,738,279	2,449,075								
Nine Years Later	2,322,754									
Reestimated incurred claims and expenses:										
End of Fund Year	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	5,146,235
One Year Later	3,967,443	6,369,002	6,847,954	4,025,027	4,152,446	4,823,740	6,632,484	7,407,958	10,855,431	
Two Years Later	4,757,486	7,185,507	7,422,804	5,064,167	5,528,283	8,885,376	9,082,661	11,023,365		
Three Years Later	5,569,225	7,387,495	8,043,579	5,102,472	8,732,250	13,013,925	11,151,447			
Four Years Later	6,380,977	8,670,321	8,861,604	6,741,258	9,198,291	12,753,443				
Five Years Later	6,646,211	9,515,973	10,103,017	9,223,482	11,644,437					
Six Years Later	7,305,187	10,054,144	11,379,037	8,776,469						
Seven Years Later	7,884,320	11,563,769	12,465,964							
Eight Years Later	8,358,309	11,508,678								
Nine Years Later	8,703,420									
Increase (decrease) in estimated incurred claims and expense from end of policy year	(17,894,070)	5,159,489	5,002,046	1,507,781	3,856,995	5,346,433	3,444,137	3,071,055	1,512,186	(5,466,111)
Number of fund participants receiving benefits at end of year	977	1,066	1,136	1,229	1,280	1,293	1,336	1,347	1,324	1,336

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 14 of the financial statements describes the Death and Permanent Total Disability Trust 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 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

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Premium and Investment Revenues:										
Premium Taxes	$ 5,000	$ 4,731	$ 500	$ 1,000	$ 466	$ 4,982	$1,784,175	$1,186,860	$1,294,908	$3,620,160
Interest Income	773,943	769,172	704,237	662,251	659,587	344,714	142,761	80,943	60,958	74,445
Totals	$ 778,943	$ 773,903	$ 704,737	$ 663,251	$ 660,053	$ 349,696	$1,926,936	$1,267,803	$1,355,866	$3,694,605
Unallocated Expenses:										
Operating Costs (2)	$ 505,786	$ 511,615	$ 527,391	$ 534,912	$ 546,985	$ 464,976	$ 480,666	$ 526,768	$ 544,817	$ 584,142
Estimated incurred claims and expenses, end of fiscal year (3)	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	$2,829,959
Paid (cumulative) claims and claims adjustment expenses:										
End of Fund Year	N/A	0	0	0	0	0	0	0	0	0
One Year Later	7,304	71,875	12,375	45,650	83,050	25,106	208,690	70,605	34,500	
Two Years Later	188,052	374,146	303,855	248,145	439,698	673,422	814,873	299,505		
Three Years Later	321,177	711,834	631,343	674,745	1,194,737	1,215,361	1,348,617			
Four Years Later	476,760	968,332	979,363	868,031	1,441,469	1,507,797				
Five Years Later	572,162	1,133,854	1,146,518	1,132,344	1,741,288					
Six Years Later	562,851	1,239,414	1,285,688	1,345,166						
Seven Years Later	627,121	1,318,390	1,360,621							
Eight Years Later	657,291	1,425,046								
Nine Years Later	770,945									
Reestimated incurred claims and expenses:										
End of Fund Year	N/A	0	0	0	0	0	0	0	0	0
One Year Later	7,304	71,875	12,375	45,650	83,050	32,677	208,690	70,605	34,500	
Two Years Later	594,989	585,794	548,339	248,145	653,704	1,369,710	1,253,217	437,313		
Three Years Later	720,169	1,040,838	1,024,608	1,457,506	1,554,449	2,440,234	2,277,287			
Four Years Later	878,639	1,364,971	1,443,112	1,711,564	2,298,595	2,576,594				
Five Years Later	967,144	1,625,285	1,715,146	2,661,354	2,643,544					
Six Years Later	950,581	1,997,376	1,851,925	3,101,437						
Seven Years Later	992,157	2,063,886	1,954,076							
Eight Years Later	1,013,377	2,157,711								
Nine Years Later	1,356,256									
Increase (decrease) in estimated incurred claims and expense from end of policy year (4)	N/A	(1,676,925)	518,707	1,284,265	846,442	867,284	795,112	(1,329,867)	(2,457,032)	(2,829,959)
Number of Fund Participants receiving benefits at end of year	94	92	96	95	98	97	102	111	122	128

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 14 of the financial statements describes the Second Injury Trust 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 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: In 1997, not available as explained in Note 14.

N/A: Information not available

GREAT SEAL OF THE STATE OF ARKANSAS

REGNAT POPULUS

MERCY

JUSTICE

Arkansas

Combining Financial Statements

The apple blossom was adopted as the Arkansas State Flower by the General Assembly of 1901. Apple blossoms have pink and white petals and green leaves. At one time Arkansas was a major apple producing state. The town of Lincoln in Washington County hosts the annual Arkansas Apple Festival.

Photo courtesy of: Arkansas Department of Parks and Tourism

NON-MAJOR ENTERPRISE FUNDS

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

Department of Workforce Services – 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 Enterprise Funds
June 30, 2006
(Expressed in thousands)

	Department of Workforce Services	War Memorial Stadium Commission	Construction Assistance Revolving Loan Fund	Public School Employee Health and Life Benefit Plan	Other Revolving Loan Funds	Total
Assets						
Current assets:						
Cash and cash equivalents	$ 1,061	$ 1,217	$ 64,604	$ 7,995	$ 11,678	$ 86,555
Investments	201,387	200				201,587
Receivables:						
Accounts	80,255		73	1,453	472	82,253
Loans					61	61
Interest	93		552		252	897
Due from other funds	1,357					1,357
Due from other governments	10,128					10,128
Advances to other funds					435	435
Inventories		16				16
Prepaid items				24		24
Total current assets	294,281	1,433	65,229	9,472	12,898	383,313
Noncurrent assets:						
Investments - restricted			39,115	52,013		91,128
Loans receivable			202,452		71,743	274,195
Capital assets:						
Land	2,973					2,973
Infrastructure	10					10
Buildings	12,505	15,082				27,587
Equipment	6,073	189		79		6,341
Leasehold improvements	245					245
Construction in progress	23	916				939
Other depreciable assets	972					972
Less accumulated depreciation	(9,096)	(5,925)		(1)		(15,022)
Advances to other funds					3,760	3,760
Other noncurrent assets			858			858
Total noncurrent assets	13,705	10,262	242,425	52,091	75,503	393,986
Total assets	$ 307,986	$ 11,695	$ 307,654	$ 61,563	$ 88,401	$ 777,299

Continued on the following page

Combining Statement of Net Assets
Non-major Enterprise Funds
June 30, 2006
(Expressed in thousands)

Continued from the previous page

	Department of Workforce Services	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	$ 29,749	$ 272	$ 254	$ 8,832	$ 9	$ 39,116
Accrued interest payable			330			330
Accrued and other current liabilities	1,128	14				1,142
Due to other funds	219			7	254	480
Due to component unit			193		72	265
Due to other governments	1,944					1,944
Bonds payable			5,180			5,180
Claims, judgments, and compensated absences	1,592	8		21,235		22,835
Deferred revenue					2,413	2,413
Total current liabilities	34,632	294	5,957	30,074	2,748	73,705
Noncurrent liabilities:						
Bonds payable			78,549			78,549
Claims, judgments, and compensated absences	2,630	54		515		3,199
Deferred revenue			1,794			1,794
Total noncurrent liabilities	2,630	54	80,343	515		83,542
Total liabilities	37,262	348	86,300	30,589	2,748	157,247
Net Assets						
Net assets:						
Invested in capital assets, net of related debt	13,705	10,262				23,967
Restricted for:						
Unemployment compensation	257,019					257,019
Program requirements			221,354		85,653	307,007
Unrestricted		1,085		30,974		32,059
Total net assets	270,724	11,347	221,354	30,974	85,653	620,052
Total net assets and liabilities	$ 307,986	$ 11,695	$ 307,654	$ 61,563	$ 88,401	$ 777,299

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Non-major Enterprise Funds
For the Year Ended June 30, 2006
(Expressed in thousands)

	Department of Workforce Services	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	$	$ 1,436	$	$ 233,250	$	$ 234,686
Licenses, permits and fees			1,966		872	2,838
Investment earnings			8,636		2,011	10,647
Miscellaneous	1,642					1,642
Total operating revenues	1,642	1,436	10,602	233,250	2,883	249,813
Operating expenses:						
Cost of sales and services		480		3,022		3,502
Compensation and benefits	29,044	457				29,501
Supplies and services	13,049	2,768		18,273		34,090
General and administrative expenses	2,894	140	283		96	3,413
Benefits and aid payments	276,638			198,248		474,886
Depreciation and amortization	562	465		1		1,028
Amortization of bond costs			147			147
Interest			4,077			4,077
Total operating expenses	322,187	4,310	4,507	219,544	96	550,644
Operating income (loss)	(320,545)	(2,874)	6,095	13,706	2,787	(300,831)
Nonoperating revenues (expenses):						
Investment earnings	6,928	38		1,113		8,079
Taxes	280,637					280,637
Grants and contributions	95,909	8	11,999		17,313	125,229
Loss on sale of fixed assets	(18)					(18)
Total nonoperating revenues (expenses)	383,456	46	11,999	1,113	17,313	413,927
Income (loss) before transfers and contributions	62,911	(2,828)	18,094	14,819	20,100	113,096
Transfers in	430	2,153			3,422	6,005
Transfers out	(110)		(888)	(275)	(1,703)	(2,976)
Capital grants and contributions	2					2
Change in net assets	63,233	(675)	17,206	14,544	21,819	116,127
Total net assets - beginning	207,491	12,022	204,148	16,430	63,834	503,925
Total net assets - ending	$ 270,724	$ 11,347	$ 221,354	$ 30,974	$ 85,653	$ 620,052

Combining Statement of Cash Flows
Non-major Enterprise Funds
For the Year Ended June 30, 2006
(Expressed in thousands)

	Department of Workforce Services	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	$	$ 1,396	$	$ 230,739	$	$ 232,135
Payments to employees	(28,482)	(440)				(28,922)
Payments of benefits	(276,318)			(193,494)		(469,812)
Payments to suppliers	(15,497)	(3,096)	(200)	(16,821)	(70)	(35,684)
Interest received (paid)			4,275		1,912	6,187
Loan administration received (paid)			(13,584)		(18,866)	(32,450)
Other receipts (payments)	1,642		1,675	(3,022)	1,281	1,576
Net cash provided by (used in) operating activities	(318,655)	(2,140)	(7,834)	17,402	(15,743)	(326,970)
Cash flows from noncapital financing activities:						
Direct lending payments			(4,955)			(4,955)
Taxes	280,366					280,366
Grants and contributions	95,643	9	12,208		17,206	125,066
Net transfers to other funds	320	2,153	(888)	(275)	1,813	3,123
Net cash provided by (used in) noncapital financing activities	376,329	2,162	6,365	(275)	19,019	403,600
Cash flows from capital and related financing activities:						
Acquisition and construction of capital assets	(1,887)	(164)		(80)		(2,131)
Net cash used in capital and related financing activities	(1,887)	(164)		(80)		(2,131)
Cash flows from investing activities:						
Purchase of investments	(61,614)		(40,492)	(14,916)		(117,022)
Proceeds from sale and maturities of investments		352	64,098			64,450
Interest and dividends on investments	6,888	39		1,113		8,040
Advance disbursements					(800)	(800)
Advance repayments					558	558
Net cash provided by (used in) investing activities	(54,726)	391	23,606	(13,803)	(242)	(44,774)
Net increase (decrease) in cash and cash equivalents	1,061	249	22,137	3,244	3,034	29,725
Cash and cash equivalents - beginning as restated		968	42,467	4,751	8,644	56,830
Cash and cash equivalents - ending	$ 1,061	$ 1,217	$ 64,604	$ 7,995	$ 11,678	$ 86,555
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:						
Operating income (loss)	$ (320,545)	$ (2,874)	$ 6,095	$ 13,706	$ 2,787	$ (300,831)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Depreciation	342	465		1		808
Amortization	220		147		(92)	275
Net appreciation (depreciation) of investments			(440)			(440)
Net changes in assets and liabilities:						
Accounts receivable				(296)	(18)	(314)
Loans receivable			(13,584)		(18,862)	(32,446)
Inventory		6				6
Other current assets	604		94	9	(98)	609
Current liabilities		3		2		5
Accounts payable and other accrued liabilities	417	280	145	6,196	22	7,060
Compensated absences	307	(20)				287
Deferred revenue			(291)	(2,216)	518	(1,989)
Net cash provided by (used in) operating activities	$ (318,655)	$ (2,140)	$ (7,834)	$ 17,402	$ (15,743)	$ (326,970)

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 trust and agency funds consist of the following:

> ***Pension Trust Funds*** – These funds are accounted for in essentially the same manner as proprietary funds and include Teacher, APERS, Highway, State Police, Judicial, and District Judge 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, 2006
(Expressed in thousands)

Assets	Teacher	APERS	Highway	State Police	Judicial	District Judge	Total
Cash and cash equivalents	$ 233,907	$ 158,991	$ 91,328	$ 3,125	$ 2,285	$ 489	$ 490,125
Receivables:							
Employee	11,004		41		4	9	11,058
Employer	38,957	1,668				32	40,657
Interest and dividends	21,638	15,364	5,886	13	60	1	42,962
Advances to other funds	13,408						13,408
Other	60,165	55,159	7	93	328	14,804	130,556
Due from other funds				2			2
Total receivables	145,172	72,191	5,934	108	392	14,846	238,643
Investments at fair value:							
Bonds, notes, mortgages and preferred stock	568,513	878,378	374,205		66,671		1,887,767
Common stock	2,717,093	1,715,828	627,417	15,988	57,401		5,133,727
Real estate	70,243	370,246					440,489
International investments	1,913,603	1,151,970		43,113	23,102	1,384	3,133,172
Mutual funds		512,216				8,225	520,441
Pooled investment funds	2,588,035	219,480		155,340			2,962,855
Corporate obligations	541,885						541,885
Asset backed securities	168,516	183,021					351,537
Other	1,227,466	12					1,227,478
Total investments	9,795,354	5,031,151	1,001,622	214,441	147,174	9,609	16,199,351
Securities lending collateral	1,157,070	638,702		6,148			1,801,920
Capital assets	152	50					202
Other assets	91	1,677					1,768
Total assets	11,331,746	5,902,762	1,098,884	223,822	149,851	24,944	18,732,009
Liabilities							
Accounts payable and other liabilities	1,781	6,880	95	255	207	3	9,221
Investment principal payable	241,883	121,614		201	354		364,052
Obligations under securities lending	1,157,070	638,702		6,148			1,801,920
Due to other funds		61					61
Total liabilities	1,400,734	767,257	95	6,604	561	3	2,175,254
Net assets							
Held in trust for employees' pension benefits	$ 9,931,012	$ 5,135,505	$ 1,098,789	$ 217,218	$ 149,290	$ 24,941	$ 16,556,755

Combining Statement of Changes in Fiduciary Net Assets
Pension Trust Funds
For the Year Ended June 30, 2006
(Expressed in thousands)

	Teacher	APERS	Highway	State Police	Judicial	District Judge	Total
Additions:							
Contributions:							
Members	$ 92,006	$ 6,204	$ 7,658	$ 93	$ 824	$ 167	$ 106,952
Employers	311,714	158,083	15,952	5,316	1,998	595	493,658
Supplemental contributions		1,614		2,036	2,004		5,654
Court fees				1,268	903		2,171
Local municipal judges retirement funds						(11)	(11)
Reinstatement fees				1,031			1,031
Total contributions	403,720	165,901	23,610	9,744	5,729	751	609,455
Investment income:							
Net increase (decrease) in fair value of investments	993,068	459,109	70,416	20,214	10,722	584	1,554,113
Interest, dividends, and other	189,450	106,416	25,639	445	1,501	15	323,466
Real estate operating income (loss)	6,565	(2,641)					3,924
Securities lending income	45,221	29,271		302			74,794
Total investment income	1,234,304	592,155	96,055	20,961	12,223	599	1,956,297
Less investment expense	71,182	46,832	4,187	1,310	755	7	124,273
Net investment income	1,163,122	545,323	91,868	19,651	11,468	592	1,832,024
Miscellaneous	271	7,422				1,104	8,797
Total additions (losses)	1,567,113	718,646	115,478	29,395	17,197	2,447	2,450,276
Deductions:							
Benefits paid to participants or beneficiaries	507,642	219,712	57,571	16,064	7,065	985	809,039
Refunds of employee/employer contributions	6,208	62	908			1	7,179
Administrative expenses	6,447	4,145	108	76	46	72	10,894
Total deductions	520,297	223,919	58,587	16,140	7,111	1,058	827,112
Change in net assets held in trust for employees' pension benefits	1,046,816	494,727	56,891	13,255	10,086	1,389	1,623,164
Net assets - beginning as restated	8,884,196	4,640,778	1,041,898	203,963	139,204	23,552	14,933,591
Net assets - ending	$ 9,931,012	$ 5,135,505	$ 1,098,789	$ 217,218	$ 149,290	$ 24,941	$ 16,556,755

Combining Statement of Fiduciary Net Assets
Agency Funds
June 30, 2006
(Expressed in thousands)

	Insurance Department	Other Agencies	Total
Assets			
Cash and cash equivalents	$ 4,109	$ 28,697	$ 32,806
Receivables:			
Interest and dividends	3	93	96
Other		11	11
Total receivables	3	104	107
Inventories		7	7
Investments at fair value:			
Certificates of deposit	1,513	41,315	42,828
Bonds, government securities, notes, mortgages, and preferred stock		48,142	48,142
Total investments	1,513	89,457	90,970
Financial assurance instruments	312,329	2,475	314,804
Total assets	$ 317,954	$ 120,740	$ 438,694
Liabilities			
Accounts payable and other liabilities	$	$ 181	$ 181
Due to other governments		101,228	101,228
Due to third parties	317,954	19,331	337,285
Total liabilities	$ 317,954	$ 120,740	$ 438,694

Combining Statement of Changes in Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2006
(Expressed in thousands)

	Insurance Department			
Assets	**Balance July 1, 2005**	**Additions**	**Reductions**	**Balance June 30, 2006**
Cash and cash equivalents	$ 3,925	$ 184	$	$ 4,109
Receivables:				
Interest and dividends	2	1		3
Investments at fair value:				
Certificates of deposit	1,611		98	1,513
Financial assurance instruments	338,346		26,017	312,329
Total assets	$ 343,884	$ 185	$ 26,115	$ 317,954
Liabilities				
Due to third parties	$ 343,884	$ 87	$ 26,017	$ 317,954
Total liabilities	$ 343,884	$ 87	$ 26,017	$ 317,954

	Other Agencies			
Assets	**Balance July 1, 2005**	**Additions**	**Reductions**	**Balance July 1, 2006**
Cash and cash equivalents	$ 10,318	$ 1,563,834	$ 1,545,455	$ 28,697
Receivables:				
Interest and dividends	99	101	107	93
Other	7	217	213	11
Inventories	5	2		7
Investments at fair value:				
Certificates of deposit	42,113	17,968	18,766	41,315
Bonds, government securities, notes, mortgages, and preferred stock	51,269	14,029	17,156	48,142
Financial assurance instruments		2,705	230	2,475
Total assets	$ 103,811	$ 1,598,856	$ 1,581,927	$ 120,740
Liabilities				
Accounts payable and other liabilities	$ 96	$ 831,659	$ 831,574	$ 181
Due to other governments	89,282	31,128	19,182	101,228
Due to third parties	14,433	51,426	46,528	19,331
Total liabilities	$ 103,811	$ 914,213	$ 897,284	$ 120,740

	Total - All Agency Funds			
Assets	**Balance July 1, 2005**	**Additions**	**Reductions**	**Balance July 1, 2006**
Cash and cash equivalents	$ 14,243	$ 1,564,018	$ 1,545,455	$ 32,806
Receivables:				
Interest and dividends	101	102	107	96
Other	7	217	213	11
Inventories	5	2		7
Investments at fair value:				
Certificates of deposit	43,724	17,968	18,864	42,828
Bonds, government securities, notes, mortgages, and preferred stock	51,269	14,029	17,156	48,142
Financial assurance instruments	338,346	2,705	26,247	314,804
Total assets	$ 447,695	$ 1,599,041	$ 1,608,042	$ 438,694
Liabilities				
Accounts payable and other liabilities	$ 96	$ 831,659	$ 831,574	$ 181
Due to other governments	89,282	31,128	19,182	101,228
Due to third parties	358,317	51,513	72,545	337,285
Total liabilities	$ 447,695	$ 914,300	$ 923,301	$ 438,694


GREAT SEAL OF THE STATE OF ARKANSAS
REGNAT POPULUS
MERCY
JUSTICE

Arkansas

The South Arkansas Vine Ripe Pink Tomato was adopted as the Arkansas State Fruit and Vegetable by the General Assembly of 1987. The tomato is officially defined as a fruit but is commonly used as a vegetable. The Pink Tomato Festival is held each year in Bradley County.

Photo courtesy of: Arkansas Department of Parks and Tourism

Statistical Section

Statistical Section – Table of Contents

Financial Trends - These schedules contain trend information to help the reader understand how the State's financial performance and well being have changed over time. The schedules presented from an entity wide perspective only include Fiscal Year 2002 and forward, coinciding with the implementation of GASB 34. Fund perspective schedules are presented for the last ten years, except where noted. Schedules included are:

Revenue Capacity Information - These schedules contain trend information to help the reader understand the State's capacity to raise revenues and the sources of those revenues.

Debt Capacity Information - These schedules contain trend information to help the reader understand the State's outstanding debt and the capacity to repay that debt.

Demographic and Economic Information - These schedules contain trend information to help the reader understand the environment in which the State's financial activities occur.

Operating Information - These schedules contain service and infrastructure data in relation to the services the State provides and the activities it performs.

Other Information

Schedule 1
Net Assets by Component (Unaudited)
Last Five Fiscal Years
(Expressed in thousands)

	2006	2005	2004	2003	2002
Governmental Activities					
Invested in capital assets, net of related debt	$ 7,898,984	$ 7,563,452	$ 7,375,246	$ 7,009,304	$ 6,730,616
Restricted	672,391	506,508	231,314	178,871	179,988
Unrestricted	2,029,866	1,803,726	1,657,482	1,399,219	1,477,114
Total governmental activities net assets	10,601,241	9,873,686	9,264,042	8,587,394	8,387,718
Business-type activities					
Invested in capital assets, net of related debt	1,244,773	1,200,731	1,159,058	1,106,738	1,014,975
Restricted	879,536	760,011	649,458	567,056	663,139
Unrestricted	509,394	463,153	419,697	388,486	381,757
Total business-type activities net assets	2,633,703	2,423,895	2,228,213	2,062,280	2,059,871
Primary Government					
Invested in capital assets, net of related debt	9,143,757	8,764,183	8,534,304	8,116,042	7,745,591
Restricted	1,551,927	1,266,519	880,772	745,927	843,127
Unrestricted	2,539,260	2,266,879	2,077,179	1,787,705	1,858,871
Total primary government activities net assets	$ 13,234,944	$ 12,297,581	$ 11,492,255	$ 10,649,674	$ 10,447,589

Note: The State implemented Governmental Accounting Standards Board Statement No. 34 in Fiscal Year 2002; the relevant government-wide schedules are effective beginning in Fiscal Year 2002.

Schedule 2
Changes in Net Assets (Unaudited)
Last Five Fiscal Years
(Expressed in thousands)

	2006	2005	2004	2003	2002
Governmental Activities					
Expenses					
General government	$ 1,180,288	$ 1,042,440	$ 1,071,734	$ 1,048,805	$ 940,426
Education	3,048,480	2,881,337	2,342,543	2,326,854	2,236,210
Health and human services	4,664,182	4,538,242	4,100,830	3,785,128	3,304,714
Transportation	636,759	626,138	606,900	620,424	522,826
Law, justice, and public safety	608,052	518,579	529,693	441,258	428,701
Recreation and resources development	202,105	175,097	189,406	243,519	218,534
Regulation of business and professionals	115,883	117,525	130,349	115,983	98,494
Interest on long-term debt	59,501	60,101	56,906	55,677	51,215
Total Expenses	10,515,250	9,959,459	9,028,361	8,637,648	7,801,120
Program Revenues					
Charges for Services					
General government	261,161	270,746	279,902	252,146	279,099
Education	13,501	9,217	4,617	10,057	6,948
Health and human services	217,429	214,646	124,321	173,949	202,307
Transportation	133,993	130,190	122,873	132,673	12,819
Law, justice, and public safety	63,251	60,540	61,163	24,350	9,262
Recreation and resources development	55,223	55,026	52,597	51,626	45,582
Regulation of business and professionals	89,950	76,026	67,172	75,160	68,180
Operating Grants	4,150,897	3,997,615	3,805,225	3,802,814	3,425,029
Capital Grants and Contributions	392,744	431,739	454,668	15,419	6,707
Total Program Revenues	5,378,149	5,245,745	4,972,538	4,538,194	4,055,933
Net (Expense) Revenue	(5,137,101)	(4,713,714)	(4,055,823)	(4,099,454)	(3,745,187)
General Revenues and Transfers					
Taxes:					
Personal and corporate income	2,374,801	2,164,445	1,920,448	1,722,167	1,678,750
Consumer sales and use	2,509,664	2,380,921	1,956,032	1,788,327	1,780,774
Gas and motor carrier	456,223	450,281	449,960	439,483	477,384
Other	760,431	720,948	695,623	638,469	556,739
Investment earnings	96,369	58,348	36,651	46,139	63,121
Miscellaneous income	387,101	203,101	295,706	292,716	45,374
Loss on sale of fixed assets				(31,910)	(14,696)
Transfers-internal activities	(719,933)	(654,686)	(637,949)	(596,261)	(609,619)
Restatement			16,000		
Total General Revenues and Transfers	5,864,656	5,323,358	4,732,471	4,299,130	3,977,827
Total Governmental Activities Change in Net Assets	$ 727,555	$ 609,644	$ 676,648	$ 199,676	$ 232,640

Schedule 2
Changes in Net Assets (Unaudited)
Last Five Fiscal Years
(Expressed in thousands)

		2006	2005	2004	2003	2002
Business-Type Activities						
Expenses						
Higher Education		$ 2,422,557	$ 2,256,317	$ 2,121,960	$ 1,987,141	$ 1,856,264
Workers' Compensation		36,629	35,517	31,829	33,938	28,544
Workforce Services		322,205	325,595	310,539	482,669	479,834
War Memorial Stadium		4,310	1,830	1,726	1,799	1,623
Public School Employee Insurance Plan	(1)	219,544	202,137			
Revolving loans		4,603	4,766	5,671	5,866	8,791
Total Expenses		3,009,848	2,826,162	2,471,725	2,511,413	2,375,056
Program Revenues						
Charges for Services						
Higher Education		1,160,194	1,054,808	991,698	915,015	1,160,109
Workforce Services					6	
War Memorial Stadium		1,436	746	1,349	1,556	1,365
Public School Employee Insurance Plan	(1)	233,250	211,430			
Revolving loans		2,838	2,364			
Operating Grants		566,200	602,649	549,004	544,918	160,833
Capital Grants and Contributions		59,025	70,432	56,889	88,396	70,832
Total Program Revenues		2,022,943	1,942,429	1,598,940	1,549,891	1,393,139
Net (Expense) Revenue		(986,905)	(883,733)	(872,785)	(961,522)	(981,917)
Business-Type Revenues and Transfers						
Taxes:						
Other		326,343	310,431	318,555	265,911	249,225
Investment earnings		61,462	48,310	40,237	48,295	39,565
Miscellaneous income		88,975	65,988	35,119	58,436	65,672
Loss on sale of fixed assets					(4,972)	(1,956)
Transfers-internal activities		719,933	654,686	637,949	596,261	609,619
Restatement				6,858		
Total General Revenues and Transfers		1,196,713	1,079,415	1,038,718	963,931	962,125
Total Business-Type Activities Changes in Net Assets		209,808	195,682	165,933	2,409	(19,792)
Total Primary Government Change in Net Assets		$ 937,363	$ 805,326	$ 842,581	$ 202,085	$ 212,848

(1) Starting in fiscal year 2005, Public School Employee Insurance Plan revenues and expenditures were recorded in the Enterprise fund.

Note: The State implemented Governmental Accounting Standards Board Statement No. 34 in Fiscal Year 2002; the relevant government-wide schedules are effective beginning in Fiscal Year 2002.

Schedule 3
Fund Balances, Governmental Fund (Unaudited)
Last Ten Fiscal Years
(Expressed in thousands)

	2006	2005	2004	2003
General Fund				
Reserved	$ 954,015	$ 988,971	$ 712,864	$ 769,067
Unreserved	1,954,764	1,532,038	1,384,917	973,152
Total General Fund	2,908,779	2,521,009	2,097,781	1,742,219
Total Fund Balances, Governmental Funds	$ 2,908,779	$ 2,521,009	$ 2,097,781	$ 1,742,219

2002	2001	2000	1999	1998	1997
$ 839,209	$ 361,718	$ 501,784	$ 282,416	$ 260,692	$ 298,448
839,121	1,462,693	1,411,661	1,407,377	1,384,408	1,097,890
1,678,330	1,824,411	1,913,445	1,689,793	1,645,100	1,396,338
$ 1,678,330	$ 1,824,411	$ 1,913,445	$ 1,689,793	$ 1,645,100	$ 1,396,338

Schedule 4
Changes in Net Assets, Governmental Fund (Unaudited)
Last Ten Fiscal Years
(Expressed in thousands)

	2006	2005	2004	2003
Revenues:				
Taxes:				
Personal and corporate income	$ 2,374,853	$ 2,169,849	$ 1,914,067	$ 1,714,603
Consumers sales and use	2,519,443	2,382,865	1,951,475	1,770,946
Corporate net income (1)				
Gas and motor carrier	456,569	450,269	450,444	439,614
Other	760,799	721,144	694,802	638,510
Intergovernmental	4,540,408	4,418,148	4,249,189	3,823,171
Licenses, permits, and fees	858,136	836,688	717,092	750,872
Investment earnings	96,369	57,999	36,651	46,139
Miscellaneous	301,408	248,138	313,952	250,566
Total Revenues	11,907,985	11,285,100	10,327,672	9,434,421
Expenditures:				
Current:				
General government	1,137,458	1,058,514	1,029,316	1,044,164
Education	3,044,735	2,877,770	2,336,813	2,324,631
Health and human services	4,653,553	4,526,132	4,065,745	3,772,155
Transportation	320,417	319,140	312,688	346,282
Law, justice, and public safety	582,086	480,246	496,109	416,353
Recreation and resources development	186,137	159,709	159,895	221,987
Regulation of business and professionals	112,595	114,484	125,968	108,378
Debt service:				
Principal retirement (2)	97,583	46,723	36,809	40,066
Interest expense	61,065	58,866	56,769	50,341
Bond issuance costs	818	2,905	1,194	624
Capital outlay	673,624	704,117	755,373	692,898
Total Expenditures	10,870,071	10,348,606	9,376,679	9,017,879
Excess (deficiency) of revenues over expenditures	1,037,914	936,494	950,993	416,542
Other financing sources (uses):				
Issuance of debt	71,993	116,717	24,974	224,020
Proceeds from bond refunding	15,540			31,150
Bond discounts/premiums	1,967	2,844	620	10,329
Payment to refunding escrow agent	(24,371)	(60,325)		(32,737)
Capital leases	2,223	80,010	4,961	10,846
Sale of Capital Assets	2,297	2,289	2,296	
Transfers in	47,254	46,495	49,099	5,266
Transfers out	(767,047)	(701,296)	(677,381)	(601,527)
Restatement				
Total other financing sources and uses	(650,144)	(513,266)	(595,431)	(352,653)
Net change in fund balances	387,770	423,228	355,562	63,889
Fund balances-July 1	2,521,009	2,097,781	1,742,219	1,678,330
Decrease in reserve for inventory				
Fund balances-June 30	$ 2,908,779	$ 2,521,009	$ 2,097,781	$ 1,742,219
Debt Service as a percentage of noncapital expenditures:	1.56%	1.09%	1.09%	1.09%

(1) Prior to 1999, corporate net income was reported separately from personal income.
(2) Prior to 2002, principal retirement, interest expense and bond issuance costs were combined

2002	2001	2000	1999	1998	1997
$ 1,671,615	$ 1,704,226	$ 1,670,110	$ 1,873,980	$ 1,553,778	$ 1,378,162
1,719,686	1,728,033	1,622,476	1,560,892	1,476,686	1,435,841
				268,605	236,538
430,735	257,407	285,113	386,503	368,050	355,586
647,387	373,688	349,969	353,136	361,071	312,704
3,417,665	2,882,725	2,613,654	2,459,368	2,387,385	2,335,367
591,817	480,698	481,078	438,174	414,338	381,498
63,167	107,074	102,158	108,000	90,169	68,888
49,403	623,006	442,979	390,236	241,826	386,352
8,591,475	8,156,857	7,567,537	7,570,289	7,161,908	6,890,936
902,922	681,055	587,147	992,322	724,127	751,164
2,231,401	2,172,021	2,098,860	1,959,309	1,883,809	1,812,291
3,293,609	2,984,687	2,698,687	2,614,967	2,496,628	2,437,633
257,976	788,416	622,061	559,572	635,188	677,638
405,434	509,428	333,211	311,176	265,313	282,258
196,731	196,734	203,358	170,619	177,838	163,937
96,655	120,189	161,703	139,345	121,450	147,064
49,478	69,841	77,244	57,917	54,876	77,360
43,578					
336					
810,947	132,485	142,227	120,525	110,988	184,003
8,289,067	7,654,856	6,924,498	6,925,752	6,470,217	6,533,348
302,408	502,001	643,039	644,537	691,691	357,588
185,000	31,874	198,083	2,115	163,156	74,999
45,145					
9,365					
(44,393)					(13,295)
15,086	3,422	14,069	326	73	59,605
757	658	229	162	115	3,142
(610,376)	(614,579)	(634,118)	(606,285)	(565,952)	(546,967)
(49,073)	(8,908)				2,475
(448,489)	(587,533)	(421,737)	(603,682)	(402,608)	(420,041)
(146,081)	(85,532)	221,302	40,855	289,083	(62,453)
1,824,411	1,913,445	1,689,793	1,645,100	1,396,338	1,461,797
	(3,502)	2,350	3,838	(40,321)	(3,006)
$ 1,678,330	$ 1,824,411	$ 1,913,445	$ 1,689,793	$ 1,645,100	$ 1,396,338
1.24%	0.93%	1.14%	0.85%	0.86%	1.22%

Schedule 5
Revenue Base (Unaudited)
Last Seven Fiscal Years (1)
(Expressed in thousands)

Industry	2006 Sales Tax Collected	2006 Percent of Total	2005 Sales Tax Collected	2005 Percent of Total	2004 Sales Tax Collected	2004 Percent of Total
Agriculture, forestry, fishing, and hunting	$ 6,216	0.26%	$ 6,610	0.29%	$ 4,953	0.28%
Mining	11,244	0.48%	9,247	0.41%	6,020	0.34%
Utilities	262,822	11.17%	219,463	9.72%	180,506	10.14%
Construction	27,970	1.19%	24,308	1.08%	17,669	0.99%
Manufacturing	206,334	8.77%	201,761	8.94%	147,889	8.30%
Wholesale trade	238,955	10.16%	228,170	10.11%	173,076	9.72%
Retail trade	1,088,726	46.27%	1,066,728	47.25%	867,475	48.71%
Transportation and warehousing	16,877	0.72%	15,140	0.67%	8,762	0.49%
Information	151,539	6.44%	147,292	6.53%	126,900	7.12%
Finance and insurance	2,797	0.12%	2,827	0.13%	2,391	0.13%
Real estate, rental, and leasing	43,482	1.85%	42,074	1.86%	32,965	1.85%
Professional, scientific, and technical services	5,992	0.25%	6,129	0.27%	4,734	0.27%
Management of companies and enterprises	2	0.00%	2	0.00%		0.00%
Administrative, support, waste management, and remediation services	31,258	1.33%	28,902	1.28%	10,702	0.60%
Educational services	2,611	0.11%	3,004	0.13%	2,476	0.14%
Health care and social services	3,290	0.14%	3,776	0.17%	3,239	0.18%
Arts, entertainment, and recreation	9,157	0.39%	9,114	0.40%	6,776	0.38%
Accommodation and food services	178,551	7.59%	178,177	7.89%	137,851	7.74%
Other services (except public administration)	61,090	2.60%	61,485	2.72%	43,806	2.46%
Public administration	3,844	0.16%	3,376	0.15%	2,761	0.16%
Total (2)	$ 2,352,757	100%	$ 2,257,585	100%	$ 1,780,951	100%
Direct sales tax rate	6.00%		6.00%		5.125% (07/03-02/04) 6.00% (03/04-06/04)	

(1) Sales tax data not available prior to fiscal year 2000.
(2) Amounts do not include tax collected on automobile transactions.
Source: Department of Finance and Administration Revenue Division - Sales and Use Tax Section

2003 Sales Tax Collected	2003 Percent of Total	2002 Sales Tax Collected	2002 Percent of Total	2001 Sales Tax Collected	2001 Percent of Total	2000 Sales Tax Collected	2000 Percent of Total
$ 6,047	0.36%	$ 6,061	0.36%	$ 6,506	0.39%	$ 2,417	0.17%
5,725	0.34%	5,868	0.35%	6,374	0.39%	1,833	0.13%
162,795	9.63%	167,452	10.01%	174,566	10.53%	N/A	N/A
17,810	1.05%	18,485	1.10%	17,243	1.04%	13,191	0.90%
143,577	8.49%	163,012	9.74%	162,122	9.78%	116,801	7.98%
169,847	10.04%	171,216	10.23%	172,844	10.43%	160,404	10.96%
819,087	48.42%	784,002	46.84%	769,546	46.42%	795,144	54.32%
20,140	1.19%	18,479	1.10%	18,457	1.11%	233,508	15.95%
109,424	6.47%	110,942	6.63%	108,135	6.52%	N/A	N/A
2,510	0.15%	1,856	0.11%	1,637	0.10%	2,268	0.15%
30,339	1.79%	28,028	1.67%	27,918	1.68%	N/A	N/A
4,453	0.26%	4,666	0.28%	4,424	0.27%	N/A	N/A
	0.00%		0.00%	1	0.00%	N/A	N/A
8,622	0.51%	7,552	0.45%	7,156	0.43%	N/A	N/A
2,607	0.16%	2,784	0.17%	2,640	0.16%	N/A	N/A
3,457	0.20%	2,775	0.17%	2,546	0.15%	N/A	N/A
6,597	0.39%	6,446	0.39%	6,178	0.37%	N/A	N/A
132,669	7.84%	129,068	7.71%	125,690	7.58%	N/A	N/A
43,170	2.55%	42,361	2.53%	41,766	2.52%	137,134	9.37%
2,742	0.16%	2,624	0.16%	2,226	0.13%	1,048	0.07%
$ 1,691,618	100%	$ 1,673,677	100%	$ 1,657,975	100%	$ 1,463,748	100%
5.125%		5.125%		4.625% (07/00-12/00) 5.125% (01/01-06/01)		4.625%	

Schedule 6
Revenue Payers (Unaudited)
Current Fiscal Year as Compared to 2001 (1)
(Expressed in thousands, except number of taxpayers)

	2006				2001	
Industry	Sales Tax Collected	Percent of Total	Number of Taxpayers (2)	Percent of Total	Sales Tax Collected	Percent of Total
Agriculture, forestry, fishing, and hunting	$ 6,216	0.26%	942	1.31%	$ 6,506	0.39%
Mining	11,244	0.48%	145	0.20%	6,374	0.39%
Utilities	262,822	11.17%	748	1.04%	174,566	10.53%
Construction	27,970	1.19%	2,495	3.47%	17,243	1.04%
Manufacturing	206,334	8.77%	5,923	8.23%	162,122	9.78%
Wholesale trade	238,955	10.16%	7,832	10.89%	172,844	10.43%
Retail trade	1,088,726	46.27%	28,968	40.27%	769,546	46.42%
Transportation and warehousing	16,877	0.72%	1,744	2.42%	18,457	1.11%
Information	151,539	6.44%	1,184	1.65%	108,135	6.52%
Finance and insurance	2,797	0.12%	319	0.44%	1,637	0.10%
Real estate, rental, and leasing	43,482	1.85%	1,698	2.36%	27,918	1.68%
Professional, scientific, and technical services	5,992	0.25%	1,379	1.92%	4,424	0.27%
Management of companies and enterprises	2	0.00%	6	0.01%	1	0.00%
Administrative, support, waste management, and remediation services	31,258	1.33%	3,272	4.55%	7,156	0.43%
Educational services	2,611	0.11%	291	0.40%	2,640	0.16%
Health care and social services	3,290	0.14%	1,187	1.65%	2,546	0.15%
Arts, entertainment, and recreation	9,157	0.39%	887	1.23%	6,178	0.37%
Accommodation and food services	178,551	7.59%	6,094	8.47%	125,690	7.58%
Other services (except public administration)	61,090	2.60%	6,664	9.26%	41,766	2.52%
Public administration	3,844	0.16%	164	0.23%	2,226	0.13%
Total	$ 2,352,757	100%	71,942	100%	$ 1,657,975	100%

(1) Revenue data is available back to fiscal year 2000, however, this data is not comparable to fiscal year 2006 due to a change in sales tax industry codes in fiscal year 2001.
(2) Number of taxpayers not available prior to fiscal year 2006.
Source: Department of Finance and Administration Revenue Division - Sales and Use Tax Section

Schedule 7
Ratios of Outstanding Debt by Type (Unaudited)
Last Six Fiscal Years (1)
(Expressed in thousands, except per capita amount)

	2006	2005	2004	2003	2002	2001
Governmental Activities Debt						
General obligation bonds	$ 900,402	$ 944,858	$ 923,173	$ 920,986	$ 712,939	$ 552,834
Special obligations	205	370	460	585	765	860
Revenue bond guaranty fund	2,988					
Add (deduct):						
Deferred bond refunding loss	(5,542)	(4,807)	(1,011)	(1,064)		
Issuance premium (discount)	15,814	16,141	15,339	16,709	8,424	36
Other debt instruments				25	2,499	3,802
Notes payable to component unit	123,256	96,683	57,148	56,331	60,000	64,374
Notes payable to pension trust fund	13,408	15,100	16,667	18,118	19,461	20,705
Mortgage payable						1,550
Notes payable to healthcare financing administration		171	721	1,131	2,154	
Capital leases	4,420	6,927	9,536	11,862	14,567	21,646
Capital leases with component unit	97,824	107,522	70,582	76,041	77,153	69,167
Total Governmental Activities Debt	1,152,775	1,182,965	1,092,615	1,100,724	897,962	734,974
Business-Type Activities Debt						
Special obligation:						
War Memorial				940	1,835	2,690
Construction Assistance Revolving Loan Fund	83,955	88,910	93,530	103,275	108,115	112,135
College & University Revenue Bonds	1,155,673	895,910	661,551	637,229	497,060	466,488
Add (deduct): issuance premiums/(discounts)	8,803	100	(123)	(1,124)	(1,455)	(1,074)
Notes payable	17,930	17,128	14,519	22,281	22,028	
Notes payable with component unit	6,666	8,728	9,675	6,349	6,754	
Capital leases	25,092	21,470	17,450	8,114	9,921	11,271
Capital leases with component unit	1,354	1,665	1,960	2,240	2,574	2,803
Total Business-type Activities Debt	1,299,473	1,033,911	798,562	779,304	646,832	594,313
Total Primary Government Debt	2,452,248	2,216,876	1,891,177	1,880,028	1,544,794	1,329,287
Component Unit Debt						
Arkansas Student Loan Authority:						
Revenue bonds payable	753,780	580,700	404,650	313,780	320,640	271,845
Less: deferred bond refunding loss		(241)	(1,117)	(10)	(15)	
Notes payable				6,860		
Arkansas Development Finance Authority:						
Bonds payable	1,114,118	1,173,362	1,145,682	1,418,162	1,432,066	1,510,611
Notes payable	312,307	326,055	216,315			
Less: issuance discounts	(517)	(961)	(2,098)	(1,715)	(1,962)	(415)
U of A Foundation Annuity Obligations	18,524	16,783	15,376	14,748		
Total Component Unit Debt	2,198,212	2,095,698	1,778,808	1,751,825	1,750,729	1,782,041
Total Debt	$ 4,650,460	$ 4,312,574	$ 3,669,985	$ 3,631,853	$ 3,295,523	$ 3,111,328
Debt Ratios						
Ratio of Total Debt to Personal Income (2)	5.77%	5.73%	5.17%	5.48%	5.21%	5.02%
Per Capita (3)	$ 1,659	$ 1,551	$ 1,333	$ 1,331	$ 1,217	$ 1,156
Net General Obligation Bonded Debt						
Gross bonded debt (4)	$ 900,402	$ 944,858	$ 923,173	$ 920,986	$ 712,939	$ 552,834
Less: debt service funds	(111,686)	(100,166)	(37,561)	(27,639)	(35,462)	(45,974)
Net bonded debt	$ 788,716	$ 844,692	$ 885,612	$ 893,347	$ 677,477	$ 506,860
Per Capita (3)	$ 281	$ 304	$ 322	$ 327	$ 250	$ 188

(1) Due to the implementation of GASB 34, data available prior to fiscal year 2001 is not comparable to fiscal years 2001 through the current year.
(2) Personal income data can be found in schedule 9.
(3) Population can be found in schedule 9.
(4) Bond detail can be found in Note 8 to the Financial Statements.

Schedule 8
Pledged Revenue Coverage (Unaudited)
Last Ten Years
(Expressed in thousands)

Colleges and Universities (1)	Gross revenue (2)	Direct operating expense	Net revenue available for debt service	Principal	Interest	Total debt service	Coverage
Refunding Bonds							
2006	$ 81,011	$ 21,418	$ 59,593	$ 4,465	$ 2,996	$ 7,461	7.99
Housing Bonds							
2006	$ 22,399	$ 15,954	$ 6,445	$ 1,129	$ 3,703	$ 4,832	1.33
Facilities Bonds							
2006	$ 601,407	$ 504,200	$ 97,207	$ 10,475	$ 18,362	$ 28,837	3.37
General Revenue and Other Bonds							
2006	$ 104,864	$ 15,432	$ 89,432	$ 6,095	$ 9,216	$ 15,311	5.84

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:							
2006	$ 138,668	$ 5,316	$ 133,352	$ 30,520	$ 19,493	$ 50,013	2.67
2005	85,008	4,832	80,176	11,300	10,828	22,128	3.62
2004	67,473	4,069	63,404	7,180	5,543	12,723	4.98
2003	67,629	3,677	63,952	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

(1) Information not available prior to fiscal year 2006
(2) Gross Revenues include student tuition and fees, housing fees, rent, athletic fees, millage revenue and other auxiliary revenues
Source: Colleges and Universities; Arkansas Student Loan Authority

Schedule 9
Demographic and Economic Indicators (Unaudited)
Last Ten Years

Calendar year	Total population (in thousands)	Total personal income (in millions)	Per capita personal income	Unemployment rate
2006*	2,804	$ 80,536	$ 28,722	4.7%
2005	2,781	75,282	27,070	4.9%
2004	2,754	70,988	25,776	5.6%
2003	2,729	66,324	24,303	5.8%
2002	2,709	63,234	23,342	5.3%
2001	2,692	61,967	23,019	4.7%
2000	2,673	58,726	21,970	4.2%
1999	2,557	56,052	21,921	4.4%
1998	2,540	53,810	21,185	5.0%
1997	2,525	50,955	20,180	5.1%

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

Schedule 10
Principal Employers (Unaudited)
Current Year as Compared to 1997

2006	Employer	Total Employees	Percentage of Total Arkansas Employment
1	Arkansas State Government	51,405	4.3%
2	Wal-Mart Stores, Inc.	44,638	3.7%
3	Tyson Foods, Inc.	24,000	2.0%
4	U.S. Federal Government	20,800	1.7%
5	Baptist Health	7,618	0.6%
6	Triad Hospitals	5,500	0.5%
7	Georgia-Pacific Corporation	4,700	0.4%
8	Whirlpool Corporation	4,500	0.4%
9	Pilgrim's Pride Corporation	4,100	0.3%
10	Arkansas Children’s Hospital, Inc.	3,687	0.3%
		170,948	14.2%

1997	Employer	Total Employees	Percentage of Total Arkansas Employment
1	Arkansas State Government	45,648	4.1%
2	Wal-Mart Stores, Inc.	30,765	2.8%
3	U.S. Federal Government	21,200	1.9%
4	Tyson Foods, Inc.	21,000	1.9%
5	Baptist Health	7,000	0.6%
6	ConAgra, Inc.	6,068	0.5%
7	Beverly Enterprises, Inc.	4,977	0.4%
8	Georgia-Pacific Corporation	4,806	0.4%
9	Emerson Electric Company	4,184	0.4%
10	Baldor Electric Company	3,969	0.4%
		149,617	13.4%

Source: (2006) Arkansas Department of Finance and Administration Economic Analysis and Tax Research
(1997) 1998 Book of Lists, Arkansas Industrial Development Commission; Arkansas Department of Finance and Administration Economic Analysis and Tax Research

Schedule 11
State Employees by Function (Unaudited)
Last Four Fiscal Years

Full-Time Employees

	2006	2005	2004	2003
General Government				
Department of Finance and Administration-Revenue	1,370	1,371	1,352	1,319
All Other	2,742	2,678	2,632	2,720
Education				
Department of Workforce Education	498	503	501	503
Department of Education	359	318	317	391
All Other	953	877	882	885
Heath and Human Services				
Department of Health and Human Services	10,087	10,015	9,979	10,000
All Other	462	413	408	398
Transportation				
Department of Highway and Transportation	3,676	3,749	3,755	3,698
Law, Justice and Public Safety				
Department of Correction	3,745	3,354	3,310	3,362
Arkansas State Police	934	903	843	818
All Other	2,546	2,386	2,351	2,074
Recreation and Resources Development				
Department of Parks and Tourism	1,214	1,138	1,127	1,138
Arkansas Game and Fish Commission	634	621	635	610
All Other	725	657	652	659
Regulation of Business and Professionals				
Department of Insurance	192	182	184	175
All Other	1,174	888	862	867
Proprietary Funds				
Colleges and Universities (2)	19,088	N/A	N/A	N/A
Workers Compensation Commission	137	141	141	138
Department of Workforce Services	848	698	746	877
War Memorial Stadium Commission (3)	21	29	N/A	N/A
State Total	51,405	30,921	30,677	30,632

(1) State employee data not available prior to 2003.
(2) Employee data for colleges and universities not available prior to 2006.
(3) Employee data for War memorial Stadium Commission not available prior to 2005.
Source: Department of Finance and Administration Office of Personnel Management; Department of Highway and Transportation; Colleges and Universities

Schedule 12
Operating Indicators by Function (Unaudited)
Last Ten Fiscal Years

	2006		2005		2004		2003
General Government							
Department of Finance & Administration-Revenue							
Office of Driver Services							
Licenses and ID cards issued (calendar year)	N/A		731,155		736,200		702,810
Registered Vehicles (calendar year)	N/A		2,907,650		2,810,529		2,742,630
Income Tax Administration							
Total electronic tax filers (calendar year)	N/A		612,344	(1)	598,127		535,150
EFT estimate payments by corporations	1,501		1,185		1,068		902
EFT withholding payments (calendar year)	93,636	(1)	103,356		91,536		93,888
Education							
Department of Education							
All school districts:							
Average Daily Membership (2)	N/A		450,910		447,872		439,742
Number of Certified Personnel (2)	N/A		35,201		34,024		33,014
Average Salary of K-12 Classroom full-time employees (2)	N/A	$	41,489	$	39,266	$	37,536
Per Pupil Expenditures (2)	N/A	$	7,307	$	6,475	$	6,168
Foundation Aid per Student	$ 5,528	$	5,400	$	4,721	$	4,688
Assessed Valuation (in millions) (2)	N/A	$	29,274	$	27,748	$	26,346
Higher Education							
Public Institutions							
Fall net enrollment	118,127		115,203		113,100		108,844
Undergraduate degrees awarded	N/A		18,225		17,046		16,950
Graduate degrees awarded	N/A		3,383		3,116		2,890
Private Institutions							
Fall net enrollment	12,150		11,546		11,378		12,629
Undergraduate degrees awarded	N/A		2,394		2,309		2,204
Graduate degrees awarded	N/A		306		271		236
Health and Human Resources							
Department of Health and Human Services							
Foster Care Recipients	6,809		6,401		6,502		6,202
Percent of Population	0.24%		0.23%		0.24%		0.23%
Food Stamp Recipients	558,521		544,752		490,641		457,888
Percent of Population	19.94%		19.62%		17.82%		16.79%
Medicaid Recipients	729,800		688,150		663,920		626,036
Percent of Population	26.06%		24.79%		24.12%		22.95%
Women, Infants and Children Nutrition Program (WIC) Recipients	158,393		156,654		153,570		149,063
Percent of Population	5.66%		5.64%		5.58%		5.46%
Doses of Vaccine Administered (3)	N/A		725,981		710,929		666,308

(1) As of 9-28-06
(2) Fiscal year 2006 figures not available as of print date
(3) In fiscal year 2001 new regulations required second dose of measles, varicella and hepatitis B vaccines
Sources: Arkansas State Police; Arkansas Game and Fish Commission; Arkansas Departments of Revenue, Education, Higher Ed, Health and Human Services, Highway and Transportation, Correction, Parks and Tourism and Insurance

2002	2001	2000	1999	1998	1997
683,237	662,870	678,597	657,283	613,695	582,419
2,685,507	2,650,512	N/A	N/A	N/A	N/A
495,842	430,072	350,955	272,711	218,458	161,146
N/A	N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A	N/A
444,709	444,978	445,739	447,892	454,301	452,121
33,780	33,405	33,466	33,121	32,710	31,892
$ 36,026	$ 34,729	$ 33,888	$ 32,819	$ 31,795	$ 31,021
$ 5,867	$ 5,531	$ 4,945	$ 4,679	$ 4,434	$ 4,168
$ 4,542	$ 4,492	$ 4,301	$ 4,099	$ 3,954	$ 3,760
$ 25,269	$ 23,941	$ 22,683	$ 21,682	$ 20,768	$ 19,906
103,715	100,207	98,989	97,742	95,435	92,069
15,148	14,090	13,747	13,028	12,787	13,157
2,984	2,852	2,927	2,829	2,869	2,910
11,890	11,483	11,015	10,781	10,698	11,116
2,108	2,057	1,633	1,874	1,950	1,893
184	118	108	87	80	90
6,471	6,670	5,486	5,129	4,728	5,409
0.24%	0.25%	0.2%	0.19%	0.18%	0.21%
433,716	402,119	391,787	398,564	409,818	432,424
16.02%	14.94%	14.63%	15.03%	15.6%	16.62%
582,379	535,798	498,669	459,782	415,605	363,881
21.51%	19.9%	18.62%	17.34%	15.82%	13.99%
145,447	144,006	145,418	147,966	149,089	155,372
5.37%	5.35%	5.43%	5.58%	5.68%	5.97%
715,547	1,024,848	715,995	698,831	649,008	N/A

Continued on the following page

Schedule 12
Operating Indicators by Function (Unaudited)
Last Ten Fiscal Years

Continued from the previous page

	2006	2005	2004	2003
Transportation				
Highway and Transportation Department				
Miles of State Highway Maintained	N/A	16,444	16,419	16,383
Law, Justice and Public Safety				
Department of Corrections				
Custody Population Count	12,690	12,568	12,675	11,672
Staff Members	4,375	4,270	4,270	3,666
Inmate Cost per day	$ 52.12	$ 48.24	$ 47.32	$ 44.11
Operating Capacity	12,403	12,178	11,640	11,124
Inmate Care/Custody Operating Expenses (in thousands)	$ 243,208	$ 215,042	$ 209,543	$ 185,682
Arkansas State Police				
Number of Homicides Investigated	196	171	167	224
Total Citations Issued	N/A	258,627	211,023	192,379
Total Motorist Assists	N/A	23,946	23,173	22,633
Total Number of Traffic Accidents	N/A	18,726	18,143	18,029
Total Criminal Investigations	2,119	2,883	3,375	3,215
Recreation and Resources Development				
Department of Parks and Tourism				
Acres of State Parks maintained	53,402	52,747	52,553	52,517
Game and Fish Commission				
Fishing License Sold	712,418	747,756	726,592	734,236
Hunting License Sold	376,516	410,606	413,723	431,615
Lifetime Licenses Sold	16,931	20,657	22,284	10,143
Other Licenses Sold	21,298	25,829	27,767	26,975
Regulation of Business and Professionals				
Department of Insurance				
Number of active licensed insurance agents	60,933	49,087	33,970	25,866
Total consumer complaints received	N/A	3,157	3,320	3,661
Total consumer complaints closed	N/A	3,132	3,416	3,345
Total dollars recovered for consumers (in thousands)	N/A	$ 5,955	$ 5,433	$ 2,573

2002	2001	2000	1999	1998	1997
16,379	16,369	16,367	16,351	16,301	16,288
11,223	11,072	10,872	10,712	10,322	8,770
3,666	3,486	3,486	3,288	2,847	2,656
$ 42.59	$ 40.79	$ 39.35	$ 37.65	$ 37.40	$ 36.86
10,968	10,576	10,426	10,416	10,208	8,260
$ 182,188	$ 175,718	$ 164,025	$ 151,336	$ 146,461	$ 132,494
210	224	N/A	N/A	N/A	N/A
211,965	N/A	N/A	N/A	N/A	N/A
21,176	N/A	N/A	N/A	N/A	N/A
17,166	N/A	N/A	N/A	N/A	N/A
3,090	2,641	N/A	N/A	N/A	N/A
52,605	51,632	51,387	51,235	51,408	51,003
727,737	750,833	727,737	757,708	728,411	720,254
423,021	443,432	423,021	542,633	566,419	556,884
9,683	9,535	9,683	9,799	9,430	9,457
26,490	26,699	26,490	26,923	27,244	28,142
20,555	16,369	14,032	11,890	10,147	8,893
3,874	4,044	3,802	3,621	2,734	2,981
3,808	3,924	3,855	3,532	3,051	2,844
$ 4,265	$ 2,000	$ 20,203	$ 2,630	$ 1,698	$ 1,879

Schedule 13
Capital Asset Statistics by Function (Unaudited)
Last Five Fiscal Years

	2006	2005	2004	2003	2002
General Government					
Dept of Finance and Administration-Revenue					
Vehicles	188	168	162	146	145
Education					
Department of Education					
Vehicles	255	244	229	206	207
Higher Education					
Campuses (public institutions)	33	33	33	33	33
Health and Human Resources					
Department of Health and Human Services					
Buildings	585	588	545	544	533
Vehicles	668	682	667	668	757
Transportation					
Highway and Transportation Department					
Passenger vehicles	2,686	2,713	2,714	2,764	2,671
Law, Justice and Public Safety					
Department of Corrections					
Correctional units	20	19	19	18	18
Vehicles	406	391	387	335	334
State Police					
Police stations	12	12	12	12	12
Commissioned officers	527	529	533	492	592
Vehicles	860	745	685	742	847
Recreation and Resources Devleopment					
Department of Parks and Tourism					
State parks and museums	52	52	52	52	52
Vehicles	592	548	537	514	502
Game and Fish Commission					
Hatcheries	5	5	5	5	5
Vehicles	1,029	1,054	1,033	1,090	1,051
Boats	570	560	560	508	497
Regulation of Business and Professionals					
Vehicles	231	226	224	225	221

Sources: Arkansas State Police; Arkansas Game and Fish Commission; Arkansas Highway and Transportation Department; Arkansas Departments of Education, Higher Education, Correction, Parks and Tourism, and Finance and Administration-Office of Accounting

Schedule 14
Miscellaneous Statistics (Unaudited)

State Capital	Little Rock
Statehood	June 15, 1836
Nickname	The Natural State
Motto	Regnat populus (The people rule)
Land Area	34,036,700 Acres
Counties	75
Largest Cities	Little Rock, Fort Smith, Fayetteville, Springdale, Jonesboro
Highest Elevation Point	Mount Magazine, 2,753 feet
Lowest Elevation Point	Ouachita River, 55 feet
State Flower	Apple Blossom
State Tree	Pine Tree
State Bird	Mockingbird
State Insect	Honeybee
State Gem	Diamond
State Song	"Arkansas"


GREAT SEAL OF THE STATE OF ARKANSAS
REGNAT
POPULUS
MERCY
JUSTICE