Arkansas®
THE NATURAL STATE

Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2007

Arkansas

Comprehensive Annual Financial Report

For the Year Ended June 30, 2007

Mike Beebe
Governor

Richard A. Weiss
Director
Department of Finance and Administration

Prepared by
The Department of Finance and Administration
Office of Accounting

All photographs, except for the picture of the Governor, are courtesy of the Department of Parks and Tourism. The photograph of Governor Mike Beebe is courtesy of the Governor's Office.

Governor Mike Beebe

STATE OF ARKANSAS
MIKE BEEBE
GOVERNOR

December 21, 2007

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

I hereby submit the Arkansas Comprehensive Annual Financial Report (CAFR) today. This annual publication is an important part of our efforts to ensure that the State's finances are accounted for in a timely and accurate manner. These financial statements and accompanying disclosures are an excellent means of providing the detailed information of Arkansas's financial status required by the national credit markets.

I am happy to report that the Fiscal Year 2006 CAFR received the Government Finance Officers Association Certificate of Achievement in Financial Reporting. The State has received this prestigious award eight times in the past.

I deeply appreciate the work performed by the dedicated employees throughout the State who support the efforts of the Department of Finance and Administration to publish this report. Thank you to all concerned for your service.

Sincerely yours,

Mike Beebe

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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, 2007

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REGNAT POPULUS

MERCY

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STATE OF ARKANSAS
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December 21, 2007

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

In accordance with the requirements set forth in Arkansas Code of 1987 Annotated (ACA) § 19-4-517, 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, 2007.

This report has been prepared by the Department of Finance and Administration in conformance with Generally Accepted Accounting Principles (GAAP) for governments as promulgated by the Governmental Accounting Standards Board (GASB). 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 require estimates and judgments by management.

The State of Arkansas Division of Legislative Audit performed the audit for the fiscal year ended June 30, 2007. Auditing standards generally accepted in the United States of America were used by the auditors in conducting the engagement. The auditors' report on the basic financial statements is included in the financial section of this report.

Management's Discussion and Analysis, or MD&A, introduces the basic financial statements and provides an analytical overview of the government's financial 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. Nicknamed "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 District Courts, the Circuit Courts, and the Appellate Courts, which are the Supreme Court and the Court of Appeals.

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.

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.

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 1(c)).

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's 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 Experian Consumer Direct, Chesapeake Energy, Daisy Outdoor Products, Dassault Falcon, Capalco Papers, England Oilfield Services, Anchor Packaging, and Welspun, 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, 17 businesses have signed financial incentive agreements with the State, bringing in a total investment of $48.8 million.

ECONOMIC CONDITION AND OUTLOOK

State Personal Income: Personal income consists of wages and salaries, dividends, interest, rent, and transfer payments such as social security and other retirement incomes. Personal income does not include realized capital gains from the sale of assets. Personal income, measured in current dollars, reached a total of $80,520 million in fiscal year 2007. This represented an increase of $4,294 million or 5.6 percent over fiscal year 2006.

Fiscal year 2008 is estimated at $84,841 million (current dollars), an increase of $4,320 million or 5.4 percent over fiscal year 2007.

Arkansas State Wage and Salary Disbursements, measured in current dollars, reached $41,176 million in fiscal year 2007, an increase of $1,669 million or 4.2 percent over fiscal year 2006.

Fiscal year 2008 is estimated at $43,042 million (current dollars), an increase of $1,865 million or 4.5 percent over fiscal year 2007.

Employment: In fiscal year 2007, wage and salary employment in Arkansas rose to 1,204,660 jobs. This represented an increase of 14,390 jobs or 1.2 percent compared to fiscal year 2006. In fiscal year 2008, wage and salary employment is expected to reach 1,215,740 jobs. This represents a projected increase of 11,070 jobs or 0.9 percent from fiscal year 2007.

Net Available General Revenues: Actual net available general revenues collected in fiscal year 2007 totaled $4,467.9 million, of which $4,058.6 million was distributed to State agencies and $409.3 million surplus was deposited to the General Revenue Allotment Reserve Fund. The net available distribution was $233.6 million or 6.1 percent above the net available distribution of fiscal year 2006. The general revenue distribution included a one-time transfer of $22.0 million from the Property Tax Relief Trust Fund.

Fiscal year 2008 net available general revenue collections are estimated at $4,346.1 million, an increase of $287.5 million or 7.1 percent over fiscal year 2007. The net general revenues distributed for fiscal year 2008 will not include transfers in from the Property Tax Relief Trust Fund or Revenue Allotment Reserve Fund that was the case in fiscal year 2006 and fiscal year 2007.

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 2007, $448.5 million was distributed to the Education Adequacy Fund, with the fiscal year 2008 distribution estimated to be $438.9 million.

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. Additionally, there are requirements for the Executive Branch to report to the Legislative Branch on a regular basis regarding the status of the State's finances.

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 is based upon the aggregate revenue forecasts of each individual agency. It identifies the expected level of general revenue collections and the net distributions of those revenues for each year of the biennium, as required by the Revenue Stabilization Act. The General Assembly then authorizes the level of funded appropriation each year based upon the annual general revenue distribution along with other special and federal revenue sources.

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 and available appropriation.

The Office of Economic Analysis and Tax Research compares the actual revenue collections to the forecast on an ongoing basis. If shortfalls in general revenue collections are anticipated, the "funded appropriation" levels are appropriately reduced to maintain a balanced budget for general revenues. Special, federal and other revenue collections are monitored by the Department of Finance and Administration Office of Budget. Each agency provides an annual revenue forecast which is the basis for establishing the agency's "funded appropriation." This funded appropriation will be adjusted by Office of Budget as necessary for shortfalls in anticipated revenue collection.

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 recipient agency as funding for its operations.

MAJOR INITIATIVES

Education: The public education system in Arkansas is realizing significant gains, thanks to work at all levels - state, district and school.

The National Math and Science Initiative (NMSI) awarded Arkansas a $13.2 million, six-year grant in August 2007 to allow schools to implement research-proven training and incentive methods to improve the performance of students in Advanced Placement (AP) and Pre-AP courses so that they are better prepared for college-level work in math, science and engineering. Only seven states received the NMSI grants.

The College Board touts the "Arkansas Model" for the state's policies regarding AP classes. Arkansas requires that all high schools offer AP classes in the four core areas of math, English, science and social studies by the 2008-2009 school year. The state also pays for AP exams at the end of courses for students. These measures prompted Arkansas to have the largest increase in students taking AP exams in AP history (a 108 percent increase from 2004 to 2005). In 2006, only New Hampshire tied with Arkansas for having the largest increase in students scoring a 3, 4 or 5 on AP exams on the 1-5 scale. Participation rates and the number of students scoring a 3 or higher on AP exams continued to climb in 2007.

The U.S. Department of Education recognized Arkansas in 2007 as being at the forefront in implementing rigorous learning standards for students. In a study mapping standards for proficiency on the Arkansas Benchmark Exam to National Education Assessment Program (NEAP) standards for fourth and eighth grade literacy and mathematics, Arkansas ranked as high as fourth and consistently ranked in the top ten for all four tests. U.S. Secretary of Education Margaret Spellings, in a June 2007 Washington Post editorial writes, “States that have shown true leadership, such as Arkansas and Massachusetts, can inspire others to act.”

Highways and Transportation: Arkansas State Highway and Transportation Department (AHTD) construction projects have been abundant across the state. In addition to maintaining over 16,000 miles of highways, AHTD kept Arkansas moving smoothly in 2007 with construction projects ranging from resurfacing of existing highways to replacing bridges, adding passing lanes, and building new roads.

Major projects were completed this year in Hot Springs. Improvements made to the Martin Luther King Expressway at its interchanges with Highway 7 and Higdon Ferry Road improved the flow of traffic at both locations. Highway 70 west of Hot Springs was widened to four lanes from Highway 192 to Hempwallace. A portion of the roadway was built on a new location around the Lake Hamilton schools campus to improve safety in the area.

In Little Rock, a center turn lane was added to Highway 10 between Mississippi Avenue and Foxcroft Road to improve the flow of traffic through the area. AHTD utilized Enhancement Funds to help fund a portion of the Big Dam Bridge, the new pedestrian/bicycle bridge spanning the Arkansas River between Little Rock and North Little Rock. A one-mile stretch of Highway 100 in the Crystal Hill area of North Little Rock was relocated and widened to four lanes.

In Bentonville, a section of Highway 71B was widened to five lanes. Jonesboro saw a full interchange added to Highway 63 at Washington Avenue. A section of Highway 64 west of Marion was widened to four lanes as was a section of Highway 49 in Phillips County.

A one-time infusion of funds from the State’s General Revenue surplus earmarked for highways allowed AHTD to proceed with a statewide repaving program this fiscal year. The final result of this repaving program will be improved roadways in all 75 counties over the next two years.

AHTD worked with the Arkansas Department of Emergency Management and the Chemical Stockpile Emergency Preparedness Program (CSEPP) on a program to improve safety in the area of the Pine Bluff Arsenal, located in Jefferson County. Electronic message boards were constructed on Interstates 30, 40, 430, 440 and 630 as well as on Highway 67/167.

AHTD implemented a project this fiscal year to replace all of the main lane guide signs and interchange signs on a section of Interstate 30 between Little Rock and Benton, one of the most heavily traveled sections of highway in the state. The replacement of signs along Interstate 40 to improve safety and visibility is also planned.

State Parks: There are fifty-two state parks encompassing 53,741 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 1,799 full service campsites, five lodges, over 130 fully equipped cabins, marinas, swimming pools, restaurants, an 18-hole golf course and more than 296 miles of hiking trails. In 2007, Arkansas State Parks welcomed nearly 10 million visitors, almost four times the population of the state. Park interpreters, tour guides and other staff provided 32,339 educational and recreational programs, and special events for 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.

Visibility of our parks has improved this year. Media coverage from continued diamond finds at Crater of Diamonds State Park has brought attention to that park and to the entire park system. In October 2006, we opened the new James A. Gaston Visitor Center at Bull Shoals-White River State Park which garnered media attention and continues to be a draw for campers in the northern part of the state.

In 1996, voters passed Amendment 75 (the 1/8¢ 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, a lodge, conference center and 27-hole Andy Dye signature golf course to be constructed at Village Creek State Park and the newly relocated Lake Ft. Smith State Park. The $32 million Mt. Magazine project opened May 1, 2006 and was financed by the Arkansas Development Finance Authority with state park revenue bonds. Revenue for the lodge, cabins and restaurant complex at Mt. Magazine for fiscal year 2007 was $3,061,000. Occupancy for fiscal year 2007 for the lodge and cabins was over 71%.

Tourism: Arkansas's tourism industry recorded another good year for fiscal year 2007. During this twelve-month period, the state's 2% tourism tax collections grew at a rate of 7.2% – once again above the national average.

A chief driver in our gains has been the introduction of new tourism products, attractions like central Arkansas's Big Dam Bridge, the Southern Tenant Farmer's Museum in Tyronza, the Anthony Chapel in Hot Springs, the Mark Martin Museum in Batesville, and North Little Rock's Dickey-Stephens baseball park. These plus several other fairly recent developments – such as the Clinton Presidential Center and Park, and the Lodge at Mount Magazine – continue to draw good crowds.

The tourism product pipeline continues to look good with major projects in the works, including: the Crystal Bridges Museum of American Art in Bentonville, the championship golf course at Village Creek State Park near Wynne, the Arvest Field/Arkansas Naturals baseball complex in Springdale, and the U. S. Marshals Museum in Fort Smith.

The Tourism Division's 2008 marketing campaign, while continuing to target traditional groups such as baby boomers, families, and GenXers, will also be aimed at newly identified markets, such as girlfriend getaways, and motorcyclists. And of course, Arkansas is always a natural for folks from any market who enjoy outdoor adventures.

Health and Human Services: Act 1954 of 2005 merged the Department of Health and the Department of Human Services into the Department of Health and Human Services (DHHS). The resulting agency is Arkansas's largest, with a workforce of over 10,000 employees located across the state.

During fiscal year 2007, the Department of Health and Human Services launched several core initiatives that will, over time, have a profound impact on the consumer and the cost of health care:

Service Integration. DHHS places a strong emphasis on service integration. Several new technology initiatives are in the works that will enable better access to services for consumers and maximize limited state resources. This year's most significant project involves establishing a link between the various computer systems at DHHS which will enable client services providers to identify all of the services a particular client is receiving.

System of Care. Beginning in 2006, DHHS made reforming the children's mental health system a top priority. The department led a broad-based stakeholder planning effort that resulted in Act 1221 of 2005 that created the Children's Behavioral Health Commission. A family-centered effort, the committee plans to address gaps in children's mental health services.

ARHealthNet. In early 2007, DHHS launched a preventive health coverage product targeted at uninsured employees of small business. Through this project, state and federal dollars subsidize the cost of health care premiums to low-income workers. This initiative also requires enrolled employers to provide benefits to 100% of their uninsured workforce regardless of income status thereby reducing the adverse economic affects of uncompensated care.

Evidence-Based Medicine. Using scientific data to identify the most effective medicines, the DHHS Medicaid program is negotiating the best price for a Preferred Drug List based on efficacy.

Early Education for At-Risk Children. The 86th General Assembly appropriated an additional $40 million dollars to provide all at-risk 3 and 4 year olds with a quality early education.

Options Counseling. With the support of legislation passed in the 2007 Legislative Session, the state will offer home and community based services as an alternative to a long term care institution. This effort will preserve the quality of life for aging Arkansans at a fraction of the cost of nursing home care.

After operating as one organization for 2 years, the Department of Human Services and the Department of Health were once again established as separate agencies by Act 386 of the 2007 Legislative Session. These separate agencies will continue to work cooperatively to address the health and human services needs of the citizens of Arkansas and to carry out the initiatives that have been put in place.

Information Technology: Arkansas remains a leader in electronic government. The State has received more than a half dozen national awards recognizing achievements in this area. Those awards included a top ten finish in the Best of Web state portal competition sponsored by the Center for Digital Government, and a sixth place ranking in the 2006 biennial Digital States Survey.

Arkansas.gov offers more than 450 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 2.6 million transactions were processed online. To maximize taxpayer return on investment, Arkansas does not appropriate funds for the network, but rather uses a self-funded solution to provide eGovernment services.

The Arkansas Division of Revenue is making preparations to implement the most significant technological upgrade in its history. The new system, called the Integrated Tax System, will modernize and standardize the process of collecting and processing all taxes collected by the Department of Finance and Administration.

The Arkansas Wireless Information Network (AWIN) is a multi-phased program to leverage new and existing wireless resources to create a statewide interoperable wireless communication system for emergency responders and Arkansas public service entities. 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. Upgrades have been completed this year that make AWIN the most technically advanced statewide system in the nation.

Meanwhile, the State Security Office of the Department of Information Systems continues to oversee the Continuity of Operations Program (COOP) to ensure that Arkansas is prepared for any potential disaster whether natural or man-made. The State Security Office also serves as the focal point for all cyber-security issues.

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 for the fiscal year ended June 30, 2006. This was the ninth 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 Beebe, 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

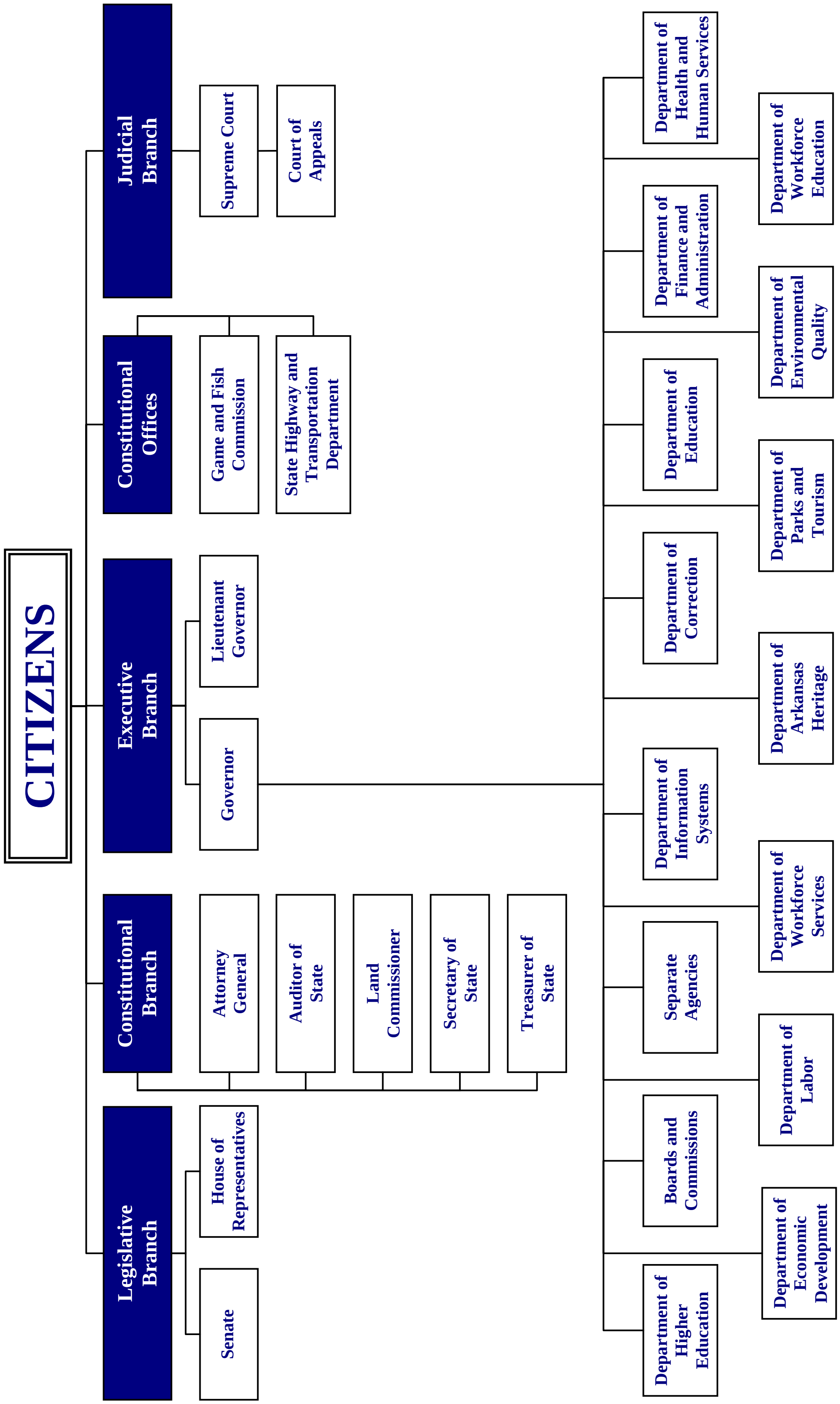
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2006

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

President

Executive Director

Organizational Chart



Principal Officials

Elected Officials

Governor

Mike Beebe

Lieutenant Governor

Bill Halter

Attorney General

Dustin McDaniel

Auditor of State

Jim Wood

Land Commissioner

Mark Wilcox

Secretary of State

Charlie Daniels

Treasurer of State

Martha Shoffner

Legislative Branch

President Pro Tempore

Senator Jack Critcher

Speaker of the House

Representative Benny C. Petrus

Supreme Court

Chief Justice

Jim Hannah

Associate Justice

Robert L. Brown

Associate Justice

Donald L. Corbin

Associate Justice

Tom Glaze

Associate Justice

Jim Gunter

Associate Justice

Annabelle Clinton Imber

Associate Justice

Paul E. Danielson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Financial Section


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Arkansas

Roger A. Norman, JD, CPA, CFE
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE
DIVISION OF LEGISLATIVE AUDIT

Independent Auditor's Report

The Honorable Mike Beebe, 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, 2007, 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 40% of the revenues of the business-type activities opinion unit and 20% of the assets and 51% 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, 2007, and the respective changes in financial position, and, where applicable, cash flows 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 21, 2007 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 109 through 116, 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

Roger A. Norman, JD, CPA, CFE
Legislative Auditor

Little Rock, AR
December 21, 2007
CAFR00107

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Management's Discussion and Analysis


GREAT SEAL OF THE STATE OF ARKANSAS
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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, 2007. The State's June 30, 2007 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, by 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, 2007 by $14.0 billion (presented as "total net assets"). The net assets of the State increased $801 million during the year. The governmental activities net assets increased by $686 million. Of the total net assets, $2.9 billion (21%) 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, $1.7 billion (12%), represents resources that are subject to external restrictions on how they may be used and are therefore termed "restricted."

The largest portion of the State's net assets, $9.4 billion (67%), 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, 2007 was $2.6 billion. Additional debt totaling $415 million was entered into during the year. $105 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, 2007 the State's General Fund reported a fund balance of $3.5 billion. Of this balance, $1.2 billion or 35% of the total fund balance is reserved and $2.3 billion or 65% of the total fund balance is unreserved. The fund balance in the General Fund increased $558 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, expenses 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	
	2007	**2006 (restated)**	**2007**	**2006**	**2007**	**2006 (restated)**
Current Assets	$ 4,188,939	$ 3,666,185	$ 1,295,222	$ 1,167,712	$ 5,484,161	$ 4,833,897
Noncurrent Assets	223,987	225,372	2,065,078	2,146,288	2,289,065	2,371,660
Capital Assets	9,020,702	8,833,482	2,496,674	2,190,178	11,517,376	11,023,660
Total Assets	13,433,628	12,725,039	5,856,974	5,504,178	19,290,602	18,229,217
Current Liabilities	962,981	926,776	397,340	354,473	1,360,321	1,281,249
Long-Term Liabilities	1,230,073	1,243,473	2,710,244	2,516,002	3,940,317	3,759,475
Total Liabilities	2,193,054	2,170,249	3,107,584	2,870,475	5,300,638	5,040,724
Net Assets						
Invested in Capital Assets, Net of Related Debt	7,957,760	7,880,406	1,456,147	1,244,773	9,413,907	9,125,179
Restricted	812,989	672,391	882,865	879,536	1,695,854	1,551,927
Unrestricted	2,469,825	2,001,993	410,378	509,394	2,880,203	2,511,387
Total Net Assets	$ 11,240,574	$ 10,554,790	$ 2,749,390	$ 2,633,703	$ 13,989,964	$ 13,188,493

The net assets of the governmental activities increased $686 million, while the net assets of the business-type activities increased $115 million. Continued favorable economic conditions attributed to the increase in governmental activities. In fiscal year 2007, higher interest rates resulted in an increase in investment revenue, while personal and corporate earnings were also higher in fiscal year 2007 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, 2007 was $9.0 billion for governmental activities and $2.5 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 $686 million and $115 million, respectively. Key elements of this increase are as follows:

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

	Governmental Activities		Business-Type Activities		Totals	
	2007	**2006 (restated)**	**2007**	**2006**	**2007**	**2006 (restated)**
Program Revenues:						
Charges for services	$ 868,382	$ 829,988	$ 1,434,009	$ 1,397,718	$ 2,302,391	$ 2,227,706
Operating grants and contributions	4,180,653	4,150,897	578,648	566,200	4,759,301	4,717,097
Capital grants and contributions	422,270	392,744	60,447	59,025	482,717	451,769
General Revenues:						
Personal and corporate taxes	2,522,806	2,374,801			2,522,806	2,374,801
Sales and use taxes	2,618,936	2,509,664			2,618,936	2,509,664
Motor fuel taxes	462,732	456,223			462,732	456,223
Other taxes	785,213	760,431	306,019	326,343	1,091,232	1,086,774
Total Revenues	11,860,992	11,474,748	2,379,123	2,349,286	14,240,115	13,824,034
Expenses:						
Education	3,153,653	3,048,477			3,153,653	3,048,477
Health and human services	4,855,759	4,663,898			4,855,759	4,663,898
Transportation	625,911	642,297			625,911	642,297
Law, justice and public safety	587,413	620,905			587,413	620,905
Recreation and resources development	219,283	201,955			219,283	201,955
General government	1,156,301	1,187,512			1,156,301	1,187,512
Regulation of business and professionals	119,225	115,887			119,225	115,887
Business-type expenses			3,295,282	3,009,848	3,295,282	3,009,848
Interest expense	56,143	59,501			56,143	59,501
Total Expenses	10,773,688	10,540,432	3,295,282	3,009,848	14,068,970	13,550,280
Other:						
Unrestricted investment earnings	162,603	96,369	96,394	61,462	258,997	157,831
Miscellaneous Income	247,395	370,352	123,934	88,975	371,329	459,327
Total Other	409,998	466,721	220,328	150,437	630,326	617,158
Increase (decrease) in net assets before transfers and restatements	1,497,302	1,401,037	(695,831)	(510,125)	801,471	890,912
Transfers-internal activities	(811,518)	(719,933)	811,518	719,933		
Increase (decrease) in net assets	685,784	681,104	115,687	209,808	801,471	890,912
Net Assets - Beginning, as restated	10,554,790	9,873,686	2,633,703	2,423,895	13,188,493	12,297,581
Net Assets - Ending	$ 11,240,574	$ 10,554,790	$ 2,749,390	$ 2,633,703	$ 13,989,964	$ 13,188,493

As is typical for governmental activities, program expenses exceeded program revenues. The excess program expenses of $5.3 billion were funded by normal State taxing activities.

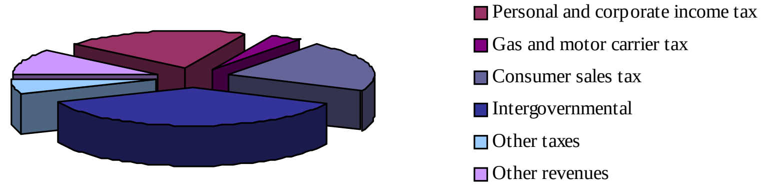
FUND HIGHLIGHTS AND ANALYSIS

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, 2007 and 2006 (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

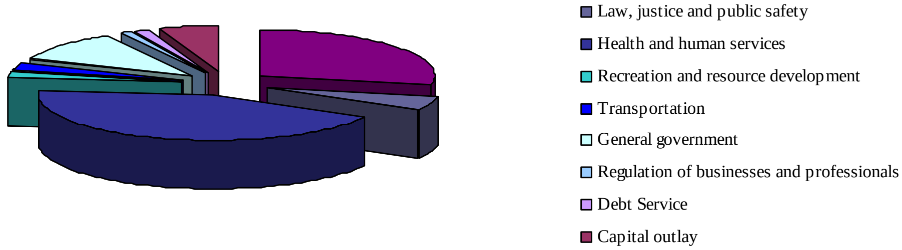
Revenues	2007	2006 (Restated)	Increase (Decrease) Percent
Personal and corporate income tax	$ 2,515,958	$ 2,374,853	5.94%
Gas and motor carrier tax	463,362	456,569	1.49%
Consumer sales tax	2,624,325	2,519,443	4.16%
Intergovernmental	4,594,212	4,540,408	1.19%
Other taxes	784,936	760,799	3.17%
Other revenues	1,335,740	1,295,963	3.07%
Total	$ 12,318,533	$ 11,948,035	3.10%



Governmental revenues increased by 3.10%. The increase was due to a stronger than anticipated economy. Corporate and individual income tax revenue increased; individual income tax withholdings increased by $123 million and corporate income tax increased by $18 million in fiscal year 2007. Higher interest rates in fiscal year 2007 attributed to an increase in investment income. Sales tax revenue was up $105 million, due in part to inflation, a strong economy and a 9% growth rate in use tax.

Expenditures by Source - General Fund

Expenditures	2007	2006 (Restated)	Increase (Decrease) Percent
Education	$ 3,149,468	$ 3,044,735	3.44%
Law, justice, and public safety	552,728	588,661	-6.10%
Health and human services	4,844,657	4,653,553	4.11%
Recreation and resource development	187,970	186,137	0.98%
Transportation	297,816	320,417	-7.05%
General government	1,213,597	1,137,458	6.69%
Regulation of business and professionals	112,833	112,623	0.19%
Debt Service	164,851	159,466	3.38%
Capital outlay	611,567	673,624	-9.21%
Total	$ 11,135,487	$ 10,876,674	2.38%



Expenditures increased 2.38 %. The State's agencies all experienced increases in expenditures due to the increase in gasoline prices. These price increases required increases in the mileage rate reimbursement. The reimbursement rate went from $.37 to $.39 per mile on September 1, 2005 and from $.39 to $.42 per mile on August 15, 2006.

The Department of Health and Human Services also experienced an increase in Medicaid assistance due to an increase in the number of recipients and increased medical cost.

The Department of Education also experienced an increase in expenditures as a result of increased use of professional services and reimbursable expenses related to the assessment and evaluation of student testing methods and proficiencies. The legislature increased the funding to school districts for facilities and operations in fiscal year 2007 resulting in an increase in the Department of Education's expenditures.

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 2007, the State's General Fund reported an ending fund balance of $3.5 billion, which is an increase of $558 million in comparison to fiscal year 2006.

Approximately $2.3 billion or 65% of the total fund balance is the unreserved fund balance, which is available for spending in the coming year. The remainder of fund balance, approximately $1.2 billion or 35%, is reserved to indicate that it is not available for new spending because it has already been committed for certain items.

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 $18.3 billion and the accumulated depreciation was $6.8 billion at June 30, 2007. The net book value was $11.5 billion. Depreciation expense was $412 million for the governmental activities and $145 million for the business-type activities.

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

- The Department of Correction recorded current costs of $6.4 million for a facility in Malvern.
- The Military Department expended an additional $14.1 million for an Army Aviation Support Facility.
- Emergency Management has spent $11.3 million on the construction of a new building.
- The Arkansas Department of Environmental Quality is in the process of completing a building for their use. $16.6 million was spent for fiscal year 2007.

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 bonds issued by 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 $1.228 billion in bonds, notes payable, and capital leases outstanding at June 30, 2007 versus $1.153 billion at June 30, 2006. The net increase is approximately $75 million. Following are significant bonds issued during the year:

- The Arkansas Natural Resources Commission issued $12 million of Series 2006C and 2007A Pollution Revenue Bonds.

- The Department of Correction incurred an additional $8 million on the capital lease with Arkansas Development Finance Authority for the construction of the Malvern facility.

- The Arkansas Department of Environmental Quality incurred an additional $14 million on the capital lease with Arkansas Development Finance Authority for the construction of their new building.

- The Department of Higher Education issued $243 million of Series 2007A, 2007B, and 2007C General Obligation Bonds. The Series 2007A issue for $100 million was used to refund old issues.

Notes payable and capital leases to component units increased $12 million during the year. During fiscal year 2007; bonds payable increased $65.7 million, $133 million of principal payments were made and $50 million for defeased bonds. Notes payable and capital leases to outside entities decreased $2.7 million for principal payments made during the year.

The State's governmental activities have approximately $117 million of claims and judgments outstanding at June 30, 2007 compared to $159 million at June 30, 2006. Other obligations include accrued sick leave and vacation pay of $121 million at June 30, 2007.

Business-type Activities

The State's business-type activities had $1.344 billion in bonds, notes payable, and capital leases outstanding at June 30, 2007 versus $1.299 billion at June 30, 2006. The net increase was $45 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:

- $6.2 million in revenue bonds were issued by the University of Arkansas System.

- Other revenue bonds issued were:

  - Arkansas Tech University, $3.9 million;

  - Arkansas State University, $47.4 million;

  - Mid South Community College, $15.8 million;

  - Pulaski Technical College, $15 million;

  - University of Central Arkansas, $18 million

The colleges and universities also entered into capital leases totaling $12 million, as well as notes payable totaling $15.2 million. Bonds, notes payable, and capital leases decreased $88 million due to principal payments made during the year.

The State's business-type activities had approximately $258 million of claims and judgments outstanding at June 30, 2007 compared to $248 million at June 30, 2006. Other obligations included accrued sick leave and vacation pay of $81 million at June 30, 2007.

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

GENERAL FUND BUDGETARY HIGHLIGHTS

Schedule of Expenditures – Budget and Actual
(Expressed in thousands)

Functions	Budgeted Amounts Original	Budgeted Amounts Final	Actual amounts
General government	$ 5,358,911	$ 5,346,848	$ 1,647,604
Education	3,498,220	3,539,283	3,217,923
Health and human services	4,797,226	4,780,656	4,579,810
Transportation	511,450	510,006	288,875
Law, justice, and public safety	784,059	798,944	601,824
Recreation and resources development	363,820	372,439	231,610
Regulation of business and professionals	187,894	192,267	112,983
Debt service	171,304	150,634	124,384
Capital outlay	930,434	934,409	547,517
Total	$ 16,603,318	$ 16,625,486	$ 11,352,530

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.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Basic Financial Statements

Statement of Net Assets
June 30, 2007
(Expressed in thousands)

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Arkansas Student Loan Authority	Arkansas Development Finance Authority
Assets					
Current assets:					
Cash and cash equivalents	$ 503,963	$ 415,127	$ 919,090	$ 323	$ 128,959
Investments	2,640,614	537,352	3,177,966	61,704	1,614
Receivables, net:					
Accounts	130,258	278,750	409,008		978
Taxes	480,932		480,932		
Medicaid	195,225		195,225		
Loans	15,563	11,051	26,614	12,710	1,665
Leases	30		30		
Interest	29,404	4,700	34,104	14,350	7,208
Trust funds	78		78		
Other	25,519		25,519		
Internal balances	5,021	(5,021)			
Due from component unit	5		5		
Due from other governments	90,439	17,409	107,848		
Due from primary government					26
Prepaid items	10,618	1,620	12,238		
Inventories	60,827	21,035	81,862		
Deposits with bond trustee		7,107	7,107		
Current deferred charges	436		436		
Other current assets	7	6,092	6,099		
Total current assets	4,188,939	1,295,222	5,484,161	89,087	140,450
Noncurrent assets:					
Cash and cash equivalents, restricted		33,429	33,429		
Deposit with component unit	37,789	205	37,994		
Deposits with bond trustee		210,600	210,600		
Investments	402	331,023	331,425	206,281	1,003,541
Accounts receivable, net		40,016	40,016		
Loans and mortgages receivable	179,910	304,152	484,062	496,953	174,884
Loans and capital leases receivable from primary government					240,125
Capital leases receivable	720		720		8,895
External portion of investment pool		1,130,024	1,130,024		
Deferred charges	5,636		5,636	10,088	5,873
Financial assurance instruments		6,200	6,200		
Internal balances	(470)	470			
Other noncurrent assets		8,959	8,959	514	585
Total noncurrent assets	223,987	2,065,078	2,289,065	713,836	1,433,903
Capital assets (net of accumulated depreciation):					
Land	518,889	100,549	619,438	670	
Land improvements	83,128		83,128		
Infrastructure	5,645,018	110,487	5,755,505		
Buildings	632,276	1,644,158	2,276,434	1,966	
Equipment	214,705	179,094	393,799	3	177
Improvements other than building		9,153	9,153		
Leasehold improvements		75	75		
Construction in progress	1,906,885	408,564	2,315,449		
Other capital assets	19,801	44,594	64,395		
Total capital assets, net of depreciation	9,020,702	2,496,674	11,517,376	2,639	177
Total noncurrent assets and capital assets	9,244,689	4,561,752	13,806,441	716,475	1,434,080
Total assets	$ 13,433,628	$ 5,856,974	$ 19,290,602	$ 805,562	$ 1,574,530

Statement of Net Assets
June 30, 2007
(Expressed in thousands)

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Arkansas Student Loan Authority	Arkansas Development Finance Authority
Liabilities					
Current liabilities:					
Cash overdraft	$	$ 50	$ 50	$	$
Accounts payable	45,213	106,855	152,068	7,651	2,993
Accrued interest	12,955	8,271	21,226		18,699
Accrued and other current liabilities	104,555	113,246	217,801		
Medicaid payable	266,074		266,074		
Income tax refunds payable	270,461		270,461		
Due to other governments	8,555	4,168	12,723		
Due to primary government					5
Workers' compensation benefits payable		13,354	13,354		
Funds held in trust for others		6,086	6,086		
Due to component unit	22	4	26		
Bonds, notes, and leases payable	108,182	62,711	170,893		181,809
Claims, judgments, and compensated absences	128,226	45,706	173,932		
Deferred revenue	18,738	36,889	55,627		
Total current liabilities	962,981	397,340	1,360,321	7,651	203,506
Long-term liabilities:					
Workers' compensation benefits payable		209,754	209,754		
External portion of investment pool		1,130,024	1,130,024		
Bonds, notes, and leases payable	1,119,555	1,281,734	2,401,289	753,780	1,175,260
Claims, judgments, and compensated absences	109,986	70,370	180,356		
Deposits held on behalf of primary government					37,994
Other noncurrent liabilities		16,226	16,226		21,139
Deferred revenue		2,136	2,136		6,951
Net pension obligation	532		532		
Total long-term liabilities	1,230,073	2,710,244	3,940,317	753,780	1,241,344
Total liabilities	2,193,054	3,107,584	5,300,638	761,431	1,444,850
Net Assets					
Net assets:					
Invested in capital assets, net of related debt	7,957,760	1,456,147	9,413,907	2,639	177
Restricted for:					
Unemployment compensation		241,632	241,632		
Debt service	237,163	20,596	257,759		
Other capital projects	160,600		160,600		
Bond and resolution program					47,537
Program requirements	310,226	348,390	658,616		
Tobacco settlement	105,000		105,000		
Non-expendable - endowment		82,579	82,579		
Expendable-capital projects, debt service, loans, and other		189,668	189,668	41,492	
Unrestricted	2,469,825	410,378	2,880,203		81,966
Total net assets	11,240,574	2,749,390	13,989,964	44,131	129,680
Total liabilities and net assets	$ 13,433,628	$ 5,856,974	$ 19,290,602	$ 805,562	$ 1,574,530

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, 2007
(Expressed in thousands)

Assets		
Cash	$	9,843
Contributions receivable, net of allowance for doubtful accounts of $617		46,200
Interest receivable		2,149
Notes and other receivables		135
Cash value of life insurance		499
Land		522
Buildings and equipment, net of accumulated depreciation of $571		40
Investments		646,327
Total assets	$	705,715
Liabilities and Net Assets		
Liabilities:		
Accounts payable	$	5,359
Annuity obligations		19,606
Total liabilities		24,965
Net Assets:		
Unrestricted		65,602
Temporarily restricted		126,840
Permanently restricted		488,308
Total net assets		680,750
Total liabilities and net assets	$	705,715

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, 2007
(Expressed in thousands)

Assets		
Investments	$	507,028
Net Assets		
Temporarily restricted	$	11,587
Permanently restricted		495,441
Total net assets	$	507,028

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

Statement of Activities
For the Fiscal Year Ended June 30, 2007
(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	$ 1,156,301	$ 269,310	$ 128,558	$ 663
Education	3,153,653	14,322	537,288	
Health and human services	4,855,759	234,181	3,391,229	
Transportation	625,911	137,338	431	384,872
Law, justice, and public safety	587,413	64,666	89,433	36,409
Recreation and resources development	219,283	61,844	30,412	
Regulation of business and professionals	119,225	86,721	3,302	326
Interest expense	56,143			
Total governmental activities	10,773,688	868,382	4,180,653	422,270
Business-type activities:				
Higher Education	2,628,963	1,196,351	462,762	60,447
Workers' Compensation Commission	33,363			
Department of Workforce Services	384,313		96,481	
War Memorial Stadium Commission	3,293	1,980	108	
Public School Employee Health and Life Benefit Plan	240,944	232,558		
Revolving Loans	4,406	3,120	19,297	
Total business-type activities	3,295,282	1,434,009	578,648	60,447
Total primary government	$ 14,068,970	$ 2,302,391	$ 4,759,301	$ 482,717
Component units:				
Arkansas Student Loan Authority	$ 39,380	$ 49,044	$	
Arkansas Development Finance Authority	90,244	82,601	13,888	
Total component units	$ 129,624	$ 131,645	$ 13,888	

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
$ (757,770)	$	$ (757,770)		
(2,602,043)		(2,602,043)		
(1,230,349)		(1,230,349)		
(103,270)		(103,270)		
(396,905)		(396,905)		
(127,027)		(127,027)		
(28,876)		(28,876)		
(56,143)		(56,143)		
(5,302,383)		(5,302,383)		
	(909,403)	(909,403)		
	(33,363)	(33,363)		
	(287,832)	(287,832)		
	(1,205)	(1,205)		
	(8,386)	(8,386)		
	18,011	18,011		
	(1,222,178)	(1,222,178)		
(5,302,383)	(1,222,178)	(6,524,561)		
			$ 9,664	$
				6,245
			9,664	6,245
2,522,806		2,522,806		
2,618,936		2,618,936		
462,732		462,732		
785,213	306,019	1,091,232		
6,389,687	306,019	6,695,706		
162,603	96,394	258,997		
247,395	123,934	371,329		
(811,518)	811,518			
5,988,167	1,337,865	7,326,032		
685,784	115,687	801,471	9,664	6,245
10,554,790	2,633,703	13,188,493	34,467	123,435
$ 11,240,574	$ 2,749,390	$ 13,989,964	$ 44,131	$ 129,680

UNIVERSITY OF ARKANSAS FOUNDATION, INC.
Discretely Presented Component Unit
Consolidated Statement of Activities
For the Year Ended June 30, 2007
(Expressed in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other support:				
Contributions	$ 17,545	$ 31,740	$ 17,285	$ 66,570
Sponsored programs	1,746	357	2	2,105
Interest and dividends	6,580	6,562	385	13,527
Net realized and unrealized gains (losses) on long-term investments	6,546	12,114	60,642	79,302
Other	247	173	3	423
Net assets released from restrictions	52,380	(52,380)		
Total revenues, gains, and other support	85,044	(1,434)	78,317	161,927
Expenses and losses:				
Program services:				
Construction	20,809			20,809
Research	10,306			10,306
Faculty/staff support	13,698			13,698
Scholarships and awards	6,238			6,238
Public/staff relations	3,037			3,037
Equipment	7,573			7,573
Sponsored programs	2,311			2,311
Other	13,454			13,454
Total program services	77,426			77,426
Supporting services:				
Management and general	368			368
Fund raising	2,074			2,074
Change in value of split-interest agreements			1,940	1,940
Provision for loss on uncollectible pledges	25	423	30	478
Total supporting services	2,467	423	1,970	4,860
Total expenses and losses	79,893	423	1,970	82,286
Change in net assets	5,151	(1,857)	76,347	79,641
Net assets - beginning	60,451	128,697	411,961	601,109
Net assets - ending	$ 65,602	$ 126,840	$ 488,308	$ 680,750

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, 2007
(Expressed in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains, and other support:				
Interest and dividends	$	$ 3,750	$ 512	$ 4,262
Net realized and unrealized gains (losses) on long-term investments		13,506	64,793	78,299
Net assets released from restrictions	14,158	(14,158)		
Total revenues, gains, and other support	14,158	3,098	65,305	82,561
Expenses and losses:				
Program services:				
Research	652			652
Faculty/staff support	1,215			1,215
Scholarships and awards	9,043			9,043
Equipment and technology	2,651			2,651
Other	597			597
Total program services	14,158			14,158
Change in net assets		3,098	65,305	68,403
Net assets - beginning		8,489	430,136	438,625
Net assets - ending	$	$ 11,587	$ 495,441	$ 507,028

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

Balance Sheet
Governmental Fund
June 30, 2007
(Expressed in thousands)

		General Fund
Assets		
Cash and cash equivalents	$	503,963
Investments		2,641,016
Receivable, net:		
Accounts		130,258
Taxes		480,932
Medicaid		195,225
Loans		195,473
Leases		750
Interest		29,404
Other		25,519
Due from other funds		9,070
Due from component unit		5
Due from other governments		90,439
Prepaid items		10,618
Inventories		60,827
Deposits with component unit		37,789
Other assets		7
Total assets	$	4,411,295
Liabilities and Fund Balance		
Liabilities:		
Accounts payable	$	45,213
Accrued and other current liabilities		104,555
Deferred revenue		200,438
Income tax refunds payable		270,461
Due to other governments		8,555
Due to other funds		4,441
Advances from other funds		11,580
Due to component unit		22
Medicaid claims payable		266,074
Total liabilities		911,339
Fund balance:		
Reserved for:		
Prepaid items		10,618
Inventories		60,827
Debt service		248,143
Loans		195,473
Leases		750
Grant programs		234,099
Capital projects		87,051
Transportation programs		234,182
Tobacco settlement		156,051
Unreserved		2,272,762
Total fund balance		3,499,956
Total liabilities and fund balance	$	4,411,295

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, 2007
(Expressed in thousands)

Total fund balances:		
Governmental fund		$ 3,499,956
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	$ 669,178	
Infrastructure assets	9,962,097	
Other capital assets	3,656,209	
Accumulated depreciation	(5,266,782)	
Total capital assets		9,020,702
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.		6,072
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.		181,700
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	$ (1,211,731)	
Claims, judgments, and compensated absences	(238,212)	
Loss of early retirement	14,263	
Unamortized bond issue premium	(20,712)	
Net pension obligation	(532)	
Accrued interest on bonds, notes, leases	(12,955)	
Unamortized bond issue discounts	2,023	
Total long-term liabilities		(1,467,856)
Net assets of governmental activities		$ 11,240,574

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, 2007
(Expressed in thousands)

		General Fund
Revenues:		
Taxes:		
Personal and corporate income	$	2,515,958
Consumer sales and use		2,624,325
Gas and motor carrier		463,362
Other		784,936
Intergovernmental		4,594,212
Licenses, permits, and fees		886,106
Investment earnings		162,603
Miscellaneous		287,031
Total revenues		12,318,533
Expenditures:		
Current:		
General government		1,213,597
Education		3,149,468
Health and human services		4,844,657
Transportation		297,816
Law, justice, and public safety		552,728
Recreation and resources development		187,970
Regulation of business and professionals		112,833
Debt service:		
Principal retirement		103,782
Interest		59,752
Bond issuance costs		1,317
Capital outlay		611,567
Total expenditures		11,135,487
Excess of revenues over expenditures		1,183,046
Other financing sources (uses):		
Issuance of debt		38,320
Proceeds of bond refunding		224,855
Bond discounts		(210)
Bond premiums		5,458
Payment to refunding escrow agent		(107,806)
Capital leases		22,855
Sale of capital assets		2,717
Transfers in		60,316
Transfers out		(871,821)
Total other financing sources and uses		(625,316)
Net change in fund balance		557,730
Fund balance - beginning as restated		2,942,226
Fund balance - ending	$	3,499,956

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, 2007
(Expressed in thousands)

Net change in fund balance-governmental fund		$ 557,730
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	$ 611,567	
Depreciation expense	(412,385)	
Excess of capital outlay over depreciation expense		199,182
The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins and donations) is to decrease net assets.		666
Bond proceeds provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the statement of net assets.		(263,175)
Bonds issued at a premium provide current financial resources to governmental funds, but increase the long-term liabilities in the statement of net assets.		(5,458)
Bonds issued at a discount reduce current financial resources to governmental funds, but decrease the long-term liabilities in the statement of net assets.		210
Bond issuance costs are expenditures to governmental funds, but are current deferred charges in the statement of net assets.		1,317
Loss on early retirement of bonds		(511)
Payments to refunding escrow agent use current financial resources to governmental funds but reduces long-term liabilities in the statement of net assets.		107,806
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.		(22,855)
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, loan and lease principal retirement		103,782
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.		(22,281)
Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:		
Interest accreted on capital appreciation debt	$ 1,178	
Decrease in claims, judgments, and compensated absences	36,865	
Amortization of bond premium, discount and issuance costs	2,008	
Loss on sale of capital assets	(12,628)	
Guarantee on defaulted bonds	(140)	
Decrease in net pension obligation	1,575	
Decrease in accrued interest	513	
Total additional expenditures		29,371
Change in net assets of governmental activities		$ 685,784

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

Statement of Net Assets
Proprietary Funds
June 30, 2007
(Expressed in thousands)

	Enterprise Funds			
Assets	**Higher Education**	**Workers' Compensation Commission**	**Non-Major Enterprise Funds**	**Total**
Current assets:				
Cash and cash equivalents	$ 308,859	$ 21,053	$ 85,215	$ 415,127
Investments	198,161	133,534	205,657	537,352
Receivables, net				
Accounts	185,153	9,926	83,671	278,750
Loans	11,051			11,051
Interest	1,122	2,492	1,086	4,700
Due from other funds	2,643	518	1,474	4,635
Due from other governments	8,325		9,084	17,409
Inventories	21,023		12	21,035
Prepaid items	1,447	39	134	1,620
Deposits with bond trustee	7,107			7,107
Other current assets	6,092			6,092
Total current assets	750,983	167,562	386,333	1,304,878
Noncurrent assets:				
Cash and cash equivalents - restricted	33,429			33,429
Investments				
Endowment	19,132			19,132
Restricted	3,297	100	86,358	89,755
Unrestricted	222,136			222,136
Receivables, net	40,016			40,016
Capital assets:				
Land	96,996	580	2,973	100,549
Infrastructure	187,868		22	187,890
Buildings	2,612,918	2,273	28,412	2,643,603
Equipment	559,446	1,488	6,964	567,898
Improvements other than building	17,003			17,003
Leasehold improvements	75			75
Construction in progress	408,183		381	408,564
Other depreciable assets	141,633	114	1,168	142,915
Less accumulated depreciation	(1,553,405)	(2,448)	(15,970)	(1,571,823)
External portion of investment pool	1,130,024			1,130,024
Advances to other funds			3,760	3,760
Loans receivable - restricted			304,152	304,152
Deposits with bond trustee	210,600			210,600
Deposits with component unit		205		205
Financial assurance instruments		6,200		6,200
Other noncurrent assets	8,228		731	8,959
Total noncurrent assets	4,137,579	8,512	418,951	4,565,042
Total assets	$ 4,888,562	$ 176,074	$ 805,284	$ 5,869,920

Statement of Net Assets
Proprietary Funds
June 30, 2007
(Expressed in thousands)

	Enterprise Funds			
	Higher Education	Workers' Compensation Commission	Non-Major Enterprise Funds	Total
Liabilities				
Current liabilities:				
Cash overdraft	$	$	$ 50	$ 50
Accounts payable	46,086	11	60,758	106,855
Accrued interest payable	7,945	16	310	8,271
Accrued and other current liabilities	111,716	291	1,239	113,246
Advances from other funds	472			472
Due to other funds	7,600	9	1,577	9,186
Due to component unit			4	4
Due to other governments			4,168	4,168
Funds held in trust for others	6,086			6,086
Workers' compensation benefits payable		13,354		13,354
Bonds, notes, and leases payable	56,721	180	5,810	62,711
Claims, judgments, and compensated absences	22,828	88	22,790	45,706
Deferred revenue	33,179		3,710	36,889
Total current liabilities	292,633	13,949	100,416	406,998
Noncurrent liabilities:				
Workers' compensation benefits payable		209,754		209,754
External portion of investment pool	1,130,024			1,130,024
Advances from other funds	3,288			3,288
Bonds, notes, and leases payable	1,207,973	995	72,766	1,281,734
Claims, judgments, and compensated absences	66,761	602	3,007	70,370
Deferred revenue	619		1,517	2,136
Other noncurrent liabilities	10,026	6,200		16,226
Total noncurrent liabilities	2,418,691	217,551	77,290	2,713,532
Total liabilities	2,711,324	231,500	177,706	3,120,530
Net Assets				
Net assets:				
Invested in capital assets, net of related debt	1,432,273		23,874	1,456,147
Restricted for:				
Unemployment compensation			241,632	241,632
Debt service	20,596			20,596
Program requirements	12,650		335,740	348,390
Nonexpendable - endowments	82,579			82,579
Expendable - capital projects, debt service, loans and other	189,668			189,668
Unrestricted	439,472	(55,426)	26,332	410,378
Total net assets (deficit)	2,177,238	(55,426)	627,578	2,749,390
Total liabilities and net assets	$ 4,888,562	$ 176,074	$ 805,284	$ 5,869,920

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, 2007
(Expressed in thousands)

	Enterprise Funds			
	Higher Education	Workers' Compensation Commission	Non-Major Enterprise Funds	Total
Operating revenues:				
Charges for sales and services	$ 875,389	$	$ 234,538	$ 1,109,927
Licenses, permits and fees	320,962		3,120	324,082
Grants and contributions	350,506			350,506
Investment earnings			12,095	12,095
Miscellaneous	108,648	93	1,662	110,403
Total operating revenues	1,655,505	93	251,415	1,907,013
Operating expenses:				
Cost of sales and services			3,553	3,553
Compensation and benefits	1,609,329	8,405	32,834	1,650,568
Supplies and services	711,159	918	31,066	743,143
General and administrative expenses	2,946	586	3,664	7,196
Scholarships and fellowships	114,595	20		114,615
Benefit and aid payments		23,269	555,872	579,141
Depreciation and amortization	143,959	115	1,264	145,338
Amortization of bond costs			140	140
Interest			3,875	3,875
Total operating expenses	2,581,988	33,313	632,268	3,247,569
Operating income (loss)	(926,483)	(33,220)	(380,853)	(1,340,556)
Nonoperating revenues (expenses):				
Investment earnings	64,756	7,260	12,237	84,253
Unrealized gains/losses on investments	95			95
Realized gains/losses on investments	(49)			(49)
Taxes	21,578		262,841	284,419
Insurance tax		21,601		21,601
Grants and contributions	112,256		115,886	228,142
Interest and amortization expense	(45,353)	(50)		(45,403)
Loss on sale of fixed assets	(1,622)		(688)	(2,310)
Other nonoperating revenue (expense)	13,531			13,531
Total nonoperating revenues (expenses)	165,192	28,811	390,276	584,279
Income (loss) before transfers and contributions	(761,291)	(4,409)	9,423	(756,277)
Transfers in	868,939	1	2,881	871,821
Transfers out	(55,536)	(2)	(4,778)	(60,316)
Capital grants and contributions	60,459			60,459
Change in net assets	112,571	(4,410)	7,526	115,687
Total net assets(deficit) - beginning	2,064,667	(51,016)	620,052	2,633,703
Total net assets(deficit) - ending	$ 2,177,238	$ (55,426)	$ 627,578	$ 2,749,390

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, 2007
(Expressed in thousands)

	Enterprise Funds			
	Higher Education	Workers' Compensation Commission	Non-major Enterprise Funds	Total
Cash flows from operating activities:				
Cash received from customers	$ 322,761	$	$ 234,973	$ 557,734
Cash received from other government agencies	357,954			357,954
Auxiliary enterprise charges	905,441			905,441
Payments to employees	(1,277,402)	(8,406)	(32,771)	(1,318,579)
Payments of benefits	(211,198)	(15,264)	(547,157)	(773,619)
Payments to suppliers	(725,950)	(1,519)	(30,010)	(757,479)
Interest received (paid)	7,193		7,482	14,675
Loan administration received (paid)	(8,319)		(29,962)	(38,281)
Other receipts (payments)	(156,773)	93	1,557	(155,123)
Net cash used in operating activities	(786,293)	(25,096)	(395,888)	(1,207,277)
Cash flows from noncapital financing activities:				
Gifts and grants	109,915			109,915
Direct lending receipts	117,956			117,956
Direct lending payments	(117,132)		(5,180)	(122,312)
Taxes	20,065	21,779	269,071	310,915
Grants and contributions	1,551		120,381	121,932
Other receipts (payments)	10,684			10,684
Net transfers to other funds	813,403	(1)	(1,827)	811,575
Net cash provided by noncapital financing activities	956,442	21,778	382,445	1,360,665
Cash flows from capital and related financing activities:				
Principal paid on capital debts and leases	(69,699)	(170)		(69,869)
Interest paid on capital debts and leases	(46,294)	(52)		(46,346)
Acquisition and construction of capital assets	(388,381)	(51)	(1,932)	(390,364)
Proceeds from governmental sources	8,913			8,913
Proceeds from long-term borrowings	60,644			60,644
Proceeds from sale of capital assets	2,511			2,511
Other receipts (payments) *	89,681			89,681
Net cash used in capital and related financing activities	(342,625)	(273)	(1,932)	(344,830)
Cash flows from investing activities:				
Purchase of investments	(264,610)	(3,042)	(42,945)	(310,597)
Proceeds from sale and maturities of investments	400,236		44,206	444,442
Interest and dividends on investments	25,490	6,583	12,228	44,301
Advance repayments (disbursements)			496	496
Net cash provided by (used in) investing activities	161,116	3,541	13,985	178,642
Net increase (decrease) in cash and cash equivalents	(11,360)	(50)	(1,390)	(12,800)
Cash and cash equivalents - beginning	353,648	21,103	86,555	461,306
Cash and cash equivalents (cash overdrafts) - ending	$ 342,288	$ 21,053	$ 85,165	$ 448,506

* 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, 2007
(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	$ (926,483)	$ (33,220)	$ (380,853)	$ (1,340,556)
Adjustments to reconcile operating loss to				
net cash used in operating activities:				
Depreciation	143,959	115	1,264	145,338
Amortization	7		33	40
Net appreciation (depreciation) of investments			(561)	(561)
Loan principle and interest cancelled	215			215
Other operating activities	(808)			(808)
Prior year adjustment for capital asset capitalization			(10)	(10)
Net changes in assets and liabilities:				
Accounts receivable	(20,034)		(821)	(20,855)
Loans receivable	(21)		(29,956)	(29,977)
Inventory	(1,937)		4	(1,933)
Prepaid items		(3)		(3)
Other current assets	2,655		(2,211)	444
Current liabilities	1,467		(3)	1,464
Accounts payable and other accrued liabilities	15,540	8,012	16,130	39,682
Compensated absences	7,150		(31)	7,119
Deferred revenue	(8,003)		1,127	(6,876)
Net cash used in operating activities	$ (786,293)	$ (25,096)	$ (395,888)	$ (1,207,277)
Non-cash investing, capital, and financing activities:				
Increase (Decrease) in fair value of investments	$ (210)			$ (210)
Donated capital assets	3,791			3,791
Captial assets donated by other state agencies	(38)			(38)
Capital gifts	24,310			24,310
Fixed asset acquisition paid for by the State of Arkansas	2,503			2,503
Payments to bond escrow directly from bond proceeds	14,036			14,036
Payments to bond trustee directly from bond proceeds	39,981			39,981
Proceeds from bond issue	3,900			3,900
Bond discount and inssue costs	86			86
Capital assets acquired by incurring capital leases and notes payable	11,314			11,314

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

Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2007
(Expressed in thousands)

	Pension Trust Funds	Agency Funds
Assets		
Cash and cash equivalents	$ 626,799	$ 28,159
Receivables:		
Employees	13,045	
Employers	45,780	
Interest and dividends	41,664	147
Advances to other funds	11,580	
Other	258,308	67
Due from other funds	80	
Total receivables	370,457	214
Inventories		9
Investments at fair value:		
Certificates of deposit		35,794
Bonds, notes, mortgages, and preferred stock	1,947,323	59,037
Common stock	5,936,562	
Real estate	1,109,189	
International investments	3,738,120	
Mutual funds	534,523	
Pooled investment funds	3,586,270	
Corporate obligations	713,596	
Asset backed securities	350,835	
Other	881,631	
Total investments	18,798,049	94,831
Securities lending collateral	2,071,154	
Financial assurance instruments		303,749
Capital assets	171	
Other assets	1,636	
Total assets	21,868,266	426,962
Liabilities		
Accounts payable and other liabilities	16,444	67
Investment principal payable	541,594	
Obligations under securities lending	2,071,154	
Due to other governments		75,523
Due to other funds	158	
Due to third parties		351,372
Total liabilities	2,629,350	426,962
Net Assets		
Held in trust for employees' pension benefits	19,238,916	
Total net assets	$ 19,238,916	$

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, 2007
(Expressed in thousands)

		Pension Trust Funds
Additions:		
Contributions:		
Members	$	122,778
Employers		517,423
Supplemental contributions		7,418
Court fees		2,171
Local municipal judges retirement funds		(181)
Reinstatement fees		1,125
Total contributions		650,734
Investment income:		
Net increase (decrease) in fair value of investments		2,609,756
Interest, dividends, and other		358,087
Real estate operating income		6,480
Securities lending income		109,681
Total investment income		3,084,004
Less investment expense		168,662
Net investment income		2,915,342
Miscellaneous		8,375
Total additions (losses)		3,574,451
Deductions:		
Benefits paid to participants or beneficiaries		874,238
Refunds of employee/employer contributions		7,312
Administrative expense		10,740
Total deductions		892,290
Change in net assets held in trust for employees' pension benefits		2,682,161
Net assets - beginning		16,556,755
Net assets - ending	$	19,238,916

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 have been prepared in conformity with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for governmental accounting and financial reporting in the United States of America.

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 prepared by various State agencies and departments based on independent or subsidiary accounting records maintained by them.

(b) Reporting Entity

For financial reporting purposes, the State of Arkansas (the State) includes all funds, departments and agencies of the State as well as boards, commissions, authorities and colleges and universities for which the State is financially accountable. The State includes component units to the extent necessary for complete financial statement presentation.

(c) Component Units

Component units are 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 permits three methods of presentation: (1) 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), (2) discrete presentation of the component units' financial data in columns separate from the State's balances and transactions, or (3) discrete presentation of the component units' financial data following the government-wide financial statements.

Two component units meet the criteria to be "discretely presented" in the financial statements, as described above. The State is financially accountable for these entities, is able to impose its will on their operations, but does not directly benefit from these funds.

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
3801 Woodland Heights Road,
Suite 200
Little Rock, AR 72212

Arkansas Development Finance Authority
423 Main Street, Suite 500
Little Rock, AR 72201

In addition, two foundations meet the criteria requiring "discrete disclosure" described in (3) and are presented following the Government-Wide Financial Statements. Although the State does not control the timing or amount of receipts from either of these foundations, the majority of the resources (or income thereon) which the foundations hold and invest, are restricted to the activities of the State by the donors. Because the restricted resources held by the foundations can only be used by, or for the benefit of, the State, these foundations are considered component units of the State.

The University of Arkansas Foundation, Inc. operates for charitable, educational purposes, including administering and investing gifts and other amounts received directly or indirectly for the benefit of the University of Arkansas. The Board of Directors of the foundation includes four members who are also members of the University of Arkansas Board of Trustees.

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

Complete financial statements for each of the foundations can be obtained by contacting their 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 Restatement

Governmental activities net assets, as previously reported on the Statement of Net Assets for 2006, have been decreased by $46 million as follows (in thousands):

Beginning Net Assets	$	10,601,241
Capital assets erroneously reported as State property		(18,578)
Correction of errors in calculating allowances for doubtful accounts receivable		(25,100)
Other corrections - net		(2,773)
Restated Beginning Net Assets	$	10,554,790

Fund Balance for the General Fund as previously reported on the Statement of Revenues, Expenditures and Changes in Fund Balance for 2006 has been increased by $33 million. The increase is primarily due to deferred revenue of $36 million and less other corrections of $3 million as follows (in thousands):

Fund Balance as reported June 30, 2006	$	2,908,779
Deferred revenue		36,220
Other corrections - net		(2,773)
Restated fund balance as of June 30, 2006	$	2,942,226

(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, 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. Significant revenues susceptible to accrual include: individual and corporate income taxes, sales and use tax, gas and other taxes, federal reimbursements, federal grants, and other reimbursements for use of materials and services. In general, tax revenue is recognized on the government-wide statement of activities when assessed or levied.

The Governmental fund financial statements are prepared using a flow of current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become both measurable and available. "Available" means expected to be collected within the current period or soon enough thereafter to be used to pay liabilities of the current period (i.e., 45 days). Tax revenue is recognized to the extent that it is both measurable and available. Revenues from federal grants and federal reimbursements are recognized when all applicable eligibility requirements and the availability criteria of 45 days have been met, except for Medicaid revenues, which are recognized using 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.

The State implemented GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* in the current year. Although the provisions of GASB Statement No. 50, *Pension Disclosures—an Amendment of GASB Statements No. 25 and 27*, are not required for financial statements until periods beginning after June 15, 2007 (i.e. fiscal year 2008), substantially all of the requirements were met in fiscal year 2007. The impact of these changes did not have a significant effect on the financial statements or their comparability to prior years.

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.

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. New GASB Statements and Interpretations are adopted in the years they become effective.

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.

(f) Government-Wide Financial Statements

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

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

- Invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

- Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, or the like, or imposed by law through constitutional provisions or enabling legislation.

- Unrestricted net assets do not meet the definition of the two preceding categories and are generally available for government purposes.

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.). Direct expenses are those that are clearly identifiable with a specific function. 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. Taxes and other items not meeting the definition of program revenues are instead reported as general revenue. Certain indirect costs are included in the program expenses reported for individual functions and activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide statements. Exceptions to the 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.

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

(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.

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

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

Governmental Fund

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.

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.

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 for the Arkansas State Highway Employees Retirement System are stated at amortized cost. All other 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, foreign currency contracts, 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, 2007 five universities, the University of Arkansas Cooperative Extension Service, and four foundations participated in the Pool. The foundations hold approximately $1.13 billion (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” (current portion) or “advances to/from other funds” (noncurrent portion). All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

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

Inventories and Prepaid Items

Inventories of materials and supplies are valued at cost, principally using the first-in/first-out method. The costs of governmental fund-type inventories are recorded 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, 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.

The State reported the significant portion of their infrastructure assets in fiscal year 2002. Estimated costs were retroactive to 1971. As the State continues to acquire infrastructure assets, they are recorded at historical cost. The State uses the depreciation method in reporting long-term infrastructure assets.

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, 2007 is $30 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 full month charged for assets acquired in the first half of the month and a half-month charged for assets acquired in the second half of the month. Assets were assigned estimated useful lives most suitable for the particular assets. Estimated useful lives generally assigned are as follows:

	Years
Assets:	
Equipment	5-20
Buildings & building improvements	20-50
Infrastructure	10-30
Land improvements	10-40
Leasehold improvements	10-50
Other depreciable assets	4-20

Accrued and Other Current Liabilities

The State has established a liability for both reported and unreported insured events in the government-wide financial statements, which includes estimates of future payments of claims and related claim adjustment expenses, based on the estimated ultimate cost of settling claims. In estimating its liability for incurred but unpaid claims, the State considers prior experience, industry information, and currently recognized trends affecting data specific to the State. Actual claim costs depend upon such factors as duration of worker disability, medical cost trends, occupational disease, and inflation. The process used in computing the ultimate cost of settling claims and expense for administering claims is necessarily based on estimates.

The Internal Revenue Code of 1986 limits the amount of income issuers of certain tax-exempt bonds can earn from investing the bond proceeds. Such excess, called arbitrage rebates, must be remitted to the Federal Government. The Construction Assistance Revolving Loan Fund, ADFA, and ASLA make provisions for arbitrage rebates as they are incurred.

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, 2007 is related to projected refund estimates attributable to fiscal year 2007 tax revenues.

Compensated Absences

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

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

Deferred Revenue

In the government-wide financial statements and proprietary fund financial statements, deferred revenue is recognized when cash or other assets are received prior to their being earned. In the governmental fund statements, deferred revenue is recognized when revenue is unearned or unavailable.

Bond-Related Items

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

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

Net Assets/Fund Balance

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

Restricted Assets/Net Assets

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

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 purposed specified by the legislation. At June 30, 2007 the government-wide statement of net assets reported $813 million of restricted net assets for governmental activities, of which $202 million were restricted by enabling legislation.

Donor-Restricted Endowments

The State has donor-restricted endowments with net appreciation of $55.5 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 Section 28-69-607 for the uses and purposes for which an endowment fund is established. This section does not limit the authority of the governing board to expend funds as permitted under other law, the terms of the applicable gift instrument, or the charter of the institution. Second, Arkansas Code Annotated §28-69-604 rule of construction states the restriction on the expenditures may not be implied for endowment funds. Third, Arkansas Code Annotated §28-69-607 standard of conduct 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. 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 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. The statement also includes guidance 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).

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, establishes standards for reporting and accounting for intangible assets by local and state governments, particularly in the areas of recognition, initial measurement, and amortization. Additionally, this statement establishes a specified-conditions approach to recognizing intangible assets that are internally generated. The requirements of this statement are effective for financial statements for periods after June 15, 2009 (i.e. fiscal year 2010). The provisions of this statement generally must be applied retroactively to years ending after June 30, 1980.

GASB Statement No. 52*, Land and Other Real Estate Held as Investments by Endowments*, establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. The standard requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2008 (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, 2007 the reported bank balances of the general fund were $1,073,202,585. Of this amount, $2,386,599 was uninsured and uncollateralized, $12,297,560 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 $20,339,434 was uninsured and collateralized with securities held by the pledging financial institution.

At June 30, 2007 the reported bank balances of the enterprise funds were $386,406,536. Of this amount, $2,063,083 was uninsured and uncollateralized, $12,129,359 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 $12,216,629 was uninsured and collateralized with securities held by the pledging financial institution.

At June 30, 2007 the reported bank balances of the fiduciary funds were $105,306,396. Of this amount, $27,565,871 was uninsured and uncollateralized and $3,355,170 was uninsured and collateralized with securities held by the pledging financial institution.

At June 30, 2007 the reported bank balances of the component units were $12,550,947. Of this amount, $3,849,000 was uninsured and uncollateralized, and $8,080,000 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, 2007 the State of Arkansas had the following debt investments and maturities (expressed in thousands):

		Investment Maturities (in years)			
Investment Type	Fair Value	Less Than 1	1 to 5	6 to 10	More Than 10
General Fund					
U.S. Treasuries	$ 17,907	$ 17,907	$	$	$
U.S. Treasury STRIPS	3		2	1	
Municipal Bonds	1		1		
U.S. Government Agencies	867,865	490,737	371,579		5,549
Domestic Corporate Bonds	144,353		144,353		
Other Loans	39,648		3,230	36,418	
Subtotal	1,069,777	508,644	519,165	36,419	5,549
Enterprise Funds					
U.S. Treasuries	8,040	5,598		2,442	
U.S. Government Agencies	137,296	82,617	54,074	458	147
Corporate Bonds	18,976	1,866	13,601	2,571	938
Mutual Bond Fund	4,039	4,000	39		
Short-Term Common Fund	150,343	145,747	4,596		
Preferred Stock	4				4
Other Loans	10,736	2,387	5,432	2,917	
Subtotal	329,434	242,215	77,742	8,388	1,089
Fiduciary Funds					
U.S. Treasuries	170,772		57,009	20,021	93,742
U.S. Government TIPS	8,163		8,163		
U.S. Government Agencies	812,726	21,915	138,897	68,170	583,744
Convertible Bonds	473,788	10,942	78,637	52,423	331,786
Collateralized Obligations	380,331		15,496	22,171	342,664
Municipal Bonds	13,905		476	4,600	8,829
Corporate Bonds	614,730	78,207	187,864	210,654	138,005
Domestic Fixed Income Commingled	135,854			135,854	
High Yield Income Fund	37,832		14,620	23,212	
Emerging Markets Bond Fund	12,914			12,914	
Commercial Loans	19,596		7,092	12,504	
Global Corporate Fixed	29,283	152	17,162	7,071	4,898
Emerging Markets	34,564	742	14,828	14,262	4,732
U.S. Corporate Floating Rate	205,720	50,026	155,694		
Bank Obligations	77,656	12,507	65,149		
Certificates of Deposit	208,213	121,576	86,637		
Asset Backed Securities	318,767	43,304	207,523	1,835	66,105
External Investment Pools	3,166,344	1,371,761	344,884	1,374,609	75,090
Repurchase Agreements	95,092	95,092			
Mortgage Loans	54,159	2,777	26,351	25,031	
Other Loans	1,258	102	1,156		
Subtotal	6,871,667	1,809,103	1,427,638	1,985,331	1,649,595
Component Units					
U.S. Treasuries	87,731	54,972	31,331	1,319	109
U.S. Government Agencies	50,706	7,044	36,305	7,317	40
Municipal Bonds	813	358	455		
Repurchase Agreements	1,124	1,124			
Guaranteed Investment Contracts	541,634	163,460	218,265	128,885	31,024
Money Market Mutual Fund	179,950	179,950			
Mortgage Backed Securities	528,480		48	18	528,414
Subtotal	1,390,438	406,908	286,404	137,539	559,587
Total	$ 9,661,316	$ 2,966,870	$ 2,310,949	$ 2,167,677	$ 2,215,820

Corporate Bonds

As of June 30, 2007 the Arkansas Public Employees Retirement System (APERS) held corporate bonds with a fair value of $257,249,675. Corporate bonds are debt instruments that are issued by private corporations. They have a term maturity, and can have either a fixed or variable interest rate. Variable interest rate bonds have adjustments that are made periodically and vary directly with movements in interest rates. Of the $257,249,675 total bonds held by APERS at June 30, 2007 $1,037,972 are considered highly sensitive to interest rate changes.

Issuer	Trade Date	Cost	Maturity Date	Rate Calculation	Reset Date	Market Value
Bear Stearns	2/1/2007	$ 995,000	2/2/2017	*	*	$ 1,037,972

* The coupon is fixed at 7% until February 2009, and then resets to 7.9 times the difference between the 10 year and 2 year yields. The maximum coupon over the life of the note is 11% and the minimum is 4%.

Convertible Corporate Bonds

As of June 30, 2007 the Arkansas Public Employees Retirement System (APERS) held convertible bonds with a fair value of $175,316,139. 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 $175,316,139 total bonds held by APERS at June 30, 2007 $11,090,937 are considered highly sensitive to interest rate changes.

Issuer	Trade Date	Cost	Maturity Date	Rate Calculation	Reset Date	Market Value
Interpublic Grp	11/2/2006	$ 1,013,625	6/15/2009	3-Month LIBOR +.35%	Quarterly	$ 1,033,875
Lockheed Martin	11/2/2006	1,530,747	8/15/2033	3-Month LIBOR -.25%	Quarterly	1,813,590
Prudential Financial	6/7/2007	1,409,375	12/12/2036	3-Month LIBOR -2.40%	Quarterly	1,399,612
Stanley Works	3/22/2007	835,642	5/17/2012	3-Month LIBOR +1.62%	Quarterly	910,512
US Bancorp	11/20/2009	1,490,805	9/20/2036	3-Month LIBOR -1.75%	Quarterly	1,491,900
US Bancorp	6/7/2007	1,558,463	2/6/2037	3-Month LIBOR -1.75%	Quarterly	1,556,888
Wyeth	12/16/2003	1,866,557	1/15/2024	3-Month LIBOR -.50%	Quarterly	2,075,752
Wyeth	12/1/2006	763,296	1/15/2024	3-Month LIBOR -.50%	Quarterly	808,808
		$ 10,468,510				$ 11,090,937

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, 2007 is as follows (expressed in thousands):

Standard and Poor's		Moody's Investor's Service	
Rating	**Fair Value**	**Rating**	**Fair Value**
General Fund			
AAA	$ 2,031,546	Aaa	$ 2,028,466
AA	144,354	Unrated	187,338
Unrated	39,904		
Subtotal	2,215,804		2,215,804
Enterprise Funds			
AAA	368,724	Aaa	309,082
AA	12,958	Aa	293
A	5,907	A	1,675
BB	178	Ba	178
B and Below	856	B and Below	617
Unrated	399,928	Unrated	476,706
Subtotal	788,551		788,551
Fiduciary Funds			
AGY	314,220	AGY	302,852
AAA	1,124,697	Aaa	1,052,930
AA	327,406	Aa	390,605
A	257,177	A	183,991
A-1	183,858	P-1	184,108
BBB	320,210	Baa	296,150
BB	146,774	Ba	125,630
B	148,738	B	107,223
CCC or Lower	29,115	C or Lower	27,767
Unrated	3,925,601	Unrated	4,106,540
Subtotal	6,777,796		6,777,796
Component Units			
AAA	759,494	Aaa	759,949
Unrated	455	Unrated	
Subtotal	759,949		759,949
Total	$ 10,542,100		$ 10,542,100

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, 2007 the reported amount of the enterprise funds' investments was $1,193,011,067. Of this amount, $4,636 was uninsured and unregistered with securities held by the counterparty's trust department or agent but not in the State's name and $1,859,312 was uninsured and unregistered with securities held by the counterparty.

At June 30, 2007 the reported amount of the component units' investments was $1,390,438,189. Of this amount, $1,124,000 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 of 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 investments in Federal Home Loan Bank securities represent 23.4% 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
Natixis Funding	$	129,869,000	12%
Bayerische Landesbank Giozentrale		140,621,000	13%

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, 2007 is as follows (expressed in thousands):

Currency	Fair Value	Fixed Income Securities	Equities	Foreign Currency Contract	Cash
Australian Dollar	$ 68,037	$ 871	$ 85,398	$ (18,233)	$ 1
Brazilian Real	8,855	917	7,071	856	11
British Pound Sterling	405,538	6,761	444,631	(52,686)	6,832
Canadian Dollar	98,088	601	97,855	(424)	56
Danish Krone	15,182		9,966	5,178	38
Egyptian Pound	238	238			
Euro	779,610	9,674	898,529	(140,596)	12,003
Hong Kong Dollar	82,034		82,037	59	(62)
Hungarian Forint	5,238	2,266	4,925	(2,020)	67
Iceland Krona	152	152			
Indian Rupee	826				826
Indonesian Rupiah	8,082		8,082		
Israeli Shekel	(5,599)			(5,599)	
Japanese Yen	569,287		505,984	60,904	2,399
Malaysian Ringgit	5,603		5,550		53
Mexico Nuevo Peso	16	1,801		(1,857)	72
New Taiwan Dollar	15,417		15,094		323
New Zealand Dollar	288	1,082		(797)	3
Norwegian Krone	9,927	1,001	13,263	(4,575)	238
Polish Zloty	256	2,424		(2,168)	
Singapore Dollar	36,469		22,504	13,963	2
South African Rand	21,995		12,014	9,981	
South Korean Won	54,868		55,359		(491)
Swedish Krona	78,450	1,161	37,470	39,426	393
Swiss Franc	238,103		197,738	39,937	428
Thailand Baht	4,813		4,813		
Total Fair Value	$ 2,501,773	$ 28,949	$ 2,508,283	$ (58,651)	$ 23,192

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

(3) Derivatives

Primary Government

Forward Currency Contracts

Arkansas Public Employees Retirement System (APERS) and Arkansas State 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, 2007 the retirement systems referred to above were party to outstanding foreign exchange currency contracts to purchase foreign currencies with contract amounts of $191.1 million, collectively. Market values of these outstanding contracts were $190.2 million resulting in a net unrealized loss of $.9 million. The retirement systems also had outstanding foreign contracts to sell foreign currency with contract amounts of $247.4 million at June 30, 2007. Market values of these contracts were $248.9 million resulting in an unrealized loss of approximately $1.5 million.

To Be Announced Short Contracts

Teacher participates in To Be Announced Short Contracts (TBAs) as part of the overall diversification investment plan by their fixed income managers. TBAs 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 TBAs are over ten years. At June 30, 2007 the costs of these TBAs were $8.8 million, collectively. Market values were $8.8 million effectively resulting in neither a net unrealized gain nor loss.

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 risk (see note 2 on Deposits and Investments). The retirement systems, referred to above, invest in these securities to enhance yields on investments. Changes in market interest rates affect the cash flows of these securities and may result in changes in fair value. The overall return or yield of these securities depends on the changes in interest and principal payment patterns and the market value of the underlying assets. As of June 30, 2007 the retirement systems held $571.9 million of mortgage-backed securities.

Asset-Backed Securities

As of June 30, 2007 APERS and Teacher held asset-backed securities with the fair value of $228.8 million, and $122.0 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 Judicial Retirement System (Judicial) and State Police had approximately $820.9 million, $28.8 million and $50.3 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 the fair value in the statement of net assets. They are also included in the totals of U.S. Government and Agency securities in the disclosure of investment risk. ADFA invests in these securities to enhance yields on investments. Changes in market interest rate affect the cash flows of these securities and may result in changes in fair value. The overall return on yield on these securities depends on the changes in the interest and principal in the interest and principal payment pattern and the market value of the underlying assets.

Interest Rate Swaps

ADFA has entered into an interest rate swap agreement to effectively convert $10.0 million of variable rate debt based on the three-month LIBOR to fixed rate debt with an effective fixed rate of 7.7%. ADFA is exposed to interest rate risk under the swap agreement if the three-month LIBOR rate is less than 7.4%. The interest rate swap agreement was set to expire January 2, 2014. Subsequent to year end, on October 3, 2007, ADFA terminated the swap agreement with a termination payment of $336,000. The swap was terminated with expectation of improving the future cash flows of the related bond issues.

(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 Trustees 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, 2007 include domestic and international equities, domestic and international corporate fixed income securities, U.S. Treasury Securities, governmental agency securities, and non-U.S. sovereigns. With the exception of cash collateral, the pensions do not have the ability to pledge or sell the collateral unless there is borrower default. The pensions invest cash collateral received; accordingly, investments made with cash collateral received appear as assets on the statement of plan net assets. As the pensions must return the cash collateral to the borrower upon expiration of the loan, a corresponding liability is recorded as obligations under securities lending. 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 or fail to pay the income on the securities to the trust while 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 $2.0 billion. At June 30, 2007 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, 2007 consisted of the following (expressed in thousands):

Primary Government

	Accounts	Taxes	Employee/ Employer	Medicaid	Capital Lease Receivable	Loans	Investment-Related	Other Receivables	Allowance for Uncollectibles	Total
General Fund	$ 264,133	$ 686,178 (1)	$	$ 195,225	$ 750 (2)	$ 228,609	$ 29,404	$ 26,030	$ (372,768)	$ 1,057,561
Higher Education Fund	1,076,178					59,470	1,122	1,089	(900,517)	237,342
Workers' Compensation Commission	9,926						2,492			12,418
Non-major Enterprise Funds	109,679					304,152	1,086		(26,008)	388,909
Pension Trust			58,825				41,664	258,308		358,797
Agency							147	67		214
Total	$ 1,459,916	$ 686,178	$ 58,825	$ 195,225	$ 750	$ 592,231	$ 75,915	$ 285,494	$ (1,299,293)	$ 2,055,241

(1) Receivable balances of $51,669 are not expected to be collected within one year of the date of the financial statements.
(2) See Note 10 – Leases.

Component Units

	Accounts	Loans	Capital Lease Receivable	Investment-Related	Contributions	Other Receivables	Allowance for Uncollectibles	Net Receivable by Component Unit
Arkansas Student Loan Authority	$	$ 511,388	$	$ 14,350	$	$	$ (1,725)	$ 524,013
Arkansas Developmental Finance Authority	1,004	333,672	121,519	7,208			(29,622)	433,781
University of Arkansas Foundation				2,149	46,817	135	(617)	48,484
Total	$ 1,004	$ 845,060	$ 121,519	$ 23,707	$ 46,817	$ 135	$ (31,964)	$ 1,006,278

(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	$	$ 7,332	$ 9	$ 1,572	$ 157	$ 9,070
Higher Education Fund	2,643					2,643
Workers' Compensation Commission	244	268		5	1	518
Non-major Enterprise Funds	1,474					1,474
Pension Trust Funds	80					80
Total	$ 4,441	$ 7,600	$ 9	$ 1,577	$ 158	$ 13,785

Interfund receivables and payables include: (1) $7.3 million due from the Higher Education Fund to the General Fund for workers' compensation unemployment contributions, information technology services, grants and includes $5.6 million of Medicaid provider payments; (2) $1.5 million due from the General Fund to the Department of Workforce Services for unemployment insurance program contributions; 3) $2.6 million due to the Higher Education Fund from the General Fund is for grants and includes professional services to doctors/medical personnel of $1.3 million; and (4) the $1.6 million due from the non-major enterprise funds include $1.2 million due from Department of Workforce Services to the General Fund for information technology services. 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**
Non-Major Enterprise Funds	$	$ 3,760	$ 3,760
Pension Trust Funds	11,580		11,580
Total	$ 11,580	$ 3,760	$ 15,340

Advances include: (1) an outstanding balance of $11.6 million loaned to the General Fund, i.e. Department of Education, by the Teacher's Pension Trust Fund for the purchase of accounting software to be repaid over 15 years at 8% interest maturing in fiscal year 2012; and (2) advances to the Community/Technical College Revolving Loan program of $3.8 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	$	$ 868,939	$ 1	$ 2,881	$ 871,821
Higher Education Fund	55,536				55,536
Workers' Compensation Commission	2				2
Non-Major Enterprise Funds	4,778				4,778
Total	$ 60,316	$ 868,939	$ 1	$ 2,881	$ 932,137

Transfers include: (1) the transfer of $869 million from the General Fund to the Higher Education Fund for State funding of higher education institutions; (2) the transfer of $56 million from the Higher Education Fund to the Department of Health and Human Services within the General Fund 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; (3) the transfer of $2 million from Arkansas Natural and Cultural Resources Council to reimburse Arkansas Natural Resources Commission for assistance in building clean drinking water facilities; and (4) Non-Major Enterprise Funds transfers included Department of Workforce Services transferring $1.4 million to the General Fund for personal services and operating expenses of the Arkansas Workforce Investment Board as well as interest from the Federal Unemployment Trust Fund. Also the Arkansas Natural Resources Commission reimbursed $.8 million from the Construction Assistance Loan Fund and $1.7 million from Other Revolving Loan Funds 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 $16 thousand are reported which represent capital asset transfers from the General Fund to the Higher Education Fund. A capital asset transfer from the Higher Education Fund to the General Fund was $4 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, 2007 was as follows (expressed in thousands):

	Balance July 1, 2006 (as restated) (1)	Adjustments/ Transfers (2)	Additions	Deletions	Balance June 30, 2007
Governmental activities:					
Capital assets, not being depreciated:					
Land	$ 483,398	$ 952	$ 34,540	$ (1)	$ 518,889
Construction in progress	2,053,967	(612,349)	465,332	(65)	1,906,885
Other non-depreciable assets	4,204	40	211		4,455
Total capital assets, not being depreciated	2,541,569	(611,357)	500,083	(66)	2,430,229
Capital assets, being depreciated:					
Land improvements	143,176	5,475	1,658	(20)	150,289
Infrastructure	9,425,624	557,286	7,157	(27,970)	9,962,097
Leasehold improvements	1,125	(1,125)			
Buildings	1,015,556	43,690	10,157	(6,656)	1,062,747
Equipment	626,651	(1,999)	88,845	(56,030)	657,467
Other depreciable assets	13,055	7,957	3,667	(24)	24,655
Total capital assets, being depreciated	11,225,187	611,284	111,484	(90,700)	11,857,255
Subtotal	13,766,756	(73)	611,567	(90,766)	14,287,484
Less accumulated depreciation for:					
Land improvements	(47,370)	27	(19,833)	15	(67,161)
Infrastructure	(4,029,330)	(822)	(314,897)	27,970	(4,317,079)
Leasehold improvements	(446)	446			
Buildings	(408,138)	(405)	(27,865)	5,937	(430,471)
Equipment	(442,845)	1,501	(45,613)	44,195	(442,762)
Other depreciable assets	(5,146)	(7)	(4,177)	21	(9,309)
Total accumulated depreciation	(4,933,275)	740	(412,385)	78,138	(5,266,782)
Governmental activities capital assets, net	$ 8,833,481	$ 667	$ 199,182	$ (12,628)	$ 9,020,702

(1) Balance July 1, 2006, restated by $18,579.

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

	Balance July 1, 2006	Adjustments/ Transfers (1)	Additions	Deletions	Balance June 30, 2007
Business-type activities:					
Capital assets, not being depreciated:					
Land	$ 93,166	$ 339	$ 7,300	$ (256)	$ 100,549
Construction in progress	320,370	(232,597)	322,068	(1,277)	408,564
Total capital assets, not being depreciated	413,536	(232,258)	329,368	(1,533)	509,113
Capital assets, being depreciated:					
Improvements other than building	15,583	839	582	(1)	17,003
Leasehold improvements	245	(170)			75
Buildings	2,386,238	223,337	40,658	(6,630)	2,643,603
Equipment	529,501	4,646	54,765	(21,014)	567,898
Other capital assets	139,706	4	7,651	(4,446)	142,915
Infrastructure	156,060	27,754	4,474	(398)	187,890
Total capital assets, being depreciated	3,227,333	256,410	108,130	(32,489)	3,559,384
Subtotal	3,640,869	24,152	437,498	(34,022)	4,068,497
Less accumulated depreciation for:					
Improvements other than building	(7,362)	(61)	(428)	1	(7,850)
Leasehold improvements	(89)			89	
Buildings	(925,853)	(3,896)	(74,227)	4,531	(999,445)
Equipment	(354,547)	1,058	(54,911)	19,596	(388,804)
Other capital assets	(92,541)	7	(8,641)	2,854	(98,321)
Infrastructure	(70,299)	12	(7,131)	15	(77,403)
Total accumulated depreciation	(1,450,691)	(2,880)	(145,338)	27,086	(1,571,823)
Business-type activities capital assets, net	$ 2,190,178	$ 21,272	$ 292,160	$ (6,936)	$ 2,496,674

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

Component Units

Activity for ADFA for the year ended June 30, 2007 was as follows (expressed in thousands):

	Balance July 1, 2006	Additions/ Deletions	Balance June 30, 2007
ADFA:			
Capital assets being depreciated:			
Equipment	$ 612	$ 65	$ 677
Less accumulated depreciation for:			
Equipment	(440)	(60)	(500)
ADFA capital assets, net	$ 172	$ 5	$ 177

Activity for ASLA for the year ended June 30, 2007 was as follows (expressed in thousands):

	Balance July 1, 2006	Additions/ Deletions	Balance June 30, 2007
ASLA:			
Capital assets not being depreciated:			
Land	$	$ 670	$ 670
Capital assets being depreciated:			
Buildings and equipment	345	2,012	2,357
Less accumulated depreciation for:			
Buildings and equipment	(345)	(43)	(388)
ASLA capital assets, net	$ 0	$ 2,639	$ 2,639

Activity for U of A Foundation, Inc. for the year ended June 30, 2007 was as follows (expressed in thousands):

	Balance July 1, 2006	Additions/ Deletions	Balance June 30, 2007
U of A Foundation:			
Capital assets not being depreciated:			
Land	$ 1,430	$ (908)	$ 522
Capital assets being depreciated:			
Buildings and equipment	685	(74)	611
Less accumulated depreciation for:			
Buildings and equipment	(574)	3	(571)
Total Assets being depreciated, net	111	(71)	40
Total Assets U of A Foundation	$ 1,541	$ (979)	$ 562

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	$ 4,733
Health and human services	8,975
Transportation	325,175
Law, justice, and public safety	28,892
Recreation and resources development	31,163
General government	11,941
Regulation of business and professionals	1,506
Total depreciation expense – governmental activities	$ 412,385
Business-type Activities:	
Enterprise Funds	$ 145,338
Total depreciation expense – business-type activities	$ 145,338

Component Units

ADFA	$ 60
ASLA	43
U of A Foundation	44
Total depreciation expense – component units	$ 147

(8) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2007 are summarized as follows (expressed in thousands):

	Balance July 1, 2006	Additions	Accretion on capital appreciation bonds	Reductions	Balance June 30, 2007	Due within one year	Due greater than one year
Governmental Activities:							
Bonds payable:							
General obligation	$ 900,402	$ 255,210	$ (1,178)	$ 182,243	$ 972,191 (1)	$ 86,234	$ 885,957
Special obligation	205			205			
Revenue Bond Guaranty Fund	2,988	140 (2)		203	2,925	208	2,717
Add (deduct):							
Deferred bond refunding loss:							
General Obligation	(1,829)	(9,232)		(230)	(10,831)		(10,831)
Debt to Component Unit	(3,713)			(281)	(3,432)		(3,432)
Issuance premium (discount):							
General Obligation	12,426	5,248		2,153	15,521	2,379	13,142
Debt to Component Unit	3,388			220	3,168	220	2,948
Total bonds payable	913,867	251,366	(1,178)	184,513	979,542	89,041	890,501
Notes payable to component unit	123,256	7,965		9,576	121,645	7,298	114,347
Note payable to pension trust fund	13,408			1,828	11,580	1,974	9,606
Capital leases	4,420	994		1,894	3,520	1,334	2,186
Capital leases with component unit	97,824	21,861		8,235	111,450	8,535	102,915
Total notes and leases payable	238,908	30,820		21,533	248,195	19,141	229,054
Total bonds, notes, and leases payable	1,152,775	282,186	(1,178)	206,046	1,227,737	108,182	1,119,555
Claims and judgments	159,250	221,806		263,842	117,214	112,741	4,473
Compensated absences	115,827	91,292		86,121	120,998	15,485	105,513
Total claims, judgments, and compensated absences	275,077	313,098		349,963	238,212	128,226	109,986
Net pension obligation	2,107			1,575	532		532
Governmental activity total	$ 1,429,959	$ 595,284	$ (1,178)	$ 557,584	$ 1,466,481	$ 236,408	$ 1,230,073

(1) Includes accretion on capital appreciation bonds of $ 21,556.
(2) Represents assumed debt for which proceeds are not recorded in the fund statements.

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, 2006 (as reclassed)	Additions	Reductions	Balance June 30, 2007	Due within one year	Due greater than one year
Business-type Activities:						
Bonds payable:						
Special obligation:						
Construction Assistance Revolving Loan Fund	$ 83,955	$	$ 5,180	$ 78,775	$ 5,810	$ 72,965
College and University Revenue Bonds	1,154,470 (1)	106,190	63,590	1,197,070	39,580	1,157,490
Add (deduct):						
Deferred bond refunding loss	(4,348)		(369)	(3,979)	(369)	(3,610)
Issuance premiums/ (discounts)	14,354 (1)	(752)	711	12,891	748	12,143
Total bonds payable	1,248,431	105,438	69,112	1,284,757	45,769	1,238,988
Notes payable	17,930	15,234	10,244	22,920	9,175	13,745
Notes payable with component unit	6,666		809	5,857	764	5,093
Total notes payable	24,596	15,234	11,053	28,777	9,939	18,838
Capital leases	25,092	11,979	7,334	29,737	6,823	22,914
Capital leases with component unit	1,354		180	1,174	180	994
Total lease payable	26,446	11,979	7,514	30,911	7,003	23,908
Total bonds, notes, and leases payable	1,299,473	132,651	87,679	1,344,445	62,711	1,281,734
Claims and judgments	247,577	357,589	347,362	257,804	47,701	210,103
Compensated absences	74,320	52,688	45,628	81,380	11,359	70,021
Total claims, judgments, and compensated absences	321,897	410,277	392,990	339,184	59,060	280,124
Business-type activity total	$ 1,621,370	$ 542,928	$ 480,669	$ 1,683,629	$ 121,771	$ 1,561,858

(1) $1,203 reclassified from bonds payable to issuance premium/(discount).

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Due within one year	Due greater than one year
Component units:						
Arkansas Student Loan Authority:						
Bonds payable:						
Revenue	$ 753,780	$	$	$ 753,780	$	$ 753,780
Arkansas Development Finance Authority:						
Bonds payable	1,114,118	194,322	174,808	1,133,632	46,169	1,087,463
Notes payable	312,307	199,092	290,648	220,751	135,640	85,111
Less: Issuance discounts	(517)	3,020	(183)	2,686		2,686
Total bonds and notes payable ADFA	1,425,908	396,434	465,273	1,357,069	181,809	1,175,260
U of A Foundation Annuity Obligations	18,524	3,127	2,045	19,606	1,071	18,535
Component units total	$ 2,198,212	$ 399,561	$ 467,318	2,130,455	$ 182,880	$ 1,947,575

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, 2007 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	$ 131,300
2001A Series Federal Highway G.O. Bonds	2013	5.25	151,650
2002 Series Federal Highway G.O. Bonds	2014	3.50-5.00	198,680
Arkansas Natural Resources Commission Bonds:			
2001A Series Water, Waste, and Pollution	2011	5.85-6.30	4,530
2001B Series Water, Waste, and Pollution	2011	4.00-4.45	1,605
2002A Series Water, Waste, and Pollution	2026	4.00-5.00	12,085
2002B Series Water, Waste, and Pollution	2025	4.25-5.00	5,900
2002C Series Water, Waste, and Pollution	2020	4.00-5.00	6,700
2002D Series Water, Waste, and Pollution	2017	3.75-4.75	6,940
2002E Series Water, Waste, and Pollution	2012	5.00-5.80	1,130
2002F Series Water, Waste, and Pollution	2012	3.50-4.20	1,495
2002G Series Water, Waste, and Pollution	2035	3.00-4.95	4,830
2002H Series Water, Waste, and Pollution	2017	4.50-5.35	1,575
2002I Series Water, Waste, and Pollution	2026	3.00-4.75	9,650
2002K Series Water, Waste, and Pollution	2026	3.00-4.88	7,700
2003A Series Water, Waste, and Pollution	2020	3.15-5.30	1,975
2003B Series Water, Waste, and Pollution	2019	2.50-4.10	2,615
2003C Series Water, Waste, and Pollution	2033	2.75-4.75	17,250
2004A Series Water, Waste, and Pollution	2036	3.00-5.00	13,860
2005A Series Water, Waste, and Pollution	2025	3.25-4.35	5,390
2005B Series Water, Waste, and Pollution	2027	3.00-4.75	9,135
2006A Series Water, Waste, and Pollution	2016	5.00	17,040
2006B Series Water, Waste, and Pollution	2036	3.50-4.50	9,765
2006C Series Water, Waste, and Pollution	2033	4.13-4.63	4,755
2007A Series Water, Waste, and Pollution	2040	4.00-4.50	7,500
College Savings Bonds:			
1993 Series, G.O. Bonds	2014	5.80-5.95	13,681
1996C Series, G.O. Bonds	2016	5.55-6.00	11,464
1997A Series, G.O. Bonds	2017	5.60-5.95	2,821
1997B Series, G.O. Bonds	2017	5.10-5.60	8,560
1998A Series, G.O. Bonds	2017	4.45-5.35	26,631
2005 Series, G.O. Bonds	2016	3.00-5.00	31,125
Higher Education Bonds:			
2007A Series, G. O. Bonds	2023	4.00-5.00	99,595
2007B Series, G. O. Bonds	2029	4.38-4.75	126,824
2007C Series, G. O. Bonds	2010	5.00-5.25	16,435
Total			$ 972,191

Future amounts required to pay principal and interest on general obligation bonds at June 30, 2007 including accrued accreted interest of approximately $21,556 million on capital appreciation bonds, were as follows (expressed in thousands):

	Principal	Interest	Total
Year ending June 30:			
2008	$ 86,234	$ 46,146	$ 132,380
2009	71,603	41,867	113,470
2010	75,371	37,839	113,210
2011	77,262	35,710	112,972
2012	78,802	31,480	110,282
2013-2017	283,938	94,019	377,957
2018-2022	103,580	54,712	158,292
2023-2027	121,005	29,253	150,258
2028-2032	44,410	5,795	50,205
2033-2037	7,695	1,037	8,732
2038-2042	735	67	802
Total	$ 950,635	$ 377,925	$ 1,328,560

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 2007 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 2007 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. 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 2007, $12.4 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 2007 fiscal year.

Higher Education General Obligation Bonds – Act 1282 of 2005 authorized the State to issue Higher Education 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 $250 million. However, the total outstanding principal amount of Higher Education General Obligation Bonds issued under Act 1282 of 2005 and the College Savings Bond Act of 1989 shall not have scheduled debt service payments on a combined basis in excess of $24 million in any one fiscal year. The Higher Education General Obligation Bonds were issued to provide funds to finance technology and facility improvements for state institutions of higher education and to refund certain outstanding bonds. The bonds are payable from the net general revenues of the State and investment earnings on the proceeds of the bonds. In fiscal year 2007, $242.9 million of bonds were issued under this act.

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, 2007 total bonds guaranteed by the Revenue Bond Guaranty Fund amounted to $3 million, all of which are 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, 2007 the equity interest in industrial facilities, which totaled approximately $1.8 million, were either rented or vacant.

The bonds assumed by the Revenue Bond Guaranty Fund and outstanding at June 30, 2007 were as follows (expressed in thousands):

	Final maturity date	**Interest rates %**	**Balance**
Revenue Bond Guaranty Fund	2021	3.45 - 5.75	$ 2,925

Future amounts required to pay principal and interest on Revenue Bond Guaranty Fund at June 30, 2007 were as follows (expressed in thousands):

	Principal	**Interest**	**Total**
Year ending June 30:			
2008	$ 208	$ 145	$ 353
2009	142	137	279
2010	148	131	279
2011	152	125	277
2012	160	118	278
2013-2017	923	461	1,384
2018-2022	1,192	178	1,370
Total	$ 2,925	$ 1,295	$ 4,220

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, 2007 were as follows (expressed in thousands):

	Principal	Interest	Total
Year ending June 30:			
2008	$ 7,298	$ 5,235	$ 12,533
2009	7,597	5,053	12,650
2010	7,858	4,778	12,636
2011	8,167	4,485	12,652
2012	8,470	4,169	12,639
2013-2017	42,443	15,044	57,487
2018-2022	22,807	6,846	29,653
2023-2027	13,137	2,527	15,664
2028-2032	3,868	310	4,178
Total	$ 121,645	$ 48,447	$ 170,092

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, 2007 were as follows (expressed in thousands):

	Principal	Interest	Total
Year ending June 30:			
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	$ 11,580	$ 2,920	$ 14,500

Business-Type Activities

Special obligation bonds outstanding at June 30, 2007, 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	3.00-5.50	$ 78,775

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 or interest on the bonds.

Future amounts required to pay principal and interest on the special obligation bonds at June 30, 2007 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 $199 thousand:

	Principal	Interest	Total
Year ending June 30:			
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	7,255	2,577	9,832
2013-2017	34,845	7,096	41,941
2018-2022	10,325	1,136	11,461
Total	$ 78,775	$ 23,945	$ 102,720

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, 2007 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 $13,090 and unamortized deferred bond refunding losses of $3,979:

	Final maturity date	Interest rates %	Balance
Henderson State University	2035	3.15-7.00	$ 28,719
Southern Arkansas University-Magnolia	2031	1.40-5.35	12,909
Southern Arkansas University Tech-Camden	2015	6.02	470
Arkansas State University-Beebe	2035	3.83-6.60	29,270
Arkansas State University-Jonesboro	2037	Variable	127,749
Arkansas State University-Mountain Home	2017	3.81	4,195
Arkansas State University-Newport	2028	4.13	4,460
Arkansas Tech University	2037	1.10-5.65	44,043
University of Arkansas at Fayetteville	2036	Variable	315,215
University of Arkansas at Little Rock	2029	Variable	52,317
University of Arkansas for Medical Sciences	2036	Variable	270,627
University of Arkansas at Monticello	2035	Variable	12,810
University of Arkansas at Pine Bluff	2035	2.80-5.70	24,546
University of Central Arkansas	2038	2.00-7.75	101,905
University of Arkansas Community College at Hope	2021	3.80-5.12	5,625
University of Arkansas Community College at Batesville	2018	Variable	4,187
University of Arkansas Community College at Morrilton	2022	2.25-5.25	4,305
University of Arkansas at Fort Smith	2031	1.00-6.50	61,640
East Arkansas Community College	2012	3.50-6.00	835
National Park Community College	2030	3.00-4.70	9,250
Mid-South Community College	2033	4.35-5.10	15,765
Arkansas Northeastern College	2031	4.00-5.35	4,770
North Arkansas College	2016	3.00-5.10	1,895
Phillips Community College of the University of Arkansas	2017	3.58-5.00	4,938
Rich Mountain Community College	2022	Variable	1,655
Northwest Arkansas Community College	2030	3.00-5.00	22,796
Black River Technical College	2028	1.35-4.75	2,965
Pulaski Technical College	2037	1.70-5.15	53,295
Ouachita Technical College	2008	2.99	176
Ozarka College	2027	4.90	2,515
Total			$ 1,225,847

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, 2007 were as follows (expressed in thousands):

	Principal	Interest	Total
Year ending June 30:			
2008	$ 49,518	$ 54,669	$ 104,187
2009	47,661	53,715	101,376
2010	55,288	51,680	106,968
2011	44,906	49,572	94,478
2012	42,598	47,683	90,281
2013-2017	227,602	210,234	437,836
2018-2022	248,660	155,704	404,364
2023-2027	197,399	101,953	299,352
2028-2032	179,640	56,369	236,009
2033-2037	129,755	14,969	144,724
2038-2042	2,820	140	2,960
Total	$ 1,225,847	$ 796,688	$ 2,022,535

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, 2007 were as follows (expressed in thousands):

	Final maturity date	Interest rates %	Balance
Student Loan Revenue Bonds, Series 1994A	2009	3.76	$ 23,500
Student Loan Revenue Bonds, Series 1994B	2009	7.25	6,600
Student Loan Revenue Refunding Bonds, Series 1996A	2010	3.92	42,900
Student Loan Revenue Bonds, Series 1997A	2014	3.93	31,150
Student Loan Revenue Refunding Bonds, Series 1997B	2014	5.30-5.60	10,980
Student Loan Revenue Refunding Bonds, Series 2000 A-1	2030	3.82	50,000
Student Loan Revenue Refunding Bonds, Series 2000 A-2	2030	5.29	20,000
Student Loan Revenue Refunding Bonds, Series 2002 A-1	2036	3.92	48,850
Student Loan Revenue Refunding Bonds, Series 2002 A-2	2009	3.89	2,800
Student Loan Revenue Refunding Bonds, Series 2004 A-1	2038	3.85-3.95	51,050
Student Loan Revenue Refunding Bonds, Series 2004 A-2	2038	3.85-3.95	59,500
Student Loan Revenue Refunding Bonds, Series 2004 A-3	2038	5.30	15,500
Student Loan Revenue Refunding Bonds, Series 2005 A-1	2039	3.83-3.98	70,000
Student Loan Revenue Refunding Bonds, Series 2005 A-2	2039	3.83-3.98	58,700
Student Loan Revenue Refunding Bonds, Series 2005 A-3	2039	3.83-3.98	58,650
Student Loan Revenue Bonds, Series 2006 A-1	2040	3.81-3.92	44,000
Student Loan Revenue Bonds, Series 2006 A-2	2040	3.81-3.92	58,500
Student Loan Revenue Bonds, Series 2006 A-3	2040	3.81-3.92	61,100
Student Loan Revenue Bonds, Series 2006 A-4	2040	5.29	25,000
Student Loan Revenue Bonds, Series 2006 B-1	2040	3.81-3.92	15,000
Total			$ 753,780

Future amounts required to pay principal and interest on revenue bonds at June 30, 2007 were as follows (expressed in thousands):

		Principal		Interest		Total
Year ending June 30:						
2008	$		$	29,955	$	29,955
2009		62,030		27,891		89,921
2010		42,900		26,043		68,943
2011		29,850		26,043		55,893
2012				26,043		26,043
2013-2017		35,000		103,296		138,296
2018-2022				99,846		99,846
2023-2027		65,000		99,846		164,846
2028-2032				107,576		107,576
2033-2037		41,250		103,035		144,285
2038-2042		477,750		62,281		540,031
Total	$	753,780	$	711,855	$	1,465,635

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 through the Bond Guaranty fund. Additionally, the Authority reports conduit 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, 2007 the bonds outstanding issued under these programs aggregated $ 264.1 million.

Bonds and notes payable at June 30, 2007 were as follows (expressed in thousands):

	Final maturity date	Interest rates %	Balance
Single Family Bonds Payable	2038	2.10-10.00	$ 823,463
Multi-Family Bonds Payable	2035	3.50-9.75	84,474
Bond Guaranty Program	2024	2.70-7.45	63,588
State and Health Facilities Bonds Payable	2040	2.125-7.00	272,580
Economic Development Bonds and Notes Payable	2017	1.00-12.50	11,627
Tobacco Bond Payable	2046	3.80-5.50	89,808
General Fund Bonds and Note Payable	2041	4.13-5.156	8,843
Total			$ 1,354,383

Future amounts required to pay principal and interest on the Authority's debt at June 30, 2007 were as follows (expressed in thousands). The principal amount shown differs from the amount on the balance sheet due to unamortized premiums of $2,686 less accreted interest of $95,023:

	Principal	Interest	Total
Year ending June 30:			
2008	$ 181,809	$ 61,844	$ 243,653
2009	44,914	56,393	101,307
2010	130,307	52,611	182,918
2011	45,036	47,480	92,516
2012	43,411	45,238	88,649
2013-2017	212,931	195,325	408,256
2018-2022	190,987	145,706	336,693
2023-2027	207,255	99,610	306,865
2028-2032	190,135	53,520	243,655
2033-2037	130,850	16,649	147,499
2038-2042	46,812	2,734	49,546
2043-2047	24,959		24,959
Total	$ 1,449,406	$ 777,110	$ 2,226,516

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, 2007 were $563,602 including interest ranging from 5% to 12%.

Aggregate annual maturities of annuity obligations at June 30, 2007 were as follows (expressed in thousands):

		Principal
Year ending June 30:		
2008	$	1071
2009		879
2010		933
2011		980
2012		844
Thereafter		14,899
Total	$	19,606

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

Higher Education

In December 2001, the University of Arkansas Fort Smith Campus issued Student Fee revenue bonds, Series 2001 in the amount of $41.5 million with interest rates ranging from 2 to 5%. The primary portion of the proceeds was pledged to advance refund the outstanding balances of the 1999 and 1997 general obligation bonds, $9.7 million and $25.9 million, respectively. The required portion was deposited in an irrevocable trust to provide full funding for all future debt service payments on the old outstanding bonds. Final payment from the Defeasance Escrow Fund is scheduled for April 1, 2009. To date all payments have been made according to the schedule. Neither this defeased debt, not the activity associated with it, is reported in the financial statements. The outstanding principal balance at June 30, 2007 was $8.6 million, all attributable to the 1999 issue, and the related escrow balance was $8.9 million.

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, 2007 was $6.6 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, 2007 was $60.8 million.

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 percent 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 District 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 were 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 payment 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, 2007 the outstanding principal of the May 1, 1999, and the April 1, 2000, bonds were $7.6 million and $4.6 million, respectively, U.S. Treasury obligations of $12.6 million, purchased by the escrow agent, were pledged for the retirement of these bonds.

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 an 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 of $3.4 million were deposited in trust with an escrow agent to provide for all future debt service payments of the refunded 1997 Series bonds. The escrow balance at June 30, 2007 was $1.9 million.

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.

On June 1, 2007, Arkansas State University issued $30.3 million in refunding and construction bonds, for the Jonesboro campus, with interest rates of 3.65 to 5%. A portion of the bond proceeds was utilized to advance refund outstanding bonds of $7.6 million dated March 1, 1999, with interest rates of 4.15 to 5.05%. Net bond proceeds of $7.8 million were remitted to an escrow agent to provide for all future payments of the defeased bonds. The March 1, 1999, bonds will be called on August 1, 2007. The University advance refunded the bonds to reduce its total debt service payments by $240,091 over the next sixteen years and to obtain an economic gain of $194,821. The University received accrued interest of $19,056 from the bond issue to apply toward the debt payments of the new issue.

At June 30, 2007 the outstanding principal of the March 1, 1999, bonds was $7.6 million. U.S. Treasury obligations of $7.8 million, purchased by the escrow agent, were pledged for the retirement of these bonds.

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 $63.9 million were considered defeased at June 30, 2007. The bonds include the 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 2007, the State issued $4.9 million of Water, Waste Disposal and Pollution Abatement Facilities General Obligation Bonds Series 2006C to defease Series 2000A Water, Waste Disposal and Pollution Abatement Facilities General Obligation Bonds resulting in an economic present value savings of $.8 million and a reduction of $.9 million in future debt service. The bonds bear interest at rates ranging from 4.13% to 4.63% and mature in 2033. Proceeds from this refunding were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments of the refunded 2000A Series bonds. As of June 30, 2007 the balance in this escrow account was $ 4.7 million.

During fiscal year 2007, the State issued a total of $242.9 million of Higher Education General Obligation Bonds Series 2007, consisting of $99.6 million Series 2007A, $126.8 million Series 2007B, and $16.4 million Series 2007C, to defease College Savings General Obligation Bonds for the following Series: 1991A, 1991B, 1991C, 1995, 1996A, 1996B, 1996C (for 2008, 2009, 2010 and 2014 maturities only), 1997A (for 2010, 2014, 2015, 2016 and 2017 maturities only), 1997B (for 2008, 2014 and 2015 maturities only) and 1998A (portions of the 2008, 2009, 2013, and 2014 maturities only, consisting of capital appreciation bonds). This refunding resulted in an economic present value savings of $10.6 million and a reduction of $30.1 million in future debt service. The bonds bear interest at rates ranging from 4.00% to 5.25% and mature in 2023, 2029 and 2010, respectively. Proceeds from this refunding were deposited in an irrevocable trust with an escrow agent to provide for future debt service payments of the refunded 1991A, 1991B, 1991C, 1995, 1996A, 1996B, 1996C, 1997A, 1997B and 1998A for the applicable years. As of June 30, 2007 the balance in this escrow account was $102.7 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, 2007 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 $4.7 million at June 30, 2007. The Series 1996A and B and Series 2000A bonds currently have excess earnings and arbitrage rebate provisions. The Series 2002A, 2004A, 2005A and 2006A and B currently have arbitrage rebate provisions only.

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, 2007.

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, 2007 the present value of excess subsidy was approximately $14.8 million. In the event the cost of long-term bonds exceeds the reserved loan rates, ADFA would utilize this subsidy to limit losses.

(10) Leases

Capital Lease Receivables

In July of 2006, a capital lease receivable was entered into with Arkansas Development Finance Authority, a discretely presented component unit of the State, and Arkansas Department of Economic Development, a department of the State of Arkansas, as lessors, and Drew Foam Companies, Inc. as lessee. The capital lease term continues until June 30, 2024. The amount of the lease is $750,000, to include land with all buildings, structures and other improvements now or in the future. The capital lease bears no interest rate and the future lease payments below represent only principal payments. There are no contingent rentals or unearned income at June 30, 2007.

Future amounts required to pay principal as of June 30, 2007 are as follows (expressed in thousands):

		Principal
Year ending June 30:		
2008	$	30
2009		30
2010		46
2011		46
2012		46
2013-2017		230
2018-2022		230
2023-2024		92
Total	$	750

Capital Lease Obligations

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 long-term obligations 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	$ 233,405	$ 10,682
Machinery and equipment	1,019	33,317
Less: Accumulated depreciation	(61,560)	(15,208)
Total	$ 172,864	$ 28,791

Future minimum commitments under operating and capital leases by fund type as of June 30, 2007 were as follows (expressed in thousands):

	Capital leases	
	Governmental activities	Business-type activities
Year ending June 30:		
2008	$ 1,538	$ 8,384
2009	1,234	6,333
2010	852	4,748
2011	304	3,462
2012		1,957
2013-2017		9,344
2018-2022		1,818
2023-2027		1,476
2028-2032		1,476
2033-2037		861
Total minimum lease payments	3,928	39,859
Less: Interest	(408)	(10,122)
Present value of future minimum lease payments	$ 3,520	$ 29,737

	Capital leases with component unit	
	Governmental activities	Business-type activities
Year ending June 30:		
2008	$ 14,942	$ 227
2009	12,958	226
2010	12,951	225
2011	12,935	227
2012	10,853	224
2013-2017	42,890	225
2018-2022	32,819	
2023-2027	20,938	
2028-2032	19,830	
2033-2037	10,795	
2038-2042	3,114	
Total minimum lease payments	195,025	1,354
Less: Interest	(83,575)	(180)
Present value of future minimum lease payments	$ 111,450	$ 1,174

		Operating leases			
		Governmental activities		Business-type activities
Year ending June 30:				
2008	$	25,689	$	13,657
2009		19,830		10,002
2010		13,189		6,181
2011		10,332		4,296
2012		6,471		3,189
2013-2017		16,082		11,885
2018-2022		12,670		4,407
2023-2027		28,810		4,386
Total minimum lease payments	$	133,073	$	58,003
Total rental expenditure/ expense (2007)	$	30,439	$	18,377

(11) Fund Balance/Net Assets

Deficit Net Assets

The Workers' Compensation Commission (WCC) had a $55 million deficit in net assets as of June 30, 2007. 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. However, the threshold at which the agency's Permanent and Total Disability Trust Fund takes over indemnity payments was not changed, and has remained static at $75,000 since 1981, although the state maximum total disability rate has increased over 300% since that time. This increased payout of claims, without a concomitant increase in the takeover threshold and without any increase in the premium tax that funds the agency, has led to the deficit. A major step towards eliminating the deficit was taken during the latest legislative session with the passage of Act 1599 of 2007, which now sets the threshold to 325 times the maximum total disability rate, or $169,650 for 2008.

(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. Capitol, Suite 400
Little Rock, AR 72201-1015
(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	343	695	1	1	1	74
Contribution rates for the fiscal year ended June 30, 2007 (% of covered payroll):	14.00%	4.00%- 22.00%	12.90%	22.00%	12.00%	18.00%
Legal or contractual maximum rates	14.00%	22.00%	12.90%	22.00%	12.00%	18.00%
Covered Payroll (in thousands)	$ 2,191,000	$ 1,303,000	$ 118,400	$ 24,000	$ 17,330	$ 3,367
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)	$ 331,891	$ 163,224	$ 15,925	$ 9,891	$ 5,182	$ 1,709
Contributions made (in thousands)	$ 331,891	$ 163,224	$ 15,925	$ 11,468	$ 5,182	$ 1,842

The annual required contribution amounts and the percentage contributed is determined by the annual actuarial valuation as set forth in Arkansas Code for Teacher and APERS. The current year and each of the two preceding years are as follows (expressed in thousands):

Fiscal year	Plan	Annual Pension Cost	Percentage contributed
2007	Teacher	$ 331,891	100%
	APERS	$ 163,224	100%
2006	Teacher	$ 311,714	100%
	APERS	$ 158,152	100%
2005	Teacher	$ 286,443	100%
	APERS	$ 135,027	100%

The State Police plan consists of both a contributory plan and a noncontributory plan. The contributory plan has been in effect since the beginning of the plans, and is available to all persons who became members prior to January 1, 1978. The noncontributory plan was created by Act 793 of 1977 and was effective January 1, 1978. It automatically applied to all members after that date. All non-retired members of the State Police are now covered by noncontributory benefits. Act 1071 of 1997 created a second tier of benefits for new hires and prior members electing the new program. Act 1071 of 1997 also provided additional funding for State Police. Through June 30, 2003, the funding provided by Act 1071 enabled the Retirement System to meet the level percent-of-payroll financing objective. Act 1071 of 1997 was further amended by Act 1023 of 2005 to extend the maximum amortization period for unfunded actuarial accrued liabilities to an open 30-year period.

APERS consists of both a contributory plan and a noncontributory plan. The contributory plan has been in effect since the beginning of the plan, and is available to all persons who became members prior to January 1, 1978. The noncontributory plan was created by Act 793 of 1977, and was effective January 1, 1978. It automatically applied to all members hired between January 1, 1978, and June 30, 2005. Act 2084 of 2005 requires that beginning July 1, 2005; all new hires become APERS members and are required to contribute 5% of their earnings to APERS. 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, with one exception. Those who became members before July 1, 1971, can contribute only on the first $7,800 of their annual salary. 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 2007 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 the Teacher plan. As required by Act 1194 of 1995, the State increased the local state supported school appropriation 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)	$	9,852
Interest on net pension obligations		137
Adjustment to annual required contributions		(98)
Annual pension cost		9,891
Contributions made		11,466
Change in net pension obligations (asset)		(1,575)
Net pension obligation (asset), beginning of year		2,107
Net pension obligation (asset), end of year	$	532

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)	$	1,732
Interest on net pension obligations		(23)
Annual pension cost		1,709
Contributions made		1,842
Change in net pension obligations (asset)		(133)
Net pension obligation (asset), beginning of year		(195)
Net pension obligation (asset), end of year	$	(328)

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, 2007 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	6/30/2007	$	15,925	100.00%	$	
	6/30/2006		15,952	100.00%		
	6/30/2005		16,060	100.00%		
State Police	6/30/2007		9,891	115.93%		532
	6/30/2006		9,984	96.60%		2,107
	6/30/2005		9,846	79.90%		4,574
Judicial	6/30/2007		5,182	100.00%		
	6/30/2006		4,905	100.00%		
	6/30/2005		4,775	100.00%		
District Judge	6/30/2007		1,732	106.35%		(328)
	6/30/2006		1,858	110.00%		(195)
	6/30/2005		357	102.50%		(8)

(1) District Judge plan began on 01/01/2005. Therefore, only partial information is reported for fiscal year ending 6/30/05.

Historical trend information designed to provide information about each Systems' progress made in accumulating sufficient assets to pay benefits when due is required supplementary information. Required supplementary information is located immediately following the notes of the State's financial statements.

(c) Actuarial Assumptions

	Teacher	APERS	Highway	State Police	Judicial	District Judge
Actuarial valuation date	June 30, 2007	June 30, 2007	June 30, 2007	June 30, 2007	June 30, 2007	June 30, 2007
Actuarial cost method	Entry Age	Entry Age	Entry Age	Entry Age	Entry Age	Entry Age
Amortization method	Level Percentage of Payroll, Open	Level Percentage of Payroll, Open	Level Percentage of Payroll, Open	Level Percentage of Payroll, Open	Level Percentage of Payroll, Open	(a)
Remaining amortization period	19.1 years	18 years	2.7 years	30 years	30 years	(b)
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	Market Value (c)
Actuarial assumptions:						
Inflation rate	4.00%	4.00%	3.50%	4.00%	3.00%	4.00%
Investment rate of return*	8.00%	8.00%	8.00%	7.75%	7.50%	8.00%
Projected salary increases*	4.00%-10.10%	4.70%-9.80%	4.75%-11.25%	3.75%	4.00%	4.70%-9.80%
Postretirement benefit increases	3.00% Simple	3.00% Compounded	3.00% Compounded	3.00% Compounded	(d)	(e)

* Includes assumed inflation.

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

(b) 18 years, Open-liability after December 31, 2004. 28 years, Closed-liability before January 1, 2005.

(c) District Judges changed the asset valuation method from four year smoothing market to market value for the year ended June 30, 2007.

(d) 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, retiree's - 3.0% compounded.

(e) 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 $348.6 million at June 30, 2007.

(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), the Teachers Insurance Annuity Association – College Retirement Equities Fund (TIAA-CREF), the Fidelity Fund, or other approved plans.

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 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 primarily include VALIC, 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, Fidelity Fund or other retirement account. These amounts are 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 2007, total employer contributions to VALIC, TIAA-CREF, and Fidelity were $83.2 million while contributions to other plans were $.6 million. Employee contributions to VALIC, TIAA-CREF and Fidelity were $72.1 million while contributions to other plans were $.5 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 $92,091 in 2007.

(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	$	60,970
Noncurrent assets		256,467
Total assets		317,437
Liabilities		
Current liabilities		6,640
Noncurrent liabilities		74,283
Total liabilities		80,923
Net Assets		
Unrestricted		236,514
Total net assets	$	236,514

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

		Construction Assistance Revolving Loan Fund
Licenses, permits, and fees	$	2,240
Investment earnings (pledged against bonds)		9,474
Amortization expense		(140)
Other operating expense		(4,157)
Operating income (loss)		7,417
Nonoperating revenue/expenses:		
Grants and contributions		8,607
Transfers to other funds		(864)
Change in net assets		15,160
Total net assets, beginning of year		221,354
Total net assets, end of year	$	236,514

Condensed Statement of Cash Flows (expressed in thousands):

		Construction Assistance Revolving Loan Fund
Net cash provided (used) by:		
Operating activities	$	(13,347)
Noncapital financing activities		2,397
Investing activities		6,248
Net increase (decrease)		(4,702)
Cash and cash equivalents, beginning		64,604
Cash and cash equivalents, ending	$	59,902

(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.

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

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:

	2007	2006
Claim liability, beginning of year	$ 21,250	$ 20,000
Incurred Claims:		
Provision for insured events of current year	191,446	139,471
Total incurred claims and claim adjustment expense	191,446	139,471
Payments:		
Claims payments attributed to insured events of current year	193,021	138,221
Total Payments	193,021	138,221
Claim liability, end of year	$ 19,675	$ 21,250

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 that includes 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 2007. 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. Effective July 1 of 2005, Act 1842 of 2005 authorizes the Department of Education to pay an additional matching amount of $61 per active insured employee to the Employee Benefits Division, up to $35 million per fiscal year.

Basic group term life insurance and accidental death and dismemberment coverage are offered to all public school employees. 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:

	2007	2006
Claim liability, beginning of year	$ 21,750	$ 17,000
Incurred Claims:		
Provision for insured events of current year	236,300	220,170
Total incurred claims and claim adjustment expense	236,300	220,170
Payments:		
Claims payments attributed to insured events of current year	213,885	198,823
Claims payments attributed to insured events of prior years	21,415	16,597
Total Payments	235,300	215,420
Claim liability, end of year	$ 22,750	$ 21,750

(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 total value. Due to market conditions, very limited availability, and excessive cost, total earthquake coverage is limited to $100 million in all earthquake zones. 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.

The 2007 legislature upheld a Claims Commission award for $1.4 million above policy limits for a UCA auto accident. If a court awarded an amount in excess of policy limits, then a claim would be directed to the State Claims Commission.

(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, 2007 is $1.8 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):

	2007	2006
Claim liability, beginning of year	$ 70,317	$ 68,698
Incurred Claims:		
Provision for insured events of current year	16,001	16,190
Increase (decrease) in provision for insured events of prior years	73	(3,871)
Total incurred claims and claim adjustment expense	16,074	12,319
Payments:		
Claims payments attributed to insured events of current year	3,842	4,232
Claims payments attributed to insured events of prior years	7,661	6,468
Total Payments	11,503	10,700
Claim liability, end of year	$ 74,888	$ 70,317

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 (the indemnity threshold) for death or permanent total disability to be paid by the employer or its insurance carrier. Act 1599 of 2007 amended § 11-9-502 to move the indemnity threshold up to 325 times the maximum total disability rate, or $169,650 for 2008. All indemnity benefits in excess of the threshold are the liability of the agency. Accordingly, the Death and Permanent Total Disability Trust Fund was established, in part, to administer this liability. The taxation rate is determined by the Workers' Compensation Commission in accordance with Arkansas Code 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):

	2007	2006
Claim liability, beginning of year	$ 194,221	$ 184,372
Incurred Claims:		
Provision for insured events of current year	11,589	10,612
Increase (decrease) in provision for insured events of prior years	(21)	1,780
Increase due to decrease in discount period	9,406	8,939
Total incurred claims and claim adjustment expense	20,974	21,331
Payments:		
Claims payments attributed to insured events of prior years	12,437	11,482
Total Payments	12,437	11,482
Claim liability, end of year	$ 202,758	$ 194,221

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 Workers' Compensation 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.

Act 1415 of 2007 amended Arkansas Code Annotated § 11-9-525 by prohibiting claims for second injuries being made under the provisions of § 11-9-525 after January 1, 2008. In effect, this act has eliminated the Second Injury Fund with regard to claims made after January 1, 2008.

Changes in the claims liability for the Second Injury Trust Fund during the current and prior fiscal years are as follows (expressed in thousands):

	2007	2006
Claim liability, beginning of year	$ 20,882	$ 19,264
Incurred Claims:		
Provision for insured events of current year	2,813	2,830
Increase (decrease) in provision for insured events of prior years	(1,598)	1,068
Increase due to decrease in discount period	976	884
Total incurred claims and claim adjustment expense	2,191	4,782
Payments:		
Claims payments attributed to insured events of prior years	2,723	3,164
Total Payments	2,723	3,164
Claim liability, end of year	$ 20,350	$ 20,882

(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.

	2007	2006
Claim liability, beginning of year	$ 15,265	$ 13,115
Incurred Claims:		
Provision for insured events of current year	4,503	8,030
Total incurred claims and claim adjustment expense	4,503	8,030
Payments:		
Claims payments attributed to insured events of current year	5,778	5,880
Total Payments	5,778	5,880
Claim liability, end of year	$ 13,990	$ 15,265

(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):

	2007	2006
Claim liability, beginning of year	$ 9,518	$ 11,058
Incurred Claims:		
Provision for insured events of current year	96,732	89,587
Increase (decrease) in provision for insured events of prior years	(8)	(1,594)
Total incurred claims and claim adjustment expense	96,724	87,993
Payments:		
Claims payments attributed to insured events of current year	86,335	80,379
Claims payments attributed to insured events of prior years	9,360	9,154
Total Payments	95,695	89,533
Claim liability, end of year	$ 10,547	$ 9,518

The universities purchase specific reinsurance to reduce their exposure on large claims. Under the specific arrangements, 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

Pursuant to Arkansas Code Annotated § 12-8-210, the Arkansas State Police offers active uniformed members and retirees 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, 2007, is $512 per budgeted position.

The Plan Administrator offers the following employee benefits to Arkansas State Police uniformed employees: a major medical plan that includes prescription drug benefits, a health savings account, and mental health benefits. Arkansas State Police offers a cafeteria plan that includes a flexible medical spending account and a dependent daycare/elder care account. In addition, Arkansas State Police uniformed employees are given the option to participate in a deferred compensation plan. A stand alone vision and dental plan as well as a comprehensive group term life plan are available with the employee paying all premiums.

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, 2007, are as follows (expressed in thousands):

	2007	2006
Claim liability, beginning of year	$ 1,576	$ 1,009
Incurred Claims:		
Provision for insured events of current year	7,194	8,171
Increase (decrease) in provision for insured events of prior years	935	1,191
Total incurred claims and claim adjustment expense	8,129	9,362
Payments:		
Claims payments attributed to insured events of current year	7,238	7,219
Claims payments attributed to insured events of prior years	765	1,576
Total Payments	8,003	8,795
Claim liability, end of year	$ 1,702	$ 1,576

(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, 2007, has been set at $350 per budgeted position.

As of June 30, 2007 there were approximately 7,620 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, 2007 the state paid an aggregate amount for active employees, COBRA participants, and retirees of $191.4 million.

Arkansas State Police

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. Health care benefits are funded by employer and retired employee contributions and Act 1500 of 2001, which 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.

As of June 30, 2007, the Plan consisted of 335 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, 2007, the Arkansas State Police Health Plan paid an aggregate amount for active employees, COBRA participants, and retirees of $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 $7 million for the payment of such claims. For other cases where it is reasonably possible that a loss will be incurred and the amount of the potential judgment can be reasonably estimated, the Attorney General and other counsel estimate the liability to be approximately $21 million.

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

	2007	2006
Litigation, beginning of year	$ 50,842	$ 10,249
Incurred litigation	1,654	46,155
Litigation payments	(45,537)	(5,562)
Litigation, end of year	$ 6,959	$ 50,842

On November 21, 2002, the Arkansas Supreme Court affirmed a lower court ruling that the current Arkansas school-funding system was 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 Legislature 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 continues 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 in fiscal year 2006 and to $5,620 for fiscal year 2007.

On April 26, 2007, the Masters filed their Final Report that the General Assembly addressed public school facilities, foundation-funding aid, growth funding, categorical funding, and teacher salaries. In the Second Extraordinary Session of 2006 the General Assembly appropriated an additional $50 million dollars for facilities with a "carry-forward" provision. Facilities projects include 301 facilities improvement projects and 213 new construction or additions to academic facilities. The estimated completion date for all projects is March 2008. The State's participation in these projects is $122 million. The Academic Facilities Partnership Program is for future academic facilities construction with state assistance of $300 million having been approved and comprised of $48 million in fiscal year 2007, $185 million in fiscal year 2008, and $67 million in 2009. Act 1237 of 2007 appropriated $456 million for public school academic facilities in addition to $150 million available from unspent fund balances and $35 million for each year of the next biennium. Each School District in the state as well as the Facilities Commission is now required to adopt a ten-year master plan for school facilities and to prioritize needs. Guidelines and a *Public School Academic Facility Manual* have been adopted. Regarding the Academic Facilities Wealth Index, Act 727 of 2007 now provides some state assistance to every school district based on actual need for facilities in the individual school districts as well as the school district's ability to pay. Act 995 of 2007 provides state loans for facility construction in school districts with rapid enrollment growth. Act 1021 of 2007 authorized the Facilities Commission to issue $750 million in bonds to finance additional academic construction. Act 996 of 2007 provides a mechanism for the State to declare a school district in academic-facilities distress with resulting state sanctions.

The Masters found that per student foundation funding had been increased for these school years by Act 19 of the First Extraordinary Session of 2006 and Act 272 of 2007. The funding for 2007-2008 is $5,719 and increases to $5,789 for 2008-2009. Act 272 of 2007, in addition, authorizes the State to make up the difference if the actual school tax collection in the school district is less than the formula of the uniform rate of taxation (25 mills) multiplied by 98% of the assessed value of property in the school district. This assures that basic per-student foundation funding is being met. By Act 273 of 2007, the General Assembly added per student funding in excess of the amount considered adequate. The additional amounts are $51 for school year 2007-2008 and $36 for school year 2008-2009.

In 2006, the School Districts raised an issue about the lack of contemporaneous funding for school districts experiencing rapid growth in student enrollment. The Masters found that Acts 20 and 21 of the First Extraordinary Session of 2006 and Act 461 of 2007 dealt with this issue by providing "declining enrollment funding" to ease the burden of ongoing expenses where the student population declines. Act 461 also increases per-student funding for districts which have rapid student growth. The intent of the General Assembly was to make the appropriate adjustments as quickly as possible.

Concerning categorical funding, the Masters found that Act 272 of 2007 increased special-needs funding considerably. Funding for students placed in alternative learning environments increased from $3,750 in school year 2006-2007 to $4,063 in school year 2007-2008. Foundation funding for English language learners increased from $195 to $293 per learner in 2007-2008, as recommended by the Adequacy Study Oversight Committee. State funding for students qualifying for national school-lunch assistance was increased based on the percentage of qualified students.

For teacher salaries the Masters found that a report of the Adequacy Study Oversight Subcommittee, as amended and adopted by the full House and Senate Education Committees on January 22, 2007, ranks Arkansas second in average teacher pay among the six surrounding states and ninth among sixteen states represented by the Southern Regional Education Board. They also found that Act 272 of 2007 raised the minimum teacher salaries depending on the academic degree and experience of the teacher.

The Masters further noted that Act 1590 of 2007 permits the continuation of using excess national school lunch money to supplement certain teacher salaries, which was first enacted by Act 30 of the First Extraordinary Session of 2006. In addition, they found that Act 1044 of 2007 allows for a continuation of incentives, first enacted by Act 101 of the Second Extraordinary Session of 2003, to attract and retain teachers who teach in high-priority districts. It provides annual bonuses of $4,000, $3,000, and $2,000 for such teachers. The Masters stated that the parties agree there is no remaining issue with respect to teacher retirement and that the teacher-retirement contribution increase has been funded.

The Masters emphasize that Act 28 of the First Extraordinary Session of 2006 requires school districts to file annual reports with the Department of Education concerning daily expenditures, fund balances, and funding sources as well as an explanation of the reasons for maintaining fund balances. The Masters emphasized that this "monitoring legislation … should help in exercising the constant vigilance to ensure the constitutional goal is met."

The Supreme Court adopted the Masters' Interim Report and Final Report and held that the General Assembly has now taken the required and necessary legislative steps to assure that the school children of this state are provided an adequate education and a substantially equal educational opportunity. In this court's view, Act 57 of the Second Extraordinary Session of 2003, requiring annual adequacy review by legislative committees, and Act 108 of the Second Extraordinary Session of 2003, establishing education as the State's first funding priority, are the cornerstones for assuring future compliance. On May 31, 2007, the Supreme Court of Arkansas concluded that the State's system of public-school financing is now in constitutional compliance and directed the clerk of the court to issue the mandate in this case forthwith.

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, 2007 the amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the State expects such amounts, if any, to be immaterial.

(c) Loan Forgiveness

In compliance with terms of the Little Rock School District desegregation case settlement agreement, the State had loaned $20,000,000 to the Little Rock School District (LRSD) between the dates of July 1, 1989, and July 1, 1999. On March 19, 2001, the State and the Little Rock School District executed an agreement in which $15,000,000 of the loans made to the LRSD was immediately forgiven and the remaining $5,000,000 would be forgiven if the LRSD obtained complete unitary status and release from federal court supervision on or before July 1, 2004. The remaining loans were 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, 2007 the State's loan receivable is $4.4 million and is recorded in the General Fund.

(d) Construction and Other Commitments

At June 30, 2007 the State has commitments of approximately $866.5 million for construction and other contracts and approximately $43.6 million for professional service contracts. The Arkansas Natural Resources Commission has approved $39 million in loans for projects for water systems, waste water, or pollution abatement that have not been disbursed at June 30, 2007.

(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, 2007 total bonds guaranteed by the AEDC Bond Guaranty Reserve Fund were approximately $54.5 million. In addition, AEDC has committed to guarantee approximately $5.6 million in industrial development revenue bonds that have not closed at June 30, 2007. As of June 30, 2007 two loans underlying these issues were in default. The aggregate principal amount outstanding under such agreements on such date was approximately $5.9 million. AEDC along with the component unit ADFA have assumed this debt along with the related assets with each entity receiving $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 are required to be distributed to the Tobacco Settlement Debt Service Account, and the amounts remaining are 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.

In fiscal year 2006, the Arkansas Development Finance Authority (the Authority) issued $36,775,000 in Tobacco Settlement Revenue Bonds. The Authority has made the proceeds of the bonds available to the University of Arkansas Board of Trustees (UA Board) to fund an expansion to the Arkansas Cancer Research Center (ACRC) on the campus of the University of Arkansas for Medical Sciences (UAMS). The bonds have an approximate yield to maturity of 4.77% to 5.10% and principal and accumulated interest are payable beginning in 2021 through 2031 for $22,158,000 of serial bonds and beginning in 2036 through 2046 for $14,617,000 of term bonds. Funds received from the Arkansas Tobacco Settlement Funds Act of 2000 are pledged for debt service and are the primary source of payment for the bonds. In accordance with a Loan Agreement dated June 1, 2006, between the UA Board and the Authority, the UA Board will be required to make debt service payments on the Series 2006 bond issue in the event of a shortfall in tobacco settlement revenues. However, no such payments will be made unless the Debt Service Revenues are insufficient to make such payments. Management believes the Debt Service revenues will be sufficient to service the entire principal and interest due. The latest *Global Insights USA, Inc.* report, prepared in August 2006, on the *Forecast of U.S. Cigarette Consumption (2004-2046)* indicates that tobacco consumption in 2046 is expected to decline by 54% from the 2003 level. For fiscal year 2003, Arkansas received $60,067,457 from the Tobacco Settlement Fund. Using the 54% decline from above, Arkansas should receive approximately $27.6 million in 2046 with the first $5 million dedicated to pay the debt service on the above bond issue. If Debt Service Revenues would have been considered insufficient at June 30, 2007 the University would have incurred a liability of $5,850,000 related to issue. This amount includes draw down of funds related to the project, issuance costs, discounts, accreted interest, and other expenses related to the issue.

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 earned in fiscal year 2007. In fiscal year 2007, the State recorded a total of $50.7 million with $5 million being transferred to Arkansas Development Finance Authority 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 $1.4 million for the payment of the claim.

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

	2007	2006
Litigation, beginning of year	$ 1,206	$
Incurred litigation	1,399	1,206
Litigation payments	(1,206)	
Litigation, end of year	$ 3,811	$ 1,206

(16) Subsequent Events

Primary Government

Governmental Activities

A lawsuit challenging the constitutionality of Arkansas Code Annotated § 26-51-404(b)(5) was filed on September 18, 2007, in *Richard B. Willey et al. v. State of Arkansas and Department of Finance and Administration,* Pulaski County Circuit Court, Case No. CV 07-12322. Section 26-51-404(b)(5) exempts from Arkansas income tax the interest on obligations of the United States and the State of Arkansas. There is no corresponding exemption for interest on obligations of other states. The plaintiff alleges that this treatment violates the commerce clause and the equal protection clause of the United States and Arkansas constitutions. A lawsuit involving similar issues is pending in the United State Supreme Court, upon petition for *certiorari* by the State of Kentucky, in *Department of Revenue of Kentucky v. George W. Davis,* Docket No. 06-666. Oral arguments before the United States Supreme Court were heard on November 5, 2007. At this time, no decision has been issued. The progression of the Arkansas case will depend on the outcome of the US Supreme Court case.

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. In August of 2007, one loan agreement, in the amount of $5.4 million, was in default.

Business-Type Activities

Henderson State University

On April 30, 2007 the Henderson State University Board of Trustees authorized the administration to proceed with the planning of a new Student Recreation Center, including all necessary architectural work and the details of financing the project through the sale of revenue bonds. A student fee of $125 per student per semester will be assessed beginning in the fall of 2007 to cover the cost of debt service and operating costs of the new center. The University issued $8 million in bonds in November 2007.

University of Arkansas for Medical Sciences

On December 15, 2006, The University of Arkansas for Medical Sciences (UAMS) entered into a Memorandum of Understanding (MOU) with the Arkansas State Hospital (ASH) and the Arkansas Department of Health (ADH) to expand the capacity of the new UAMS power plant, which was under construction, to meet their power needs more efficiently. The agreed-upon cost for ASH and ADH was $8.3 million and $2.4 million, respectively, which was to be paid in full on August 31, 2007. The ASH and ADH were unable to obtain funding to pay the $8.3 million and $2.4 million. To provide funding to complete the power plant, UAMS borrowed $8.3 million via a capital equipment lease with a term of 180 months and is financing the $2.4 million from internal funds. On August 29, 2007, the second amendment to the MOU provided for monthly payments to UAMS of $62,691 by ASH for 180 months at a 4.4% interest rate and $26,090 by ADH for 120 months at a 6% interest rate, rather than payment in full on August 31, 2007.

University of Arkansas, Fayetteville

On May 25, 2007, the Board of Trustees of the University of Arkansas adopted a resolution expressing its intention to finance the construction of various capital projects. The amount of the bond authorized was not to exceed $47 million. On October 2, 2007, the University closed on the Series 2007A Various Facilities Revenue Bonds. The bonds have a par value of $45 million and will be used to finance construction of new student housing.

Arkansas State University

In September 2007, the University accepted a grant of $14.5 million from the Donald W. Reynolds Foundation that provided funds to build a facility for the College of Nursing and Health Professions at the Jonesboro campus.

Black River Technical College

On July 1, 2007, the College executed a contract of $189,000 for architectural services for construction of an Academic Complex on the Paragould campus. Additionally, a construction contract was awarded on July 11, 2007, in the amount of $682,000 for renovation and construction of an Auto Body and Auto Technology Facility.

War Memorial Stadium

On November 9, 2007, the War Memorial Stadium Commission authorized the issuance of $800,000 in revenue bonds to fund renovations to the southeast concourse at War Memorial Stadium. The bonds date of issuance will be April 1, 2008.

Component Unit

Arkansas Development Finance Authority

(i) In July 2007, the Arkansas Development Finance Authority executed a bond purchase agreement and agreed to sell $13.2 million in bonds as part of the State Facilities Revenue Bonds Series 2007 bond issue.

(ii) In September 2007, the Arkansas Development Finance Authority executed a bond purchase agreement and agreed to sell $40.8 million in Single Family Mortgage Revenue Bonds, Series 2007 D.

(iii) In October 2007, the Arkansas Development Finance Authority terminated its only outstanding interest rate swap agreement, paying a $336,000 termination fee.

Arkansas®

THE NATURAL STATE

Required Supplementary Information

GREAT SEAL OF THE STATE OF ARKANSAS

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	2007	6/30/2007	$ 1,132,300	$ 1,145,900	$ 13,600	99.0%	$ 118,400	12.0%
	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%
State Police	2007	6/30/2007	233,130	307,660	74,530	76.0%	24,000	311.0%
	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%
Judicial	2007	6/30/2007	159,590	157,370	(2,220)	101.0%	17,330	
	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%
District Judge	2007	6/30/2007	12,582	24,387	11,805	51.6%	3,367	350.6%
	2006	6/30/2006	10,141	24,944	14,802	40.7%	3,313	446.7%
	2005	6/30/2005	7,570	24,134	16,564	31.4%	3,222	514.1%

Actuarial assumptions are presented in Note 12.

Required Supplementary Information
Schedule of Expenditures – Budget and Actual
General Fund
For the Year Ended June 30, 2007
(Expressed in thousands)

	Budgeted amounts Original	Budgeted amounts Final	Actual amounts	Variance with final budget – positive (negative)
Expenditures *				
Current:				
General government	$ 5,358,911	$ 5,346,848	$ 1,647,604	$ 3,699,244
Education	3,498,220	3,539,283	3,217,923	321,360
Health and human services	4,797,226	4,780,656	4,579,810	200,846
Law, justice, and public safety	784,059	798,944	601,824	197,120
Recreation and resource development	363,820	372,439	231,610	140,829
Regulation of business and professionals	187,894	192,267	112,983	79,284
Transportation	511,450	510,006	288,875	221,131
Debt service	171,304	150,634	124,384	26,250
Capital outlay	930,434	934,409	547,517	386,892
Total expenditures	$ 16,603,318	$ 16,625,486	$ 11,352,530	$ 5,272,956

* 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, 2007

(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	$	11,135,487
Less non-cash federal grant expenditures		(427,127)
Less non appropriated expenditures		(3,670,549)
Plus expenditures eliminated or reclassed as transfers out for reporting purposes		3,763,238
Refunds treated as reduction of revenue for financial statements purposes		465,391
New capital leases recorded in appropriated funds		(995)
Basis of accounting differences		87,085
Total statutory basis expenditures General Fund	$	11,352,530

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

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Premium and Investment Revenues:										
Premium Income	$ 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	$ 230,141,726
Investment Interest Income	69,705	89,879	69,154	81,458	32,734	68,853	233,550	586,801	1,570,234	2,352,048
Totals	$ 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	$ 232,493,774
Unallocated Expenses:										
Operating Costs	$ 26,018	$ 78,701	$ 201,512	$ 153,510	$ 317,988	$ 675,968	$ 905,564	$ 1,234,945	$ 1,175,832	$ 1,703,938
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	$ 1,703,938
Estimated incurred claims and expenses, end of fiscal year	$ 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	$ 236,300,587
Paid (cumulative) claims and claims adjustment expenses:										
End of Fiscal Year	N/A	N/A	N/A	N/A	N/A	34,316,834	148,172,038	181,727,802	198,419,782	213,550,587
One Year Later	N/A	N/A	N/A	N/A	N/A	35,916,834	163,888,838	198,426,902	219,834,832	
Two Years Later	N/A	N/A	N/A	N/A	N/A	N/A	164,172,038	198,678,502		
Reestimated incurred claims and expenses:										
End of Fiscal Year	N/A	N/A	N/A	N/A	N/A	35,916,834	164,172,038	198,727,802	220,169,782	236,300,587
One Year Later	N/A	N/A	N/A	N/A	N/A	35,916,834	164,172,038	198,727,802	220,169,782	
Two Years Later	N/A	N/A	N/A	N/A	N/A	N/A	164,172,038	198,727,802		
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	43,632	44,797	45,463	47,268	48,846

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.

Note 2: Because the Public School Employee Health and Life Benefit Plan is not restating Claims IBNR each year, the reestimated incurred claims and expenses remain the original estimate.

N/A: Information not available

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

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Premium and Investment Revenues:										
Premium Income	$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	$ 7,536,378
Investment Interest Income	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	6,098,515
Totals	$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	$13,634,893
Unallocated Expenses:										
Operating Costs (2)	$ 185,724	$ 171,410	$ 192,536	$ 194,940	$ 316,858	$ 334,881	$ 321,328	$ 324,698	$ 123,637	$ 129,292
Estimated incurred claims and expenses, end of fiscal year	$ 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	$11,605,274
Paid (cumulative) claims and claims adjustment expenses:										
End of Fund Year	0	0	0	0	0	0	0	0	0	0
One Year Later	0	0	0	0	0	55,000	0	12,500	45,000	
Two Years Later	0	0	25,000	0	0	55,000	60,000	254,500		
Three Years Later	0	0	25,238	38,627	8,844	125,695	155,312			
Four Years Later	156,146	143,853	153,081	196,865	193,912	492,077				
Five Years Later	571,656	534,808	405,983	645,390	581,617					
Six Years Later	1,149,867	1,059,501	753,768	1,210,751						
Seven Years Later	1,781,009	1,681,033	1,195,515							
Eight Years Later	2,449,075	2,391,608								
Nine Years Later	3,181,112									
Reestimated incurred claims and expenses:										
End of Fund Year	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	3,606,231
One Year Later	6,369,002	6,847,954	4,025,027	4,152,446	4,823,740	6,632,484	7,407,958	10,855,431	6,578,501	
Two Years Later	7,185,507	7,422,804	5,064,167	5,528,283	8,885,376	9,082,661	11,023,365	13,658,153		
Three Years Later	7,387,495	8,043,579	5,102,472	8,732,250	13,013,925	11,151,447	12,323,811			
Four Years Later	8,670,321	8,861,604	6,741,258	9,198,291	12,753,443	11,454,147				
Five Years Later	9,515,973	10,103,017	9,223,482	11,644,437	11,864,813					
Six Years Later	10,054,144	11,379,037	8,776,469	12,491,733						
Seven Years Later	11,563,769	12,465,964	9,040,233							
Eight Years Later	11,508,678	12,544,426								
Nine Years Later	11,761,552									
Increase (decrease) in estimated incurred claims and expense from end of policy year	5,412,363	5,080,508	1,771,545	4,704,291	4,457,803	3,746,837	4,371,501	4,314,908	(4,033,845)	(7,999,043)
Number of fund participants receiving benefits at end of year	1,066	1,136	1,229	1,280	1,293	1,336	1,347	1,324	1,336	1,342

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 which were paid from the Workmen's Compensation Trust Fund.

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

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Premium and Investment Revenues:										
Premium Taxes	$ 4,731	$ 500	$ 1,000	$ 466	$ 4,982	$ 1,784,175	$ 1,186,860	$ 1,294,908	$ 3,620,160	$ 2,763,390
Interest Income	769,172	704,237	662,251	659,587	344,714	142,761	80,943	60,958	74,445	101,278
Totals	$ 773,903	$ 704,737	$ 663,251	$ 660,053	$ 349,696	$ 1,926,936	$ 1,267,803	$ 1,355,866	$ 3,694,605	$ 2,864,668
Unallocated Expenses:										
Operating Costs (2)	$ 511,615	$ 527,391	$ 534,912	$ 546,985	$ 464,976	$ 480,666	$ 526,768	$ 544,817	$ 584,142	$ 583,796
Estimated incurred claims and expenses, end of fiscal year (3)	$ 3,834,636	$ 2,120,694	$ 2,556,943	$ 2,408,289	$ 2,181,561	$ 1,801,593	$ 2,045,732	$ 2,746,914	$ 2,971,457	$ 2,813,400
Paid (cumulative) claims and claims adjustment expenses:										
End of Fund Year	0	0	0	0	0	0	0	0	0	0
One Year Later	71,875	12,375	45,650	83,050	25,106	208,690	70,605	34,500	51,755	
Two Years Later	374,146	303,855	248,145	439,698	673,422	814,873	299,505	751,613		
Three Years Later	711,834	631,343	674,745	1,194,737	1,215,361	1,348,617	1,219,840			
Four Years Later	968,332	979,363	868,031	1,441,469	1,507,797	1,273,914				
Five Years Later	1,133,854	1,146,518	1,132,344	1,741,288	1,732,228					
Six Years Later	1,239,414	1,285,688	1,345,166	1,935,324						
Seven Years Later	1,318,390	1,360,621	1,646,846							
Eight Years Later	1,425,046	1,402,789								
Nine Years Later	1,454,835									
Reestimated incurred claims and expenses:										
End of Fund Year	0	0	0	0	0	0	0	0	0	0
One Year Later	71,875	12,375	45,650	83,050	32,677	208,690	70,605	34,500	51,755	
Two Years Later	585,794	548,339	248,145	653,704	1,369,710	1,253,217	437,313	1,013,605		
Three Years Later	1,040,838	1,024,608	1,457,506	1,554,449	2,440,234	2,277,287	1,947,770			
Four Years Later	1,364,971	1,443,112	1,711,564	2,298,595	2,576,594	1,742,436				
Five Years Later	1,625,285	1,715,146	2,661,354	2,643,544	2,542,065					
Six Years Later	1,997,376	1,851,925	3,101,437	2,403,693						
Seven Years Later	2,063,886	1,954,076	3,323,033							
Eight Years Later	2,157,711	2,067,135								
Nine Years Later	2,174,279									
Increase (decrease) in estimated incurred claims and expense from end of policy year	(1,660,357)	(53,559)	766,090	(4,596)	360,504	(59,157)	(97,962)	(1,733,309)	(2,919,702)	(2,813,400)
Number of Fund Participants receiving benefits at end of year	92	96	95	98	97	102	111	122	128	119

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 which were paid from the Workmen's Compensation Trust Fund.

Note 3: Prior to the year ended June 30, 1999, there was no actuarial valuation of estimated incurred claims and 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.

Arkansas®
THE NATURAL STATE

Combining Financial Statements

GREAT SEAL OF THE STATE OF ARKANSAS

NON-MAJOR ENTERPRISE FUNDS

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

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, 2007
(Expressed in thousands)

Assets	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
Current assets:						
Cash and cash equivalents	$	$ 942	$ 59,902	$ 8,488	$ 15,883	$ 85,215
Investments	205,552	105				205,657
Receivables:						
Accounts	80,700		306	2,228	437	83,671
Interest	103		762		221	1,086
Due from other funds	1,473			1		1,474
Due from other governments	9,084					9,084
Inventories		12				12
Prepaid items	84			50		134
Total current assets	296,996	1,059	60,970	10,767	16,541	386,333
Noncurrent assets:						
Investments - restricted			33,428	52,930		86,358
Loans receivable, net			222,308		81,844	304,152
Capital assets:						
Land	2,973					2,973
Infrastructure	22					22
Buildings	13,115	15,297				28,412
Equipment	6,101	780		83		6,964
Construction in progress	196	185				381
Other depreciable assets	1,168					1,168
Less accumulated depreciation	(9,801)	(6,162)		(7)		(15,970)
Advances to other funds					3,760	3,760
Other noncurrent assets			731			731
Total noncurrent assets	13,774	10,100	256,467	53,006	85,604	418,951
Total assets	$ 310,770	$ 11,159	$ 317,437	$ 63,773	$ 102,145	$ 805,284

Combining Statement of Net Assets
Non-major Enterprise Funds
June 30, 2007
(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
Liabilities						
Current liabilities:						
Cash overdraft	$ 50	$	$	$	$	$ 50
Accounts payable	45,695	185	520	14,263	95	60,758
Accrued interest payable			310			310
Accrued and other current liabilities	1,220	19				1,239
Due to other funds	1,248	6		4	319	1,577
Due to component unit					4	4
Due to other governments	4,168					4,168
Bonds payable			5,810			5,810
Claims, judgments, and compensated absences	382	8		22,400		22,790
Deferred revenue				1,209	2,501	3,710
Total current liabilities	52,763	218	6,640	37,876	2,919	100,416
Noncurrent liabilities:						
Bonds payable			72,766			72,766
Claims, judgments, and compensated absences	2,601	56		350		3,007
Deferred revenue			1,517			1,517
Total noncurrent liabilities	2,601	56	74,283	350		77,290
Total liabilities	55,364	274	80,923	38,226	2,919	177,706
Net Assets						
Net assets:						
Invested in capital assets, net of related debt	13,774	10,100				23,874
Restricted for:						
Unemployment compensation	241,632					241,632
Program requirements			236,514		99,226	335,740
Unrestricted		785		25,547		26,332
Total net assets	255,406	10,885	236,514	25,547	99,226	627,578
Total liabilities and net assets	$ 310,770	$ 11,159	$ 317,437	$ 63,773	$ 102,145	$ 805,284

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Non-major Enterprise Funds
For the Year Ended June 30, 2007
(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	$	$ 1,980	$	$ 232,558	$	$ 234,538
Licenses, permits and fees			2,240		880	3,120
Investment earnings			9,474		2,621	12,095
Miscellaneous	1,654	8				1,662
Total operating revenues	1,654	1,988	11,714	232,558	3,501	251,415
Operating expenses:						
Cost of sales and services		681		2,872		3,553
Compensation and benefits	32,359	475				32,834
Supplies and services	11,763	925		18,378		31,066
General and administrative expenses	3,144	129	282		109	3,664
Benefits and aid payments	336,183			219,689		555,872
Depreciation and amortization	843	416		5		1,264
Amortization of bond costs			140			140
Interest			3,875			3,875
Total operating expenses	384,292	2,626	4,297	240,944	109	632,268
Operating income (loss)	(382,638)	(638)	7,417	(8,386)	3,392	(380,853)
Nonoperating revenues (expenses):						
Investment earnings	9,008	39		3,190		12,237
Taxes	262,841					262,841
Grants and contributions	96,481	108	8,607		10,690	115,886
Loss on sale of fixed assets	(21)	(667)				(688)
Total nonoperating revenues (expenses)	368,309	(520)	8,607	3,190	10,690	390,276
Income (loss) before transfers and contributions	(14,329)	(1,158)	16,024	(5,196)	14,082	9,423
Transfers in	448	700			1,733	2,881
Transfers out	(1,437)	(4)	(864)	(231)	(2,242)	(4,778)
Change in net assets	(15,318)	(462)	15,160	(5,427)	13,573	7,526
Total net assets - beginning	270,724	11,347	221,354	30,974	85,653	620,052
Total net assets - ending	$ 255,406	$ 10,885	$ 236,514	$ 25,547	$ 99,226	$ 627,578

Combining Statement of Cash Flows
Non-major Enterprise Funds
For the Year Ended June 30, 2007
(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	$	$ 1,980	$	$ 232,993	$	$ 234,973
Payments to employees	(32,303)	(468)				(32,771)
Payments of benefits	(328,468)			(218,689)		(547,157)
Payments to suppliers	(15,000)	(1,729)	(215)	(12,979)	(87)	(30,010)
Interest received (paid)			4,829		2,653	7,482
Loan administration received (paid)			(19,856)		(10,106)	(29,962)
Other receipts (payments)	1,537	8	1,895	(2,872)	989	1,557
Net cash provided by (used in) operating activities	(374,234)	(209)	(13,347)	(1,547)	(6,551)	(395,888)
Cash flows from noncapital financing activities:						
Direct lending payments			(5,180)			(5,180)
Taxes	269,071					269,071
Grants and contributions	101,128	108	8,441		10,704	120,381
Net transfers to other funds	(988)	700	(864)	(231)	(444)	(1,827)
Net cash provided by (used in) noncapital financing activities	369,211	808	2,397	(231)	10,260	382,445
Cash flows from capital and related financing activities:						
Acquisition and construction of capital assets	(921)	(1,008)		(3)		(1,932)
Net cash used in capital and related financing activities	(921)	(1,008)		(3)		(1,932)
Cash flows from investing activities:						
Purchase of investments	(4,165)		(37,863)	(917)		(42,945)
Proceeds from sale and maturities of investments		95	44,111			44,206
Interest and dividends on investments	8,998	39		3,191		12,228
Advance repayments					496	496
Net cash provided by (used in) investing activities	4,833	134	6,248	2,274	496	13,985
Net increase (decrease) in cash and cash equivalents	(1,111)	(275)	(4,702)	493	4,205	(1,390)
Cash and cash equivalents - beginning	1,061	1,217	64,604	7,995	11,678	86,555
Cash and cash equivalents (cash overdrafts) - ending	$ (50)	$ 942	$ 59,902	$ 8,488	$ 15,883	$ 85,165
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:						
Operating income (loss)	$ (382,638)	$ (638)	$ 7,417	$ (8,386)	$ 3,392	$ (380,853)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Depreciation	843	416		5		1,264
Amortization			140		(107)	33
Net appreciation (depreciation) of investments			(561)			(561)
Prior year adjustment for capital asset capitalization	(10)					(10)
Net changes in assets and liabilities:						
Accounts receivable			(68)	(774)	21	(821)
Loans receivable			(19,856)		(10,100)	(29,956)
Inventory		4				4
Other current assets	(2,021)		(195)	(26)	31	(2,211)
Current liabilities		2		(5)		(3)
Accounts payable and other accrued liabilities	9,625	5	53	6,430	17	16,130
Compensated absences	(33)	2				(31)
Deferred revenue			(277)	1,209	195	1,127
Net cash provided by (used in) operating activities	$ (374,234)	$ (209)	$ (13,347)	$ (1,547)	$ (6,551)	$ (395,888)

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, 2007
(Expressed in thousands)

Assets	**Teacher**	**APERS**	**Highway**	**State Police**	**Judicial**	**District Judge**	**Total**
Cash and cash equivalents	$ 330,686	$ 161,351	$ 128,698	$ 4,733	$ 1,330	$ 1	$ 626,799
Receivables:							
Employees	13,045						13,045
Employers	44,604	1,147	29				45,780
Interest and dividends	19,390	15,772	6,402	19	69	12	41,664
Advances to other funds	11,580						11,580
Other	171,883	71,888	3	4	490	14,040	258,308
Due from other funds						12,940	12,940
Total receivables	260,502	88,807	6,434	23	559	26,992	383,317
Investments at fair value:							
Bonds, notes, mortgages and preferred stock	645,199	919,904	382,220				1,947,323
Common stock	3,179,961	1,999,740	668,894	19,306	68,661		5,936,562
Real estate	672,871	436,318					1,109,189
International investments	2,156,961	1,502,057		50,259	28,843		3,738,120
Mutual funds		534,523					534,523
Pooled investment funds	3,339,650			176,085	70,535		3,586,270
Corporate obligations	468,604	244,992					713,596
Asset backed securities	122,096	228,739					350,835
Other	881,631						881,631
Total investments	11,466,973	5,866,273	1,051,114	245,650	168,039		18,798,049
Securities lending collateral	1,292,638	774,261		4,255			2,071,154
Capital assets	126	45					171
Other assets	131	1,505					1,636
Total assets	13,351,056	6,892,242	1,186,246	254,661	169,928	26,993	21,881,126
Liabilities							
Accounts payable and other liabilities	7,781	7,992	95	338	234	4	16,444
Investment principal payable	413,642	127,508		131	313		541,594
Obligations under securities lending	1,292,638	774,261		4,255			2,071,154
Due to other funds	60	12,958					13,018
Total liabilities	1,714,121	922,719	95	4,724	547	4	2,642,210
Net assets							
Held in trust for employees' pension benefits	$ 11,636,935	$ 5,969,523	$ 1,186,151	$ 249,937	$ 169,381	$ 26,989	$ 19,238,916

Combining Statement of Changes in Fiduciary Net Assets
Pension Trust Funds
For the Year Ended June 30, 2007
(Expressed in thousands)

	Teacher	APERS	Highway	State Police	Judicial	District Judge	Total
Additions:							
Contributions:							
Members	$ 100,094	$ 13,915	$ 7,717	$ 54	$ 827	$ 171	$ 122,778
Employers	331,891	161,583	15,924	5,367	2,042	616	517,423
Supplemental contributions		1,519		3,662	2,237		7,418
Court fees				1,268	903		2,171
Local municipal judges retirement funds						(181)	(181)
Reinstatement fees				1,125			1,125
Total contributions	431,985	177,017	23,641	11,476	6,009	606	650,734
Investment income:							
Net increase (decrease) in fair value of investments	1,652,411	794,932	103,800	36,425	20,639	1,549	2,609,756
Interest, dividends, and other	203,768	124,249	28,195	428	1,409	38	358,087
Real estate operating income (loss)	6,293	187					6,480
Securities lending income	67,523	41,743		415			109,681
Total investment income	1,929,995	961,111	131,995	37,268	22,048	1,587	3,084,004
Less investment expense	100,168	61,777	4,413	1,506	790	8	168,662
Net investment income	1,829,827	899,334	127,582	35,762	21,258	1,579	2,915,342
Miscellaneous	366	6,992	2	1		1,014	8,375
Total additions (losses)	2,262,178	1,083,343	151,225	47,239	27,267	3,199	3,574,451
Deductions:							
Benefits paid to participants or beneficiaries	545,220	244,138	62,317	14,434	7,119	1,010	874,238
Refunds of employee/employer contributions	5,180	633	1,499				7,312
Administrative expenses	5,855	4,554	47	86	57	141	10,740
Total deductions	556,255	249,325	63,863	14,520	7,176	1,151	892,290
Change in net assets held in trust for employees' pension benefits	1,705,923	834,018	87,362	32,719	20,091	2,048	2,682,161
Net assets - beginning	9,931,012	5,135,505	1,098,789	217,218	149,290	24,941	16,556,755
Net assets - ending	$ 11,636,935	$ 5,969,523	$ 1,186,151	$ 249,937	$ 169,381	$ 26,989	$ 19,238,916

Combining Statement of Fiduciary Net Assets
Agency Funds
June 30, 2007
(Expressed in thousands)

	Insurance Department	Other Agencies	Total
Assets			
Cash and cash equivalents	$ 3,825	$ 24,334	$ 28,159
Receivables:			
Interest and dividends	2	145	147
Other		67	67
Total Receivables	2	212	214
Inventories		9	9
Investments at fair value:			
Certificates of deposit	1,400	34,394	35,794
Bonds, government securities, notes, mortgages, and preferred stock		59,037	59,037
Total investments	1,400	93,431	94,831
Financial assurance instruments	297,953	5,796	303,749
Total assets	$ 303,180	$ 123,782	$ 426,962
Liabilities			
Accounts payable and other liabilities	$	$ 67	$ 67
Due to other governments		75,523	75,523
Due to third parties	303,180	48,192	351,372
Total liabilities	$ 303,180	$ 123,782	$ 426,962

Combining Statement of Changes in Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2007
(Expressed in thousands)

	Insurance Department			
Assets	**Balance July 1, 2006**	**Additions**	**Reductions**	**Balance June 30, 2007**
Cash and cash equivalents	$ 4,109	$ 194	$ 478	$ 3,825
Receivables:				
Interest and dividends	3		1	2
Investments at fair value:				
Certificates of deposit	1,513		113	1,400
Financial assurance instruments	312,329		14,376	297,953
Total assets	$ 317,954	$ 194	$ 14,968	$ 303,180
Liabilities				
Due to third parties	$ 317,954	$ 194	$ 14,968	$ 303,180
Total liabilities	$ 317,954	$ 194	$ 14,968	$ 303,180

	Other Agencies			
Assets	**Balance July 1, 2006 (as restated)**	**Additions**	**Reductions**	**Balance June 30, 2007**
Cash and cash equivalents	$ 28,697	$ 1,475,598	$ 1,479,961	$ 24,334
Receivables:				
Interest and dividends	93	145	93	145
Other	11	203	147	67
Inventories	7	9	7	9
Investments at fair value:				
Certificates of deposit	41,315	16,148	23,069	34,394
Bonds, government securities, notes, mortgages, and preferred stock	46,777	59,129	46,869	59,037
Financial assurance instruments	3,840	2,045	89	5,796
Total assets	$ 120,740	$ 1,553,277	$ 1,550,235	$ 123,782
Liabilities				
Accounts payable and other liabilities	$ 181	$ 18,786	$ 18,900	$ 67
Due to other governments	77,504	6,640	8,621	75,523
Due to third parties	43,055	1,556,281	1,551,144	48,192
Total liabilities	$ 120,740	$ 1,581,707	$ 1,578,665	$ 123,782

Combining Statement of Changes in Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2007
(Expressed in thousands)

	Total - All Agency Funds			
Assets	**Balance July 1, 2006 (as restated)**	**Additions**	**Reductions**	**Balance June 30, 2007**
Cash and cash equivalents	$ 32,806	$ 1,475,792	$ 1,480,439	$ 28,159
Receivables:				
Interest and dividends	96	145	94	147
Other	11	203	147	67
Inventories	7	9	7	9
Investments at fair value:				
Certificates of deposit	42,828	16,148	23,182	35,794
Bonds, government securities, notes, mortgages, and preferred stock	46,777	59,129	46,869	59,037
Financial assurance instruments	316,169	2,045	14,465	303,749
Total assets	$ 438,694	$ 1,553,471	$ 1,565,203	$ 426,962
Liabilities				
Accounts payable and other liabilities	$ 181	$ 18,786	$ 18,900	$ 67
Due to other governments	77,504	6,640	8,621	75,523
Due to third parties	361,009	1,556,475	1,566,112	351,372
Total liabilities	$ 438,694	$ 1,581,901	$ 1,593,633	$ 426,962


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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 Six Fiscal Years
(Expressed in thousands)

	2007	2006	2005	2004	2003	2002
Governmental Activities						
Invested in capital assets, net of related debt	$ 7,957,760	$ 7,880,406	$ 7,563,452	$ 7,375,246	$ 7,009,304	$ 6,730,616
Restricted	812,989	672,391	506,508	231,314	178,871	179,988
Unrestricted	2,469,825	2,001,993	1,803,726	1,657,482	1,399,219	1,477,114
Total governmental activities net assets	11,240,574	10,554,790	9,873,686	9,264,042	8,587,394	8,387,718
Business-type activities						
Invested in capital assets, net of related debt	1,456,147	1,244,773	1,200,731	1,159,058	1,106,738	1,014,975
Restricted	882,865	879,536	760,011	649,458	567,056	663,139
Unrestricted	410,378	509,394	463,153	419,697	388,486	381,757
Total business-type activities net assets	2,749,390	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	9,413,907	9,125,179	8,764,183	8,534,304	8,116,042	7,745,591
Restricted	1,695,854	1,551,927	1,266,519	880,772	745,927	843,127
Unrestricted	2,880,203	2,511,387	2,266,879	2,077,179	1,787,705	1,858,871
Total primary government activities net assets	$ 13,989,964	$ 13,188,493	$ 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 Six Fiscal Years
(Expressed in thousands)

	2007	2006	2005	2004	2003	2002
Governmental						
Expenses						
General government	$ 1,156,301	$ 1,187,512	$ 1,042,440	$ 1,071,734	$ 1,048,805	$ 940,426
Education	3,153,653	3,048,477	2,881,337	2,342,543	2,326,854	2,236,210
Health and human services	4,855,759	4,663,898	4,538,242	4,100,830	3,785,128	3,304,714
Transportation	625,911	642,297	626,138	606,900	620,424	522,826
Law, justice, and public safety	587,413	620,905	518,579	529,693	441,258	428,701
Recreation and resources development	219,283	201,955	175,097	189,406	243,519	218,534
Regulation of business and professionals	119,225	115,887	117,525	130,349	115,983	98,494
Interest on long-term debt	56,143	59,501	60,101	56,906	55,677	51,215
Total Expenses	10,773,688	10,540,432	9,959,459	9,028,361	8,637,648	7,801,120
Program						
Charges for Services						
General government	269,310	256,641	270,746	279,902	252,146	279,099
Education	14,322	13,501	9,217	4,617	10,057	6,948
Health and human services	234,181	217,429	214,646	124,321	173,949	202,307
Transportation	137,338	133,993	130,190	122,873	132,673	12,819
Law, justice, and public safety	64,666	63,251	60,540	61,163	24,350	9,262
Recreation and resources development	61,844	55,223	55,026	52,597	51,626	45,582
Regulation of business and professionals	86,721	89,950	76,026	67,172	75,160	68,180
Operating Grants	4,180,653	4,150,897	3,997,615	3,805,225	3,802,814	3,425,029
Capital Grants and Contributions	422,270	392,744	431,739	454,668	15,419	6,707
Total Program Revenues	5,471,305	5,373,629	5,245,745	4,972,538	4,538,194	4,055,933
Net (Expense) Revenue	(5,302,383)	(5,166,803)	(4,713,714)	(4,055,823)	(4,099,454)	(3,745,187)
General Revenues and Transfers						
Taxes:						
Personal and corporate income	2,522,806	2,374,801	2,164,445	1,920,448	1,722,167	1,678,750
Consumer sales and use	2,618,936	2,509,664	2,380,921	1,956,032	1,788,327	1,780,774
Gas and motor carrier	462,732	456,223	450,281	449,960	439,483	477,384
Other	785,213	760,431	720,948	695,623	638,469	556,739
Investment earnings	162,603	96,369	58,348	36,651	46,139	63,121
Miscellaneous income	247,395	370,352	203,101	295,706	292,716	45,374
Loss on sale of fixed assets					(31,910)	(14,696)
Transfers-internal activities	(811,518)	(719,933)	(654,686)	(637,949)	(596,261)	(609,619)
Restatement				16,000		
Total General Revenues and Transfers	5,988,167	5,847,907	5,323,358	4,732,471	4,299,130	3,977,827
Total Governmental Activities Change in Net Assets	$ 685,784	$ 681,104	$ 609,644	$ 676,648	$ 199,676	$ 232,640

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

		2007	2006	2005	2004	2003	2002
Business-Type							
Expenses							
Higher Education		$ 2,628,963	$ 2,422,557	$ 2,256,317	$ 2,121,960	$ 1,987,141	$ 1,856,264
Workers' Compensation Commission		33,363	36,629	35,517	31,829	33,938	28,544
Department of Workforce Services		384,313	322,205	325,595	310,539	482,669	479,834
War Memorial Stadium Commission		3,293	4,310	1,830	1,726	1,799	1,623
Public School Employee Health and Life Benefit Plan	(1)	240,944	219,544	202,137			
Revolving Loan		4,406	4,603	4,766	5,671	5,866	8,791
Total Expenses		3,295,282	3,009,848	2,826,162	2,471,725	2,511,413	2,375,056
Program							
Charges for Services							
Higher Education		1,196,351	1,160,194	1,054,808	991,698	915,015	1,160,109
Department of Workforce Services						6	
War Memorial Stadium Commission		1,980	1,436	746	1,349	1,556	1,365
Public School Employee Health and Life Benefit Plan	(1)	232,558	233,250	211,430			
Revolving Loan		3,120	2,838	2,364			
Operating Grants		578,648	566,200	602,649	549,004	544,918	160,833
Capital Grants and Contributions		60,447	59,025	70,432	56,889	88,396	70,832
Total Program Revenues		2,073,104	2,022,943	1,942,429	1,598,940	1,549,891	1,393,139
Net (Expense) Revenue		(1,222,178)	(986,905)	(883,733)	(872,785)	(961,522)	(981,917)
Business-Type Revenues and Transfers							
Taxes:							
Other		306,019	326,343	310,431	318,555	265,911	249,225
Investment earnings		96,394	61,462	48,310	40,237	48,295	39,565
Miscellaneous income		123,934	88,975	65,988	35,119	58,436	65,672
Loss on sale of fixed assets						(4,972)	(1,956)
Transfers-internal activities		811,518	719,933	654,686	637,949	596,261	609,619
Restatement					6,858		
Total General Revenues and Transfers		1,337,865	1,196,713	1,079,415	1,038,718	963,931	962,125
Total Business-Type Activities Changes in Net Assets		115,687	209,808	195,682	165,933	2,409	(19,792)
Total Primary Government Change in Net Assets		$ 801,471	$ 890,912	$ 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)

	2007	2006	2005	2004
General Fund				
Reserved	$ 1,227,194	$ 954,015	$ 988,971	$ 712,864
Unreserved	2,272,762	1,988,211	1,532,038	1,384,917
Total General Fund	3,499,956	2,942,226	2,521,009	2,097,781
Total Fund Balances, Governmental Funds	$ 3,499,956	$ 2,942,226	$ 2,521,009	$ 2,097,781

	2003	2002	2001	2000	1999	1998
	$ 769,067	$ 839,209	$ 361,718	$ 501,784	$ 282,416	$ 260,692
	973,152	839,121	1,462,693	1,411,661	1,407,377	1,384,408
	1,742,219	1,678,330	1,824,411	1,913,445	1,689,793	1,645,100
	$ 1,742,219	$ 1,678,330	$ 1,824,411	$ 1,913,445	$ 1,689,793	$ 1,645,100

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

	2007	2006	2005	2004
Revenues:				
Taxes:				
Personal and corporate income	$ 2,515,958	$ 2,374,853	$ 2,169,849	$ 1,914,067
Consumers sales and use	2,624,325	2,519,443	2,382,865	1,951,475
Corporate net income (1)				
Gas and motor carrier	463,362	456,569	450,269	450,444
Other	784,936	760,799	721,144	694,802
Intergovernmental	4,594,212	4,540,408	4,418,148	4,249,189
Licenses, permits, and fees	886,106	853,616	836,688	717,092
Investment earnings	162,603	96,369	57,999	36,651
Miscellaneous	287,031	345,978	248,138	313,952
Total Revenues	12,318,533	11,948,035	11,285,100	10,327,672
Expenditures:				
Current:				
General government	1,213,597	1,137,458	1,058,514	1,029,316
Education	3,149,468	3,044,735	2,877,770	2,336,813
Health and human services	4,844,657	4,653,553	4,526,132	4,065,745
Transportation	297,816	320,417	319,140	312,688
Law, justice, and public safety	552,728	588,661	480,246	496,109
Recreation and resources development	187,970	186,137	159,709	159,895
Regulation of business and professionals	112,833	112,623	114,484	125,968
Debt service:				
Principal retirement (2)	103,782	97,583	46,723	36,809
Interest expense	59,752	61,065	58,866	56,769
Bond issuance costs	1,317	818	2,905	1,194
Capital outlay	611,567	673,624	704,117	755,373
Total Expenditures	11,135,487	10,876,674	10,348,606	9,376,679
Excess (deficiency) of revenues over expenditures	1,183,046	1,071,361	936,494	950,993
Other financing sources (uses):				
Issuance of debt	38,320	71,993	116,717	24,974
Proceeds from bond refunding	224,855	15,540		
Bond discounts/premiums	5,248	1,967	2,844	620
Payment to refunding escrow agent	(107,806)	(24,371)	(60,325)	
Capital leases	22,855	2,223	80,010	4,961
Sale of Capital Assets	2,717	2,297	2,289	2,296
Transfers in	60,316	47,254	46,495	49,099
Transfers out	(871,821)	(767,047)	(701,296)	(677,381)
Restatement				
Total other financing sources and uses	(625,316)	(650,144)	(513,266)	(595,431)
Net change in fund balances	557,730	421,217	423,228	355,562
Fund balances-July 1	2,942,226	2,521,009	2,097,781	1,742,219
Decrease in reserve for inventory				
Fund balances-June 30	$ 3,499,956	$ 2,942,226	$ 2,521,009	$ 2,097,781
Debt Service as a percentage of noncapital expenditures:	1.57%	1.56%	1.12%	1.10%

(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

2003	2002	2001	2000	1999	1998
$ 1,714,603	$ 1,671,615	$ 1,704,226	$ 1,670,110	$ 1,873,980	$ 1,553,778
1,770,946	1,719,686	1,728,033	1,622,476	1,560,892	1,476,686
					268,605
439,614	430,735	257,407	285,113	386,503	368,050
638,510	647,387	373,688	349,969	353,136	361,071
3,823,171	3,417,665	2,882,725	2,613,654	2,459,368	2,387,385
750,872	591,817	480,698	481,078	438,174	414,338
46,139	63,167	107,074	102,158	108,000	90,169
250,566	49,403	623,006	442,979	390,236	241,826
9,434,421	8,591,475	8,156,857	7,567,537	7,570,289	7,161,908
1,044,164	902,922	681,055	587,147	992,322	724,127
2,324,631	2,231,401	2,172,021	2,098,860	1,959,309	1,883,809
3,772,155	3,293,609	2,984,687	2,698,687	2,614,967	2,496,628
346,282	257,976	788,416	622,061	559,572	635,188
416,353	405,434	509,428	333,211	311,176	265,313
221,987	196,731	196,734	203,358	170,619	177,838
108,378	96,655	120,189	161,703	139,345	121,450
40,066	49,478	69,841	77,244	57,917	54,876
50,341	43,578				
624	336				
692,898	810,947	132,485	142,227	120,525	110,988
9,017,879	8,289,067	7,654,856	6,924,498	6,925,752	6,470,217
416,542	302,408	502,001	643,039	644,537	691,691
224,020	185,000	31,874	198,083	2,115	163,156
31,150	45,145				
10,329	9,365				
(32,737)	(44,393)				
10,846	15,086	3,422	14,069	326	73
5,266	757	658	229	162	115
(601,527)	(610,376)	(614,579)	(634,118)	(606,285)	(565,952)
	(49,073)	(8,908)			
(352,653)	(448,489)	(587,533)	(421,737)	(603,682)	(402,608)
63,889	(146,081)	(85,532)	221,302	40,855	289,083
1,678,330	1,824,411	1,913,445	1,689,793	1,645,100	1,396,338
		(3,502)	2,350	3,838	(40,321)
$ 1,742,219	$ 1,678,330	$ 1,824,411	$ 1,913,445	$ 1,689,793	$ 1,645,100
1.09%	1.25%	0.93%	1.14%	0.85%	0.86%

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

Industry	2007 Sales Tax Collected	2007 Percent of Total	2006 Sales Tax Collected	2006 Percent of Total	2005 Sales Tax Collected	2005 Percent of Total
Agriculture, forestry, fishing, and hunting	$ 6,538	0.27%	$ 6,216	0.26%	$ 6,610	0.29%
Mining	13,488	0.55%	11,244	0.48%	9,247	0.41%
Utilities	271,952	11.06%	262,822	11.17%	219,463	9.72%
Construction	29,598	1.20%	27,970	1.19%	24,308	1.08%
Manufacturing	220,244	8.96%	206,334	8.77%	201,761	8.94%
Wholesale trade	252,326	10.26%	238,955	10.16%	228,170	10.11%
Retail trade	1,119,357	45.51%	1,088,726	46.27%	1,066,728	47.25%
Transportation and warehousing	23,085	0.94%	16,877	0.72%	15,140	0.67%
Information	159,234	6.47%	151,539	6.44%	147,292	6.53%
Finance and insurance	2,874	0.12%	2,797	0.12%	2,827	0.13%
Real estate, rental, and leasing	48,196	1.96%	43,482	1.85%	42,074	1.86%
Professional, scientific, and technical services	6,505	0.26%	5,992	0.25%	6,129	0.27%
Management of companies and enterprises	18	0.00%	2	0.00%	2	0.00%
Administrative, support, waste management, and remediation services	33,051	1.34%	31,258	1.33%	28,902	1.28%
Educational services	2,503	0.10%	2,611	0.11%	3,004	0.13%
Health care and social services	3,722	0.15%	3,290	0.14%	3,776	0.17%
Arts, entertainment, and recreation	9,663	0.39%	9,157	0.39%	9,114	0.40%
Accommodation and food services	187,078	7.61%	178,551	7.59%	178,177	7.89%
Other services (except public administration)	66,138	2.69%	61,090	2.60%	61,485	2.72%
Public administration	3,902	0.16%	3,844	0.16%	3,376	0.15%
Total (2)	$ 2,459,472	100%	$ 2,352,757	100%	$ 2,257,585	100%
Direct sales tax rate	6.00%		6.00%		6.00%	

(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

2004		2003		2002		2001		2000	
Sales Tax Collected	Percent of Total	Sales Tax Collected	Percent of Total	Sales Tax Collected	Percent of Total	Sales Tax Collected	Percent of Total	Sales Tax Collected	Percent of Total
$ 4,953	0.28%	$ 6,047	0.36%	$ 6,061	0.36%	$ 6,506	0.39%	$ 2,417	0.17%
6,020	0.34%	5,725	0.34%	5,868	0.35%	6,374	0.39%	1,833	0.13%
180,506	10.14%	162,795	9.63%	167,452	10.01%	174,566	10.53%	N/A	N/A
17,669	0.99%	17,810	1.05%	18,485	1.10%	17,243	1.04%	13,191	0.90%
147,889	8.30%	143,577	8.49%	163,012	9.74%	162,122	9.78%	116,801	7.98%
173,076	9.72%	169,847	10.04%	171,216	10.23%	172,844	10.43%	160,404	10.96%
867,475	48.71%	819,087	48.42%	784,002	46.84%	769,546	46.42%	795,144	54.32%
8,762	0.49%	20,140	1.19%	18,479	1.10%	18,457	1.11%	233,508	15.95%
126,900	7.12%	109,424	6.47%	110,942	6.63%	108,135	6.52%	N/A	N/A
2,391	0.13%	2,510	0.15%	1,856	0.11%	1,637	0.10%	2,268	0.15%
32,965	1.85%	30,339	1.79%	28,028	1.67%	27,918	1.68%	N/A	N/A
4,734	0.27%	4,453	0.26%	4,666	0.28%	4,424	0.27%	N/A	N/A
	0.00%		0.00%		0.00%	1	0.00%	N/A	N/A
10,702	0.60%	8,622	0.51%	7,552	0.45%	7,156	0.43%	N/A	N/A
2,476	0.14%	2,607	0.16%	2,784	0.17%	2,640	0.16%	N/A	N/A
3,239	0.18%	3,457	0.20%	2,775	0.17%	2,546	0.15%	N/A	N/A
6,776	0.38%	6,597	0.39%	6,446	0.39%	6,178	0.37%	N/A	N/A
137,851	7.74%	132,669	7.84%	129,068	7.71%	125,690	7.58%	N/A	N/A
43,806	2.46%	43,170	2.55%	42,361	2.53%	41,766	2.52%	137,134	9.37%
2,761	0.16%	2,742	0.16%	2,624	0.16%	2,226	0.13%	1,048	0.07%
$ 1,780,951	100%	$ 1,691,618	100%	$ 1,673,677	100%	$ 1,657,975	100%	$ 1,463,748	100%
5.125% (07/03-02/04)		5.125%		5.125%		4.625% (07/00-12/00)		4.625%	
6.00% (03/04-06/04)						5.125% (01/01-06/01)			

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

	2007				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	$ 6,538	0.27%	860	1.22%	$ 6,506	0.39%
Mining	13,488	0.55%	157	0.22%	6,374	0.39%
Utilities	271,952	11.06%	750	1.07%	174,566	10.53%
Construction	29,598	1.20%	2,471	3.52%	17,243	1.04%
Manufacturing	220,244	8.96%	5,865	8.34%	162,122	9.78%
Wholesale trade	252,326	10.26%	7,692	10.94%	172,844	10.43%
Retail trade	1,119,357	45.51%	27,642	39.32%	769,546	46.42%
Transportation and warehousing	23,085	0.94%	1,754	2.50%	18,457	1.11%
Information	159,234	6.47%	1,182	1.68%	108,135	6.52%
Finance and insurance	2,874	0.12%	318	0.45%	1,637	0.10%
Real estate, rental, and leasing	48,196	1.96%	1,675	2.38%	27,918	1.68%
Professional, scientific, and technical services	6,505	0.26%	1,477	2.10%	4,424	0.27%
Management of companies and enterprises	18	0.00%	6	0.01%	1	0.00%
Administrative, support, waste management, and remediation services	33,051	1.34%	3,252	4.63%	7,156	0.43%
Educational services	2,503	0.10%	284	0.41%	2,640	0.16%
Health care and social services	3,722	0.15%	1,212	1.72%	2,546	0.15%
Arts, entertainment, and recreation	9,663	0.39%	883	1.26%	6,178	0.37%
Accommodation and food services	187,078	7.61%	6,045	8.60%	125,690	7.58%
Other services (except public administration)	66,138	2.69%	6,610	9.40%	41,766	2.52%
Public administration	3,902	0.16%	163	0.23%	2,226	0.13%
Total	$ 2,459,472	100%	70,298	100%	$ 1,657,975	100%

(1) Revenue data is available back to fiscal year 2000, however, this data is not comparable to fiscal year 2007 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 Seven Fiscal Years (1)
(Expressed in thousands, except per capita amount)

	2007	2006	2005	2004	2003	2002	2001
Governmental							
General	$ 972,193	$ 900,402	$ 944,858	$ 923,173	$ 920,986	$ 712,939	$ 552,834
Special		205	370	460	585	765	860
Revenue bond	2,925	2,988					
Add (deduct):							
Deferred bond refunding loss	(14,263)	(5,542)	(4,807)	(1,011)	(1,064)		
Issuance premium (discount)	18,689	15,814	16,141	15,339	16,709	8,424	36
Other debt instruments					25	2,499	3,802
Notes payable to component unit	121,644	123,256	96,683	57,148	56,331	60,000	64,374
Notes payable to pension trust fund	11,580	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	3,520	4,420	6,927	9,536	11,862	14,567	21,646
Capital leases with component unit	111,450	97,824	107,522	70,582	76,041	77,153	69,167
Total Governmental Activities Debt	1,227,738	1,152,775	1,182,965	1,092,615	1,100,724	897,962	734,974
Business-Type							
Special obligation:							
War Memorial					940	1,835	2,690
Construction Assistance Revolving Loan Fund	78,775	83,955	88,910	93,530	103,275	108,115	112,135
College & University Revenue Bonds	1,197,070	1,155,673	895,910	661,551	637,229	497,060	466,488
Add (deduct): issuance premiums/(discounts)	8,912	8,803	100	(123)	(1,124)	(1,455)	(1,074)
Notes payable	22,920	17,930	17,128	14,519	22,281	22,028	
Notes payable with component unit	5,857	6,666	8,728	9,675	6,349	6,754	
Capital leases	29,737	25,092	21,470	17,450	8,114	9,921	11,271
Capital leases with component unit	1,174	1,354	1,665	1,960	2,240	2,574	2,803
Total Business-type Activities Debt	1,344,445	1,299,473	1,033,911	798,562	779,304	646,832	594,313
Total Primary Government Debt	2,572,183	2,452,248	2,216,876	1,891,177	1,880,028	1,544,794	1,329,287
Debt Ratios: Primary Government							
Ratio of Primary Government Debt to Personal Income (2)	3.11%	3.13%	2.94%	2.66%	2.83%	2.44%	2.15%
Per Capita (3)	$ 908	$ 872	$ 797	$ 687	$ 689	$ 570	$ 494
Net General Obligation Bonded Debt							
Gross bonded debt (4)	$ 972,193	$ 900,402	$ 944,858	$ 923,173	$ 920,986	$ 712,939	552,834
Less: debt service funds	(248,143)	(111,587)	(100,166)	(37,561)	(27,639)	(35,462)	(45,974)
Net bonded debt	$ 724,050	$ 788,815	$ 844,692	$ 885,612	$ 893,347	$ 677,477	506,860
Per Capita (3)	$ 255	$ 280	$ 304	$ 322	$ 327	$ 250	$ 188
Supplementary Information							
Component Unit Debt							
Arkansas Student Loan Authority:							
Revenue bonds payable	$ 753,780	$ 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	1,133,632	1,114,118	1,173,362	1,145,682	1,418,162	1,432,066	1,510,611
Notes payable	220,751	312,307	326,055	216,315			
Add (deduct): issuance premiums/(discounts)	2,686	(517)	(961)	(2,098)	(1,715)	(1,962)	(415)
U of A Foundation Annuity Obligations	19,606	18,524	16,783	15,376	14,748		
Total Component Unit Debt	2,130,455	2,198,212	2,095,698	1,778,808	1,751,825	1,750,729	1,782,041
Total Debt	$ 4,702,638	$ 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)	5.69%	5.93%	5.73%	5.17%	5.48%	5.21%	5.02%
Per Capita (3)	$ 1,659	$ 1,653	$ 1,551	$ 1,333	$ 1,331	$ 1,217	1,156

(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							
2007	$ 86,185	$ 71,548	$ 14,637	$ 5,620	$ 4,521	$ 10,141	1.44
2006	$ 81,011	$ 21,418	$ 59,593	$ 4,465	$ 2,996	$ 7,461	7.99
Housing Bonds							
2007	$ 27,940	$ 16,486	$ 11,454	$ 2,190	$ 4,627	$ 6,817	1.68
2006	$ 22,399	$ 15,954	$ 6,445	$ 1,129	$ 3,703	$ 4,832	1.33
Facilities Bonds							
2007	$ 646,018	$ 551,916	$ 94,102	$ 22,740	$ 23,971	$ 46,711	2.01
2006	$ 601,407	$ 504,200	$ 97,207	$ 10,475	$ 18,362	$ 28,837	3.37
General Revenue and Other Bonds							
2007	$ 143,032	$ 49,419	$ 93,613	$ 7,185	$ 9,306	$ 16,491	5.68
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:							
2007	$ 164,085	$ 5,405	$ 158,680	$ 0	$ 29,956	$ 29,956	5.30
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

(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
2007*	2,834	$ 82,716	$ 29,183	5.1%
2006	2,813	78,390	27,868	5.3%
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%

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

Schedule 10
Principal Employers (Unaudited)
Current Year as Compared to 1998

2007	Employer	Total Employees	Percentage of Total Arkansas Employment
1	Arkansas State Government	53,161	4.4%
2	Wal-Mart Stores, Inc.	45,852	3.8%
3	Tyson Foods, Inc.	22,500	1.9%
4	U.S. Federal Government	20,660	1.7%
5	Baptist Health	7,834	0.6%
6	Sisters of Mercy Health System	5,115	0.4%
7	Triad Hospitals	4,592	0.4%
8	Whirlpool Corporation	4,200	0.3%
9	Pilgrim's Pride Corporation	4,100	0.3%
10	Arkansas Children’s Hospital, Inc.	3,900	0.3%
		171,914	14.1%

1998	Employer	Total Employees	Percentage of Total Arkansas Employment
1	Arkansas State Government	45,648	4.1%
2	Wal-Mart Stores, Inc.	34,014	3.0%
3	U.S. Federal Government	21,200	2.0%
4	Tyson Foods, Inc.	19,127	1.7%
5	Baptist Health	6,000	0.5%
6	Beverly Enterprises, Inc.	4,799	0.4%
7	Georgia-Pacific Corporation	4,776	0.4%
8	ConAgra, Inc.	4,409	0.4%
9	Alltel Corporation	4,400	0.4%
10	Little Rock School District	4,400	0.4%
		148,773	13.3%

Source: (2006) Arkansas Department of Finance and Administration Economic Analysis and Tax Research
(1999) 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 Five Fiscal Years

Full-Time Employees

	2007	2006	2005	2004	2003
General Government					
Department of Finance and Administration-Revenue	1,420	1,370	1,371	1,352	1,319
All Other	2,764	2,742	2,678	2,632	2,720
Education					
Department of Workforce Education	494	498	503	501	503
Department of Education	346	359	318	317	391
All Other	965	953	877	882	885
Heath and Human Services					
Department of Health and Human Services	10,411	10,087	10,015	9,979	10,000
All Other	458	462	413	408	398
Transportation					
Department of Highway and Transportation	3,614	3,676	3,749	3,755	3,698
Law, Justice and Public Safety					
Department of Correction	3,792	3,745	3,354	3,310	3,362
Arkansas State Police	966	934	903	843	818
All Other	2,553	2,546	2,386	2,351	2,074
Recreation and Resources Development					
Department of Parks and Tourism	1,298	1,214	1,138	1,127	1,138
Arkansas Game and Fish Commission	649	634	621	635	610
All Other	866	725	657	652	659
Regulation of Business and Professionals					
Department of Insurance	185	192	182	184	175
All Other	1,044	1,174	888	862	867
Proprietary Funds					
Colleges and Universities (2)	20,269	19,088	N/A	N/A	N/A
Workers Compensation Commission	135	137	141	141	138
Department of Workforce Services	907	848	698	746	877
War Memorial Stadium Commission (3)	25	21	29	N/A	N/A
State Total	53,161	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

	2007	2006	2005	2004
General Government				
Department of Finance & Administration-Revenue				
Office of Driver Services				
Licenses and ID cards issued (calendar year)	N/A	727,765	731,155	736,200
Registered Vehicles (calendar year)	N/A	2,993,975	2,907,650	2,810,529
Income Tax Administration				
Total electronic tax filers (calendar year)	N/A	665,168 (1)	620,490	598,127
EFT estimate payments by corporations	1,608	1,501	1,185	1,068
EFT withholding payments (calendar year)	89,888 (1)	125,999	103,356	91,536
Education				
Department of Education				
All school districts:				
Average Daily Membership (2)	N/A	457,490	450,910	447,872
Number of Certified Personnel (2)	N/A	35,371	35,201	34,024
Average Salary of K-12 Classroom full-time employees (2)	N/A	$ 43,088	$ 41,489	$ 39,266
Per Pupil Expenditures (2)	N/A	$ 7,687	$ 7,307	$ 6,475
Foundation Aid per Student	$ 5,719	$ 5,662	$ 5,400	$ 4,721
Assessed Valuation (in millions)	$ 33,438	$ 31,275	$ 29,274	$ 27,748
Higher Education				
Public Institutions				
Fall net enrollment	118,722	118,127	115,203	113,100
Undergraduate degrees awarded	N/A	19,038	18,225	17,046
Graduate degrees awarded	N/A	3,585	3,525	3,248
Private Institutions				
Fall net enrollment	13,381	12,150	11,546	11,378
Undergraduate degrees awarded	N/A	2,420	2,394	2,309
Graduate degrees awarded	N/A	455	306	271
Health and Human Services				
Department of Health and Human Services				
Foster Care Recipients	7,194	6,809	6,401	6,502
Percent of Population	0.25%	0.24%	0.23%	0.24%
Food Stamp Recipients	553,618	558,521	544,752	490,641
Percent of Population	19.60%	19.94%	19.62%	17.82%
Medicaid Recipients	742,965	729,800	688,150	663,920
Percent of Population	26.30%	26.06%	24.79%	24.12%
Women, Infants and Children Nutrition Program (WIC) Recipients	160,687	158,393	156,654	153,570
Percent of Population	5.69%	5.66%	5.64%	5.58%
Doses of Vaccine Administered (3)	N/A	N/A	725,981	710,929

(1) As of 9-20-07
(2) Fiscal year 2007 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

2003	2002	2001	2000	1999	1998
702,810	683,237	662,870	678,597	657,283	613,695
2,742,630	2,685,507	2,650,512	N/A	N/A	N/A
535,150	495,842	430,072	350,955	272,711	218,458
902	N/A	N/A	N/A	N/A	N/A
93,888	N/A	N/A	N/A	N/A	N/A
439,742	444,709	444,978	445,739	447,892	454,301
33,014	33,780	33,405	33,466	33,121	32,710
$ 37,536	$ 36,026	$ 34,729	$ 33,888	$ 32,819	$ 31,795
$ 6,168	$ 5,867	$ 5,531	$ 4,945	$ 4,679	$ 4,434
$ 4,688	$ 4,542	$ 4,492	$ 4,301	$ 4,099	$ 3,954
$ 26,346	$ 25,269	$ 23,941	$ 22,683	$ 21,682	$ 20,768
108,844	103,715	100,207	98,989	97,742	95,435
16,933	15,133	14,090	13,747	13,028	12,787
3,016	3,131	2,852	2,927	2,829	2,869
12,629	11,890	11,483	11,015	10,781	10,698
2,204	2,108	2,057	1,633	1,874	1,950
236	184	118	108	87	80
6,202	6,471	6,670	5,486	5,129	4,728
0.23%	0.24%	0.25%	0.20%	0.19%	0.18%
457,888	433,716	402,119	391,787	398,564	409,818
16.79%	16.02%	14.94%	14.63%	15.03%	15.60%
626,036	582,379	535,798	498,669	459,782	415,605
22.95%	21.51%	19.90%	18.62%	17.34%	15.82%
149,063	145,447	144,006	145,418	147,966	149,089
5.46%	5.37%	5.35%	5.43%	5.58%	5.68%
666,308	715,547	1,024,848	715,995	698,831	649,008

Continued on the following page

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

Continued from the previous page

	2007	2006	2005	2004
Transportation				
Highway and Transportation Department				
Miles of State Highway Maintained	N/A	16,440	16,444	16,419
Law, Justice and Public Safety				
Department of Correction				
Custody Population Count	12,828	12,690	12,568	12,675
Staff Members	4,375	4,375	4,270	4,270
Inmate Cost per day	$ 52.64	$ 52.12	$ 48.24	$ 47.32
Operating Capacity	12,552	12,403	12,178	11,640
Inmate Care/Custody Operating Expenses (in thousands)	$ 253,888	$ 243,208	$ 215,042	$ 209,543
Arkansas State Police				
Number of Homicides Investigated	219	196	171	167
Total Citations Issued	243,234	244,649	258,627	211,023
Total Motorist Assists	21,069	21,167	23,946	23,173
Total Number of Traffic Accidents	16,561	16,556	18,726	18,143
Total Criminal Investigations	2,688	2,119	2,883	3,375
Recreation and Resources Development				
Department of Parks and Tourism				
Acres of State Parks maintained	53,741	53,402	52,747	52,553
Game and Fish Commission				
Fishing License Sold	739,516	712,418	747,756	726,592
Hunting License Sold	408,238	376,516	410,606	413,723
Lifetime Licenses Sold	21,997	16,931	20,657	22,284
Other Licenses Sold	24,070	21,298	25,829	27,767
Regulation of Business and Professionals				
Department of Insurance				
Number of active licensed insurance agents	66,987	60,933	49,087	33,970
Total consumer complaints received	3,080	2,850	3,157	3,320
Total consumer complaints closed	2,927	2,901	3,132	3,416
Total dollars recovered for consumers (in thousands)	$ 5,161	$ 5,913	$ 5,955	$ 5,433

2003	2002	2001	2000	1999	1998
16,383	16,379	16,369	16,367	16,351	16,301
11,672	11,223	11,072	10,872	10,712	10,322
3,666	3,666	3,486	3,486	3,288	2,847
$ 44.11	$ 42.59	$ 40.79	$ 39.35	$ 37.65	$ 37.40
11,124	10,968	10,576	10,426	10,416	10,208
$ 185,682	$ 182,188	$ 175,718	$ 164,025	$ 151,336	$ 146,461
224	210	224	N/A	N/A	N/A
192,379	211,965	N/A	N/A	N/A	N/A
22,633	21,176	N/A	N/A	N/A	N/A
18,029	17,166	N/A	N/A	N/A	N/A
3,215	3,090	2,641	N/A	N/A	N/A
52,517	52,605	51,632	51,387	51,235	51,408
734,236	729,291	750,833	731,767	757,708	728,411
431,615	458,412	443,432	429,441	542,633	566,419
10,143	9,659	9,535	10,150	9,799	9,430
26,975	27,342	26,699	24,736	26,923	27,244
25,866	20,555	16,369	14,032	11,890	10,147
3,661	3,874	4,044	3,802	3,621	2,734
3,345	3,808	3,924	3,855	3,532	3,051
$ 2,573	$ 4,265	$ 2,000	$ 20,203	$ 2,630	$ 1,698

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

	2007	2006	2005	2004	2003	2002
General Government						
Dept of Finance and Administration-Revenue						
Vehicles	180	188	168	162	146	145
Education						
Department of Education						
Vehicles	217	255	244	229	206	207
Higher Education						
Campuses (public institutions)	33	33	33	33	33	33
Health and Human Services						
Department of Health and Human Services						
Buildings	462	467	467	428	448	449
Vehicles	736	668	682	667	668	757
Transportation						
Highway and Transportation Department						
Passenger vehicles	2,635	2,686	2,713	2,714	2,764	2,671
Law, Justice and Public Safety						
Department of Correction						
Correctional units	20	20	19	19	18	18
Vehicles	399	406	391	387	335	334
Arkansas State Pollice						
Police stations	12	12	12	12	12	12
Commissioned officers	544	527	529	533	492	592
Vehicles	854	860	745	685	742	847
Recreation and Resources Devleopment						
Department of Parks and Tourism						
State parks and museums	52	52	52	52	52	52
Vehicles	464	592	548	537	514	502
Game and Fish Commission						
Hatcheries	5	5	5	5	5	5
Vehicles	1,025	1,029	1,054	1,033	1,090	1,051
Boats	568	570	560	560	508	497
Regulation of Business and Professionals						
Vehicles	252	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