STATE OF ARKANSAS

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2003

(With Independent Auditors' Report Thereon)

Governor Mike Huckabee

STATE OF ARKANSAS
OFFICE OF THE GOVERNOR

Mike Huckabee
Governor

March 31, 2004

To the people of Arkansas and the honorable members of the Arkansas Legislature:

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

The improvements found in the auditor's report contained in the Fiscal Year 2003 CAFR display the state's continued efforts in building a strong foundation of financial and managerial reporting.

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

Sincerely yours,

Mike Huckabee

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ACKNOWLEDGEMENTS

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

STATE OF ARKANSAS

Comprehensive Annual Financial Report

For the Fiscal Year ended June 30, 2003

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INTRODUCTORY SECTION (TAB)

STATE OF ARKANSAS
Department of Finance and Administration

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February 20, 2004

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

It is my pleasure to transmit to you the Comprehensive Annual Financial Report of the State of Arkansas (the State) for the fiscal year ended June 30, 2003. The report has been prepared by the Department of Finance and Administration. Responsibility for both the accuracy of data and the completeness and fairness of the presentation, including all disclosures, rests with the Department of Finance and Administration. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position of the State. All disclosures necessary to enable the reader to gain an understanding of the State's financial activities have been included.

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

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

ECONOMIC CONDITION AND OUTLOOK

State Personal Income. Personal income consists of wages and salaries, dividends, interest, rent and transfer payments such as social security and other retirement incomes. Personal income does not include realized capital gains from the sale of assets.

Personal income is measured in current dollars and reached a total of $65,077 million in FY 2003. This represented an increase of $2,330 million or 3.7 percent over FY 2002.

FY 2004 is estimated at $68,348 million (current dollars), an increase of $3,271 million or 5.0 percent over FY 2003.

Employment. In FY 2003, non-agricultural payroll employment leveled off at 1,151,300 jobs. This represented a small decline of 1,700 jobs or 0.1 percent compared to FY 2002.

In FY 2004, non-agricultural payroll employment is estimated to grow from a level of 1,151,300 to 1,165,200 jobs. This represents an increase of 13,900 jobs or 1.2 percent in FY 2004.

FY 2004 Gross General Revenues. The FY 2004 forecast for gross general revenues is $4,286.1 million, an increase of $243.1 million, or 6.0 percent over FY 2003. This includes additional tax increases and one time fund transfers passed in the regular and 1st Extraordinary sessions of 2003. Without the new taxes and fund transfers, gross general revenues are expected to grow by $157.0 million or 3.9 percent.

FY 2003 Net Available General Revenues. Actual net available general revenues distributed totaled $3,250.8 million. This amount is $68.4 million or 2.1 percent above the net available distribution of FY 2002. Included in the amount of $68.4 million is a transfer of $17.3 million from the General Improvement Fund.

FY 2004 net available general revenues are estimated at $3,526.0 million, an increase of $275.2 million or 8.5 percent over FY 2003. This amount includes new revenues or fund transfers of $151.5 million.

New Revenues or Fund Transfers. The amount of $3,526.0 million includes (a) $17.8 million in various (net) new taxes from the regular session; and (b) net new taxes authorized by Act 38 (First Extraordinary Session of 2003) consisting of $54.8 million in tobacco taxes, and $39.9 million from the 3.0% income tax surcharge. Also included are fund transfers of $14.0 million from the Unclaimed Property Fund, and $25.0 million from the Property Tax Fund.

FY 2004 Arkansas State Wage and Salary Disbursements are estimated at $35.9 million, an increase of $1.8 million or 5.2 percent.

FY 2004 U.S. Gross Domestic Product (Output). This summary is based on the baseline forecast of Global Insight, Inc. During FY 2004, the United States economy is expected to produce final goods and services valued at $9,972 billion in 1996 dollars. This is an increase of $417 billion or 4.4 percent. The GDP price deflator is expected to increase 2.2 percent and the consumer price index may increase by 2.8 percent.

U.S. Gross Domestic Product in current dollars is estimated at $11,385 billion, an increase of $708 billion or 6.6 percent.

MAJOR INITIATIVES

Highways and Transportation

Arkansas State Highway and Transportation Department (AHTD) construction projects have been plentiful across the state. While AHTD maintains over 16,000 miles of roadways, construction projects range from simple overlays of existing highway to replacing bridges, adding passing lanes and creating new roads.

Notable improvements have been seen on Arkansas' Interstate System as the five-year Interstate Rehabilitation Program (IRP) moved through the third year. By the mid-2003, 50 roadway projects totaling over 350 miles and $970 million had been let to contract since construction began in the spring of 2000. Thirty-one roadway projects totaling 224 miles of new or resurfaced Interstate were complete while another 132 miles were under construction. Completed jobs include 48 miles on nine projects on I-30, 141 miles on eight projects along I-40, 28 miles on three projects on I-55 and one seven-mile project on I-540.

Other significant projects included work on future Interstate 49 (Highway 71). Designated by Congress as a High Priority Corridor in the 1991 Intermodal Surface Transportation Efficiency Act (ISTEA), approximately $650 million has been spent on major improvements to this corridor.

As one of Arkansas' most traveled roadways, Highway 65 continues to be a priority for upgrading. In Faulkner County, more than $38 million has been let to contract to widen the highway to four and five lanes from Interstate 40 to north of Damascus – approximately 21 miles. In the South, 40 miles on seven projects have been completed for just under $70 million between Pine Bluff and Lake Village. Three projects totaling 15 miles and $28 million are under construction. Five more projects worth almost $70 million on 28 miles are remaining to complete the widening of Highway 65 from Pine Bluff to just south of Lake Village.

Other well-traveled corridors include Highways 67 and 412. Highway 67 has construction underway for a new location from Highway 18 to Highway 37 north of Newport at a cost of $27 million. Highway 412 has projects totaling almost $42 million underway to widen to four lanes east and west of Paragould, and to replace the St. Francis River Bridge.

Arkansas Web Site

After being ranked first in the nation for delivering online services to constituents by researchers at the Taubman Center for Public Policy at Brown University in 2002, the redesigned Arkansas State Web portal continues to get attention. Most recently, the state's official Web site (**www.Arkansas.gov**) was singled out in the 2003 Best of the Web national competition for eGovernment excellence. The Arkansas portal was ranked fifth among a field of more than 260 public sector Web sites, marking the first time the state's Web efforts earned a top-five placement in the contest.

The 2003 Best of the Web competition was conducted by the Center for Digital Government, an international research and advisory institute on the use of information technology in government. Now in its eighth year, Best of the Web evaluates government Web sites based on their innovation, Web-based delivery of public services, efficiency, economy, and functionality.

"Our overriding goal is to make it easier for Arkansans to deal with their state government," said Governor Mike Huckabee. "Each time we develop a new online application, we want to simplify the process. I'm delighted our efforts were recognized in this year's Best of the Web competition. We're not going to be satisfied yet, though. We'll continue to work hard to offer additional online services."

Launched in July 1997, the Arkansas.gov portal supports 170 state agencies and processed more than 1.5 million online transactions last year. The state's portal features more than 250 interactive services that help constituents interact more efficiently with government, including car tag renewals, property tax payments, business tax filings, and game and fish licenses. Arkansas Information Consortium, a Little Rock-based subsidiary of eGovernment firm NIC (Nasdaq: EGOV), manages Arkansas.gov on behalf of the state.

Education

The Federal Deposit Insurance Corporation (FDIC) announced the signing of a *Money Smart* Alliance Program agreement that will make its *Money Smart* financial education curriculum available to all 11th and 12th grade students in Arkansas public high schools. Arkansas is the first state to promote a statewide financial education program in its school system. In the 2002 – 2003 school year, there were more than 60,000 11th and 12th graders in Arkansas public high schools.

The FDIC developed the award-winning *Money Smart* curriculum to help adults develop their money management skills, understand basic financial services, and build confidence about effectively using banking services. However, the curriculum is designed to be flexible enough to meet different levels of need, including high school students. Among the topics that are covered are basics of borrowing, how to save effectively, consumer rights, keeping track of your money, and how credit histories affect your credit future. One of the most popular modules teaches students how to calculate interest rates so that they will understand exactly how much they will end up paying for items bought on credit. *Money Smart* is available in English, Spanish, Chinese, and Korean; a Vietnamese version will be released in early 2004.

FDIC Regional Director John F. Carter, who signed on behalf of the agency, said: "This is another fine day for the *Money Smart* program. This alliance will provide young adults throughout the Arkansas public high school system the opportunity to establish a sound personal financial foundation that will carry them throughout their adult lives. We at the FDIC are very proud to be a part of this unprecedented partnership which will make *MoneySmart* available to an entire state school system. We truly appreciate the vision and commitment of the CFT, the ACB and the Arkansas Department of Workforce education, which together have made this alliance possible."

On November 21, 2002, the Arkansas Supreme Court affirmed a lower court ruling that the current Arkansas school-funding system is unconstitutional. The Court concluded that, "the State has not fulfilled its constitutional duty to provide the children of this state with a general, suitable, and efficient school-funding system." Since that time the Department of Education has worked to design a delivery system that would meet the court mandate. The Arkansas Legislature passed Act 60 of the special legislative session which recessed on February 6, 2004, which mandates the consolidation of certain smaller school districts. Also passed were various funding bills which will provide additional revenues to pay for educational reforms dictated in the November 2002 Arkansas Supreme Court decision. The Supreme Court also appointed two special masters, who are currently in the process of reviewing the State's compliance with the Court's order.

Health and Human Services

During FY 2003, The Department of Human Services provided services to over 1 million citizens in the State of Arkansas through its 13 divisions and offices. Total expenditures for the Department in 2003 totaled $3.1 billion with $2.78 billion in direct program expenditures. Expenditures from the Medicaid program totaled $2.47 billion and composed the most significant portion of the Departmental expenditures. In FY 2003 the Department commenced operational changes to insure compliance with the federally mandated Health Insurance Portability and Accountability Act (HIPAA) of 1996. This Federal legislation prohibits disclosing protected health information (PHI) except as permitted or required by the *Standards for Privacy of Individually Identifiable Health Information*.

The University of Arkansas for Medical Sciences (UAMS), the Arkansas Department of Human Services (DHS) and the Arkansas Medical Society have launched a unique new service for obstetrical care providers in Arkansas that has the potential to reduce the number of babies born in Arkansas with severe medical problems – and save the State millions in prenatal care and long-term care for those children. The service is the first of its kind in the nation.

On August 20, 2003, UAMS Chancellor I. Dodd Wilson, M.D. and DHS Director Kurt Knickrehm announced creation of the "ANGELS" service, with $9.5 million in annual funding from the federal Medicaid program through DHS. The program's name is an acronym for Antenatal and Neonatal Guidelines, Education, and Learning System. UAMS high-risk pregnancy experts worked with the DHS Arkansas Medicaid program to obtain federal Medicaid funds for the project.

"We anticipate considerable savings for the State from reducing the number of medically fragile babies – and that doesn't consider the savings in pain and suffering by the children and their families," Curtis L. Lowery, M.D., ANGELS director and director of maternal-fetal medicine at UAMS, said.

"Since the State Medicaid program pays for nearly half of all births in Arkansas, we have a heavily vested interest in keeping moms and babies healthy," said DHS Director Kurt Knickrehm. "As the state's largest insurer and as stewards of public dollars, we must strive to ensure that our services have a positive impact on people's lives while reducing the cost to the State."

The "ANGELS" service will include clear guidelines for diagnosing and treating high-risk pregnancies, continuing medical education for Arkansas obstetricians and family practice physicians, and procedures for referring pregnant women with severe medical complications to UAMS for specialized care. Obstetrical and neonatal health care providers will have around-the-clock access to experts in high-risk pregnancy at UAMS.

"The Arkansas Medicaid program has made it possible for UAMS to work even more closely with obstetrical care providers across Arkansas," Lowery said. "This is an enhancement of the great relationship UAMS has enjoyed with Arkansas' obstetricians and family practice physicians. Thanks to the Arkansas Medicaid program, we're able to work with local obstetricians to create a triage system that we believe will become a national model." Triage is the process of ranking patients according to the severity of their illnesses and assigning them to different levels of care.

Lowery predicts the service will reduce the state's costs for Medicaid-covered pregnancy care and long-term care of children born with serious health problems such as prematurity, low birth-weight, birth defects or brain damage. The number of women in Arkansas who are eligible for Medicaid coverage of prenatal care has increased from approximately 14,800 last year to approximately 22,200, thanks to an expansion of the Arkansas Medicaid program funded by part of the state's share in the nationwide tobacco settlement.

The Arkansas Department of Health accomplished much to improve the health status of Arkansans in FY 2003. By focusing on the Department's 2003 strategic goals, the Department made progress in identifying trends that affect the public's health and addressing these trends through prevention.

The chronic disease programs encouraged Arkansans to adopt healthy lifestyles and avoid risks that lead to disability and premature death. Concerns about improving the health of children and adolescents prompted the State legislature to pass Act 1220 to create the Child Health Advisory Committee. This committee will address childhood obesity and develop statewide nutrition and physical activity standards. Their work will target ways to provide students with the skills and encouragement to adopt healthy lifestyles.

The Tobacco Settlement funds continued to support efforts to reduce tobacco use through public education, community programs, school programs, helping smokers quit, and enforcement of laws prohibiting sales to minors. Community grants were awarded to meet the tobacco prevention and education goals of preventing initiation of tobacco use among youth, promoting smoking cessation, eliminating exposure to secondhand smoke, and identifying and eliminating disparities. Local coalitions provide activities to raise awareness about the effects of tobacco use, offer cessation programs, improve signage regarding sales to minors, conduct teen tobacco summits, gather data about tobacco use, and sponsor nationally known cancer survivors to speak about the dangers of tobacco use.

Through the Hometown Health Improvement (HHI) project, the Arkansas Department of Health involved more communities in assessing, planning, implementing and evaluating public health initiatives. HHI collaboratives, designed to support and sustain leadership in enhancing the local capacity to improve health, grew from 36 to 45 sites.

Through the University of Arkansas for Medical Sciences' College of Public Health and the ADH Workforce Development office, the Department offered formal and continuing education to increase the knowledge of public health colleagues. These opportunities help to assure a highly motivated and skilled workforce dedicated to improving the health of Arkansans.

The Department created an Office of Public Health Preparedness, strengthening the State's capacity to deal with public health threats that might take the form of bioterrorism or emerging diseases. Under this leadership, all 75 counties developed plans to make vaccines available, if needed, within 7 – 10 days. To test their preparedness, Baxter County replicated a mass vaccination event during annual dispensing of flu shots, which was recognized nationally as a "smart practice."

A new Biosafety Level III laboratory better prepared the Department of Health to detect substances used for bioterrorism. Passage of Act 1723 of 2003 also authorized construction of a new public health laboratory facility. When completed, it will vastly improve the Department's laboratory resources not only to combat disease outbreaks or agents of bioterrorism, but also to support routine testing.

FINANCIAL MANAGEMENT

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

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

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

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

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

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

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

Internal Controls

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

Budgetary Control

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

Debt Administration

The Constitution of the State of Arkansas does not limit the amount of general obligation bonds which may be issued by the State; however, no such bonds may be issued unless approved by the voters of the State at a general election or special election held for that purpose. The total outstanding general obligation bonded indebtedness, including special obligation and other debt instruments, of the governmental fund types of the State as of June 30, 2003, was approximately $921 million. Arkansas currently has a rating of Aa2 from Moody's Investors Service and a rating of AA from Standard and Poors for General Obligation Bonds.

Cash Management

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

Risk Management

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

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

Audit

The firm of KPMG LLP in coordination with the State of Arkansas Division of Legislative Audit performed the audit for the fiscal year ended June 30, 2003. Auditing standards generally accepted in the United States of America were used by the auditors in conducting the engagement. The auditors' report on the basic financial statements is included in the financial section of this report.

Acknowledgments

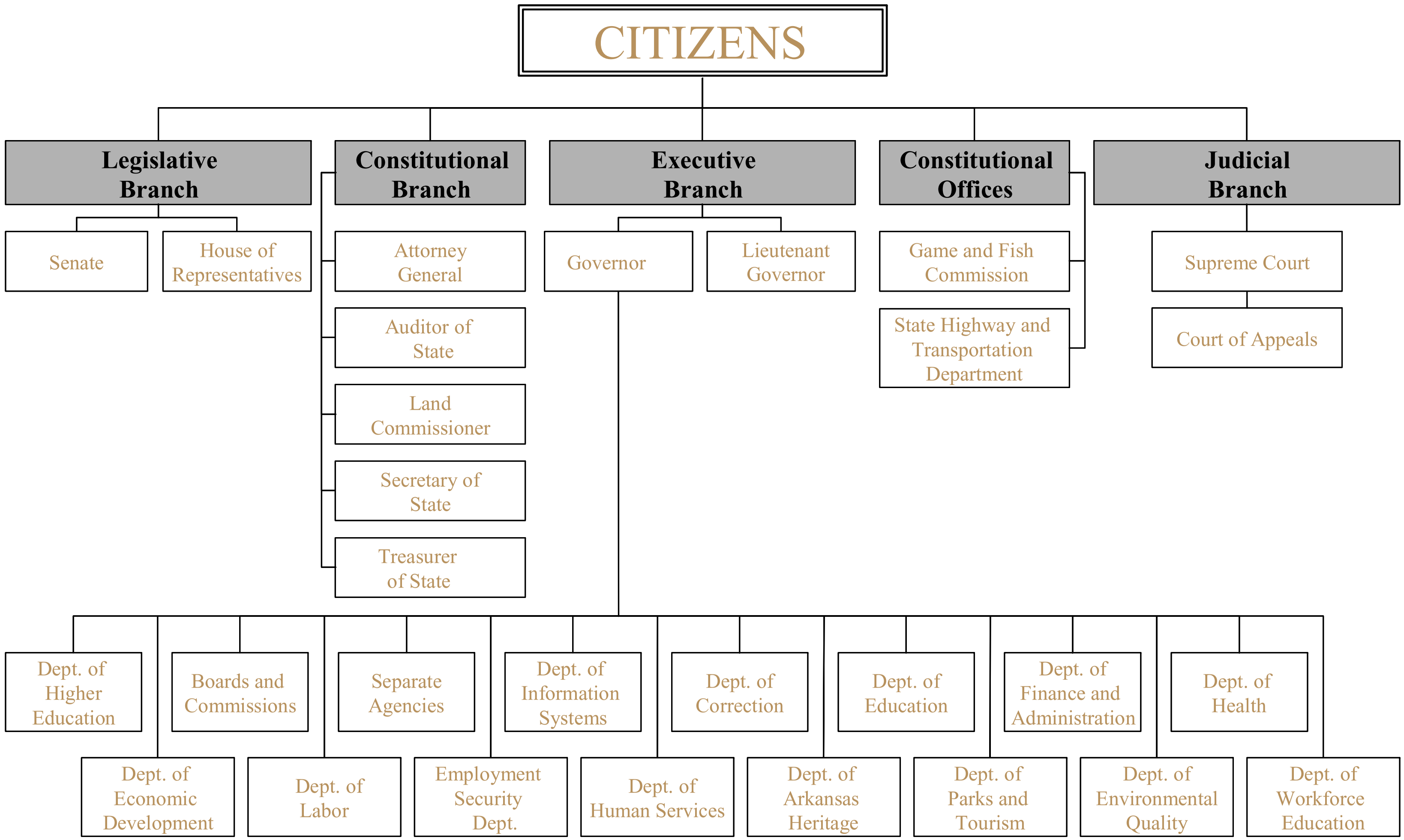
Governor Mike Huckabee's commitment to building a state reporting structure that will produce accurate and timely financial reporting is reflected in this report. Great strides have been made, additional challenges will be met and additional improvements in governmental accountability will be achieved. Additional information provided to market analysts, potential investors, and other users of this financial information will reduce operating costs for the State. Agency directors and the Legislature will have more complete and accurate information to fund and operate agencies than ever before. The Governor's commitment and leadership of this project demonstrates his firm belief in our effort to continuously improve our business processes.

This report would not be possible without the continued support of all State agencies that provide financial data. The future success of this project depends on their continued cooperation and support.

Sincerely,

Richard A. Weiss, Director

ORGANIZATIONAL CHART



State of Arkansas

Principal Officials

Elected Officials	Legislative Branch	Supreme Court
Governor Mike Huckabee	President Pro Tempore Jim Hill	Chief Justice W.H. “Dub” Arnold
Lieutenant Governor Winthrop P. Rockefeller	Speaker of the House Herschel Cleveland	Associate Justice Robert U. Brown
Treasurer of State Gus Wingfield		Associate Justice Annabelle Clinton Imber
Auditor of State Jim Wood		Associate Justice Jim Hannah
Secretary of State Charlie Daniels		Associate Justice Donald L. Corbin
Attorney General Mike Beebe		Associate Justice Tom Glaze
Land Commissioner Mark Wilcox		Associate Justice Ray Thornton

FINANCIAL SECTION (TAB)

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

Independent Auditors' Report

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

We were engaged to audit the accompanying statement of activities of the governmental activities and the statement of revenues, expenditures and changes in fund balance of the general fund. These financial statements are the responsibility of the State of Arkansas' management.

We have audited the accompanying statement of net assets of the governmental activities and the general fund balance sheet and the accompanying financial statements of the business-type activities, the aggregate discretely presented component units, each major enterprise fund, and the aggregate remaining fund information of the State of Arkansas as of and for the year ended June 30, 2003. These financial statements are the responsibility of the State of Arkansas's 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. In addition, we did not audit the Higher Education Fund, which represents 82% and 76%, respectively, of the assets and revenues of the business-type activities opinion unit, respectively, and 100% of the assets and revenues of the Higher Education major enterprise fund opinion unit. Additionally, we did not audit the Arkansas Public Employees Retirement Plan, Arkansas State Highway Employees Retirement System, Arkansas Judicial Retirement System, and the Arkansas State Police Retirement System (pension trust funds), which on a combined basis, represent 40% and 33% of the assets and revenues of the aggregate remaining fund information opinion unit. Additionally, we did not audit the War Memorial Stadium Commission Fund, Construction Assistance Revolving Loan Fund or the other Revolving Loan Fund (non-major enterprise funds), which on a combined basis, represent 2% of the assets of the aggregate remaining fund information opinion unit and 3% of the assets of the business-type activities opinion unit. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the aforementioned entities, is based on reports of the other auditors.

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

The State implemented a new statewide financial management system during fiscal year 2002. The new system was predominately implemented by agencies included in the governmental activities and general fund. All internal controls necessary to ensure the proper accounting and reporting of the State's financial results were not in place and operating effectively during fiscal year 2002. As a result, there was a lack of evidential matter in support of recorded transactions and management was unable to furnish us with knowledgeable representation of facts and circumstances regarding certain transactions and financial activities occurring during fiscal 2002. Accordingly, we were unable to express an opinion on the financial statements of the governmental activities and the general fund as of and for the year ended June 30, 2002. Since the amounts reported in the statement of net assets of the governmental activities and the General Fund balance sheet as of June 30, 2002 materially affect the amounts reported in the statement of activities of the governmental activities and the general fund statement of revenues, expenditures and changes in fund balances for the year ended June 30, 2003, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the statement of activities of the governmental activities and the statement of revenues, expenditures, and changes in fund balances of the general fund for the year ended June 30, 2003.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to in the second paragraph 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, the general fund, each major enterprise fund, and the aggregate remaining fund information of the State of Arkansas, as of June 30, 2003, and the respective changes in the financial position and cash flows, where applicable, thereof for the year then ended for the business-type activities, the aggregate discretely presented component units, each major enterprise fund, and the aggregate remaining fund information in conformity with accounting principles generally accepted in the United States of America.

The State adopted the provisions of Governmental Accounting Standards Board Statement No. 41, *Budgetary Comparison Schedules – Perspective Differences* as of July 1, 2002.

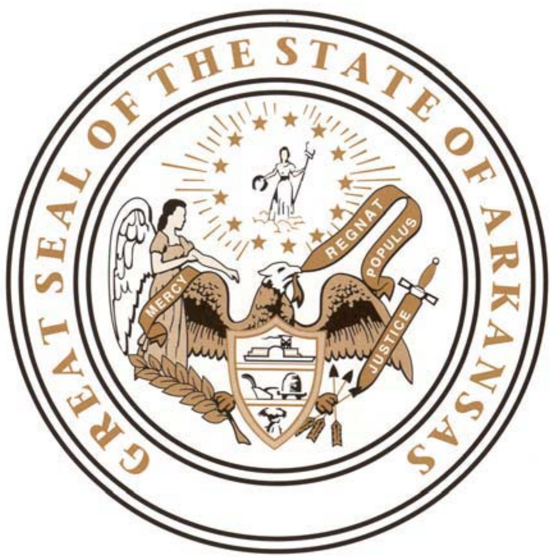
In accordance with *Government Auditing Standards*, we have also issued our report dated February 20, 2004 on our consideration of the State of Arkansas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Audit Standards*, and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis, and the budgetary information and schedules of funding progress on pages 4 through 16 and pages 95 through 100, 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. The information presented in the management's discussion and analysis and the budgetary information relating to the governmental activities statements of activities and the general fund statement of revenues, expenditures, and changes in fund balance may have been impacted by the matters discussed in the fourth paragraph above. 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 referred to in the second paragraph above. 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 financial statements referred to in the second paragraph above, 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 financial statements referred to in second paragraph above, taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

February 20, 2004


GREAT SEAL OF THE STATE OF ARKANSAS
REGNAT POPULUS
MERCY
JUSTICE

MANAGEMENT'S DISCUSSION AND ANALYSIS (TAB)

MANAGEMENT'S DISCUSSION AND ANALYSIS (Introduction)

Management of the State of Arkansas provides this *Management's Discussion and Analysis* of the State of Arkansas'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 of Arkansas is for the fiscal year ended June 30, 2003. Although the State's independent auditors (KPMG) disclaimed an opinion on the Governmental Activities' Statement of Activities and the General Fund's Statement of Revenues, Expenditures, and Changes in Fund Balance due to the effect of the "disclaimed" opinion on the June 30, 2002 Governmental Activities and General Fund opinion units, the June 30, 2003 Governmental Activities' Statement of Net Assets and the General Fund's Balance Sheet received an unqualified "clean" opinion (see Independent Auditors' Report for more information). We believe that the State is making great strides in building a reporting structure that will produce more timely and accurate financial statements in the future. Management has aggressively addressed audit areas of concern by adding professional accounting staff, strengthening internal control, training agency staff, and further defining processes and implementing additional policies and procedures. We encourage readers to consider this information in conjunction with the additional information that is furnished in the letter of transmittal that can be found preceding this narrative, and with the State's financial statements that follow this narrative. The first section of Management's Discussion and Analysis is intended to familiarize readers with the accounting terminology and methods relevant to reporting financial information for the State of Arkansas. The second section of the Management's Discussion and Analysis is a summary of financial and statistical information that should be more meaningful because the readers have been exposed to the accounting terminology and methods used by the State of Arkansas.

Financial Highlights

Government Wide Highlights:

Net Assets – Primary Government – Net assets may serve over time as a useful indicator of a government's financial position. The assets of the State of Arkansas exceeded its liabilities for the fiscal year ended June 30, 2003, by $10.6 billion (presented as "total net assets"). The net assets of the State increased $202 million during the year. Net assets of the governmental activities increased by $200 million while those of business-type activities increased by $2.4 million.

Of the "total net assets," $1.8 billion (17%) is reported as "unrestricted net assets." Unrestricted net assets represent the amount available to meet the State's ongoing obligations to citizens and creditors. An additional portion of the State's net assets, $746 million (7%), represents resources that are subject to external restrictions on how they may be used and are therefore termed "restricted."

The largest portion of the State's net assets, $8.1 billion (76%), reflects its investment in capital assets such as land, buildings, equipment, and infrastructure (road, bridges, and other immovable assets), less any related outstanding debt used to acquire these assets.

Long term debt payable for bonds, capital lease and notes as of June 30, 2003, was $1.9 billion. Additional debt totaling $474 million was entered into during the year.

Fund Highlights:

As of the close of business on June 30, 2003, the State's general fund reported a fund balance of $1.7 billion. Of this balance, $769 million is reported as reserved and $973 million is unreserved. This $769 million that is reserved is approximately 8.5% of the total general fund expenditures for the year. The fund balance in the General Fund increased $64 million during the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

Basic Financial Statements

Government-Wide Financial Statements

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

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

- Statement of Net Assets
- Statement of Activities

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

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

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

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

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

- Education (elementary and secondary)
- Health and human services
- Transportation
- Law, justice and public safety
- Recreation and resource development
- General government
- Labor, commerce, and regulatory

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

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

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 the following:

- Arkansas Student Loan Authority (ASLA)
- Arkansas Development Finance Authority (ADFA)

Complete financial statements of ASLA and ADFA 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, which are as follows:

- Governmental Funds
- Proprietary Funds
- Fiduciary Funds

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

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

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

The State of Arkansas has six proprietary funds.

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

Fiduciary Funds' Financial Statements show the activity of the funds used to account for resources held for the benefit of parties outside the State government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the State's own 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, Police, Teacher and Arkansas Public Employees Retirement System
- State Insurance Department and Other Agency Funds

Notes to the Financial Statements

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

Required Supplementary Information

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

Other Supplementary Information

Combining Financial Statements

The combining financial statements referred to earlier in connection with proprietary funds and fiduciary funds are presented following the required supplementary information.

GOVERNMENT WIDE HIGHLIGHTS & ANALYSIS

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

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

	Governmental Activities		Business-Type Activities		Totals	
	2003	2002	2003	2002	2003	2002
Current Assets	$2,355,204	$2,029,023	$1,086,451	$1,264,626	$3,441,655	$3,293,649
Noncurrent Assets	182,429	378,380	1,301,142	733,423	1,483,571	1,111,803
Capital Assets	7,950,199	7,635,524	1,613,517	1,493,527	9,563,716	9,129,051
Total Assets	10,487,832	10,042,927	4,001,110	3,491,576	14,488,942	13,534,503
Current Liabilities	682,786	655,681	299,255	308,744	982,041	964,425
Long-Term Liabilities	1,217,652	999,528	1,639,575	1,122,961	2,857,227	2,122,489
Total Liabilities	1,900,438	1,655,209	1,938,830	1,431,705	3,839,268	3,086,914
Invested in Capital Assets, Net of Related Debt	7,009,304	6,762,019	1,106,738	1,014,975	8,116,042	7,776,994
Restricted	178,871	138,361	567,056	663,139	745,927	801,500
Unrestricted	1,399,219	1,487,338	388,486	381,757	1,787,705	1,869,095
Total Net Assets	$ 8,587,394	$ 8,387,718	$ 2,062,280	$ 2,059,871	$ 10,649,674	$ 10,447,589

The net assets of the governmental activities increased $200 million while the net assets of the business-type activities increased $2.4 million. The increase in net assets relative to the governmental and business-type activities were primarily attributable to increases in tax and other revenue increases that were greater than expense increases during fiscal 2003.

The book value of capital assets as of June 30, 2003, was $7.9 billion for governmental activities and $1.6 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.

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

	Governmental Activities	
	2003	**2002**
Program Revenues:		
Charges for services	$ 719,961	$ 624,197
Operating grants and contributions	3,802,814	3,425,029
Capital grants and contributions	15,419	6,707
General Revenues:		
Personal and corporate taxes	1,722,167	1,678,750
Sales and use taxes	1,788,327	1,733,917
Motor fuel taxes	439,483	432,771
Other taxes	638,469	648,209
Total Revenues	9,126,640	8,549,580
Program Expenses:		
Education	2,326,854	2,236,210
Health and human services	3,785,128	3,304,714
Transportation	620,424	522,826
Law, justice and public safety	441,258	428,701
Recreation and resources development	243,519	218,534
General government	1,048,805	940,426
Labor, commerce and regulatory	115,983	98,494
Business-type expenses		
Total Expenses	8,581,971	7,749,905
Other:		
Unrestricted investment earnings	46,139	63,121
Miscellaneous Income	292,716	45,374
Loss on sale of fixed assets	(31,910)	(14,696)
Transfers-internal activities	(596,261)	(609,619)
Interest expense	(55,677)	(51,215)
Total Other	(344,993)	(567,035)
Increase (decrease) in net assets	199,676	232,640
Net Assets - Beginning	8,387,718	8,155,078
Net Assets - Ending	$ 8,587,394	$ 8,387,718

Typical for governmental activities, program expenses exceeded program revenues. The excess program expenses of $4.1 billion were funded by normal State taxing activities.

Business-Type Activities		Total	
2003	2002	2003	2002
$ 916,577	$ 1,161,474	$ 1,636,538	$ 1,785,671
544,918	160,833	4,347,732	3,585,862
88,396	70,832	103,815	77,539
		1,722,167	1,678,750
		1,788,327	1,733,917
		439,483	432,771
265,911	249,225	904,380	897,434
1,815,802	1,642,364	10,942,442	10,191,944
		2,326,854	2,236,210
		3,785,128	3,304,714
		620,424	522,826
		441,258	428,701
		243,519	218,534
		1,048,805	940,426
		115,983	98,494
2,511,413	2,375,056	2,511,413	2,375,056
2,511,413	2,375,056	11,093,384	10,124,961
48,295	39,565	94,434	102,686
58,436	65,672	351,152	111,046
(4,972)	(1,956)	(36,882)	(16,652)
596,261	609,619		
		(55,677)	(51,215)
698,020	712,900	353,027	145,865
2,409	(19,792)	202,085	212,848
2,059,871	2,079,663	10,447,589	10,234,741
$ 2,062,280	$ 2,059,871	$ 10,649,674	$ 10,447,589

FUND HIGHLIGHTS & ANALYSIS

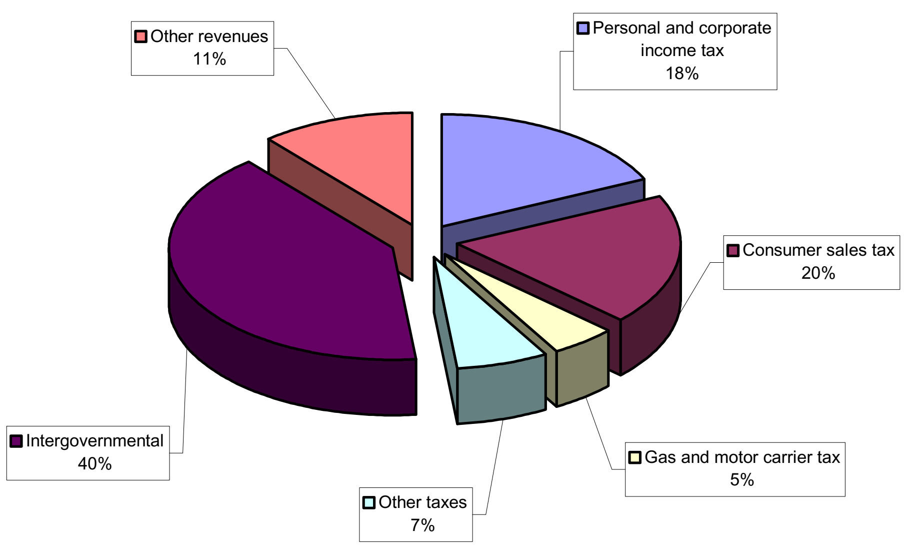
General Government Functions

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

Revenues by Source - General Fund

Revenues	2003	2002	Increase (Decrease) Percent
Personal and corporate income tax	$ 1,714,603	$ 1,671,615	2.57%
Consumer sales tax	1,770,946	1,719,686	2.98%
Gas and motor carrier tax	439,614	430,735	2.06%
Other taxes	638,510	647,387	-1.37%
Intergovernmental	3,823,171	3,417,665	11.87%
Other revenues	1,047,577	704,387	48.72%
Total	$ 9,434,421	$ 8,591,475	9.81%

General Fund Revenue by Source - 2003

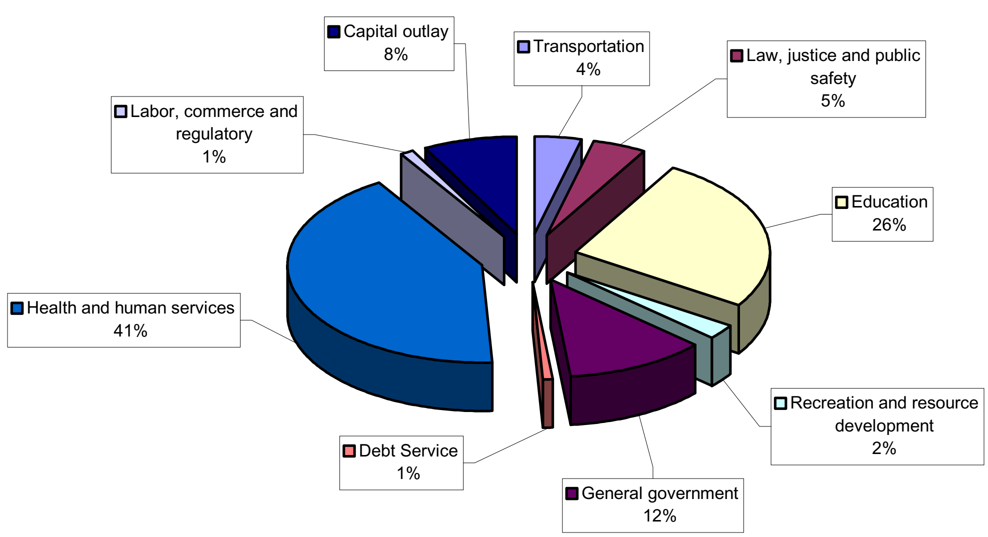


Governmental revenues increased by 6.34% from the prior year. Other Revenues increased $343 million due to significant increases resulting from Title XIX matching revenues and multiple increases in various types of licenses, fees and permits.

Expenditures by Function

Expenditures	2003	2002	Increase (Decrease) Percent
Education	$ 2,324,631	$ 2,231,401	4.18%
Health and human services	3,772,155	3,293,609	14.53%
Transportation	346,282	257,976	34.23%
Law, justice and public safety	416,353	405,434	2.69%
Recreation and resource development	221,987	196,731	12.84%
General government	1,044,164	902,922	15.64%
Labor, commerce and regulatory	108,378	96,655	12.13%
Debt Service	91,031	93,392	-2.53%
Capital outlay	692,898	810,947	-14.56%
Total	$ 9,017,879	$ 8,289,067	8.79%

General Fund Expenditures - 2003



Expenditures increased in fiscal year 2003 by 8.79% as the demand for governmental services rose in all functional areas except debt service and capital outlay. A significant variance occurred in the transportation functional expense area, with the primary increase resulting from increased commodities and materials expenditures utilized in the repairs and maintenance of the State's highways from fiscal year 2002 to 2003.

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 2003, the State's general fund reported an ending fund balance of $1.7 billion, which is an increase of $64 million in comparison to fiscal year 2002.

$973 million or 56% of the total fund balance is the unreserved fund balance, which is available for spending in the coming year. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed for certain items. $769 million or 44% of the total fund balance is reserved.

Capital Assets & Debt Administration

Capital Assets

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

The investment in capital assets for the governmental and business-type activities was $14.7 billion and the accumulated depreciation was $5.1 billion at June 30, 2003. The net book value is $9.6 billion. Depreciation expense was $350 million for the governmental activities and $105 million for the business-type activities.

Net capital assets of the governmental activities increased by $315 million due to current year capital asset acquisitions primarily related to construction in progress by the Arkansas Highway and Transportation Department.

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

Debt Administration

Governmental Activities

The State's governmental activities had $1,101 million in bonds, notes payable, and capital leases outstanding at June 30, 2003, versus $898 million at June 30, 2002. The net increase is $203 million.

New debt resulted primarily from the issuance of $215 million of Series 2002 Highway Revenue Bonds. The Soil and Water Conservation Commission issued $40 million of Series 2003 Water, Waste and Pollution Revenue Bonds to defease $32 million of outstanding bonds. Bonds, notes payable and capital leases decreased $43 million by principal payments made during the year.

The State has approximately $104 million of claims and judgments outstanding at June 30, 2003, compared to $112 million at June 30, 2002. Other obligations include accrued sick leave and vacation pay.

Business-type Activities

The State's business-type activities had $779 million in bonds and capital leases outstanding at June 30, 2003, versus $650 million at June 30, 2002. The net increase is $129 million.

New debt resulted primarily from the issuance of $111 million in revenue bonds by the University of Arkansas at Fayetteville. Additional amounts were issued by Pulaski Technical College, $16 million, and by Mid-South Community College, $10 million. Other obligations included accrued sick leave and vacation pay.

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

General Obligation Bonds	
Highway and Transportation (2000 - 2002)	Aa2
Soil and Water Conservation (1995 - 2003)	Aa2
Department of Higher Education (1991 - 1998)	Aa2
Special Obligation Bonds	
Department of Workforce Education (1992)	Not rated
Colleges and Universities	
Henderson State University	Not rated
South Arkansas Univ - Magnolia	Aaa
South Arkansas Univ Tech - Camden	Not rated
Arkansas State University - Beebe	Aaa
Arkansas State University - Jonesboro	Aaa
Arkansas State Univ - Mountain Home	Aaa
Arkansas Tech University	Aaa
Univ of Arkansas at Fayetteville	A1
Univ of Arkansas at Little Rock	A1
Univ of Arkansas for Med Sciences	A1
Univ of Arkansas at Monticello	A1
Univ of Arkansas at Pine Bluff	A1
Univ of Central Arkansas	A3
Univ of Ark at Hope Comm College	A1
Univ of Ark Comm Coll at Batesville	A1
Univ of Arkansas at Morrilton	A1
Univ of Arkansas at Fort Smith	Aaa
East Arkansas Comm College	Not rated
Garland County Comm College	Not rated
Mid-South Technical College	Not rated
Mississippi County Comm College	Aaa
North Arkansas Comm Tech College	Not rated
Phillips Comm Coll of Univ of Arkansas	A1
Rich Mountain Comm College	Not rated
Northwest Arkansas Comm College	Not rated
Cossatot Technical College	A2
Pulaski Technical College	Aaa
South Arkansas Comm College	A2
Component Units	
Arkansas Student Loan Authority Revenue Bonds (1992 - 2002)	Aaa
Arkansas Development Finance Authority Bonds	A2

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

GENERAL FUND BUDGETARY HIGHLIGHTS

The original expenditures budget as authorized by the Arkansas Legislature was $14.1 billion and the revised expenditure budget was $16.0 billion. The difference between the two amounts is due to the adjustments for appropriation transfers and for such items as miscellaneous federal grants and budget cuts as authorized by the Arkansas Legislature.

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

	Budgeted amounts		Actual
Functions	**Original**	**Final**	**amounts**
Education	$ 2,548,446	$ 2,717,310	$ 2,355,427
General Government	5,193,882	5,407,864	1,354,189
Health and Human Services	3,757,293	3,925,809	3,432,009
Capital Outlay	159,192	1,282,635	737,791

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

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

STATE OF ARKANSAS

Statement of Net Assets

June 30, 2003

(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	$ 376,764	$ 430,655	$ 807,419	$ 73	$ 184,109
Investments	1,184,963	200,391	1,385,354	63,139	194
Receivables, net:					
Accounts	100,866	231,782	332,648		1,046
Taxes	400,343		400,343		
Medicaid	166,972		166,972		
Loans	7,355	29,093	36,448	5,983	797
Capital leases	5,699		5,699		
Interest	9,772	2,598	12,370	5,657	6,641
Agency and trust funds	3,729		3,729		
Internal balances	1,992	(1,992)			
Due from other governments	44,921	19,197	64,118		
Prepaid assets	11,981	2,429	14,410		
Inventories	39,756	16,758	56,514		
Deposits with bond trustee		149,891	149,891		
Current deferred charges	91	25	116		
Other current assets		5,624	5,624		
Total current assets	2,355,204	1,086,451	3,441,655	74,852	192,787
Noncurrent assets:					
Cash and cash equivalents		56,191	56,191		
Receivables, net		237,352	237,352		
Loans and mortgages receivable	76,289		76,289	251,837	195,360
Loans receivable from primary government					140,961
Capital lease receivable	76,186		76,186		84,591
Investments	4,406	359,521	363,927	13,882	1,060,294
External portion of investment pool		651,446	651,446		
Net pension asset	12,779		12,779		
Deferred charges	809		809		8,061
Advances to (from) other funds	11,960	(11,960)			
Other noncurrent assets		8,592	8,592	4,128	4,651
Total noncurrent assets	182,429	1,301,142	1,483,571	269,847	1,493,918
Capital assets (net of accumulated depreciation):					
Land	127,619	70,754	198,373		
Land improvements	88,089		88,089		
Infrastructure	4,887,597	21,188	4,908,785		
Buildings	464,481	1,165,168	1,629,649		
Equipment	214,347	121,072	335,419	20	233
Improvements other than building		32,188	32,188		
Leasehold improvements	659	866	1,525		
Construction in progress	1,915,875	162,412	2,078,287		
Other depreciable assets	251,532	39,869	291,401		
Total capital assets, net of depreciation	7,950,199	1,613,517	9,563,716	20	233
Total noncurrent assets	8,132,628	2,914,659	11,047,287	269,867	1,494,151
Total assets	$ 10,487,832	$ 4,001,110	$ 14,488,942	$ 344,719	$ 1,686,938

STATE OF ARKANSAS

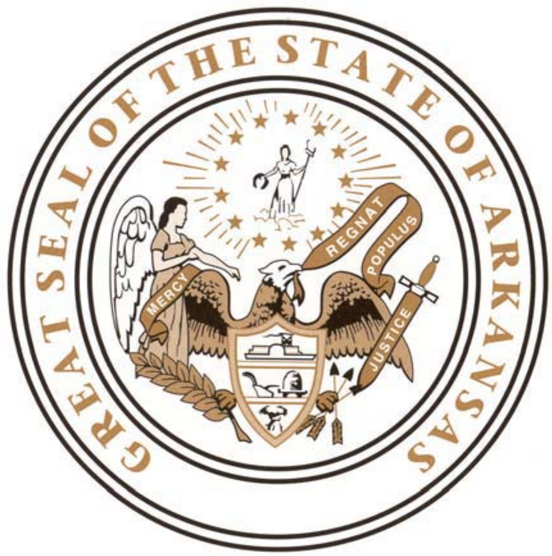
Statement of Net Assets

June 30, 2003

(In thousands)

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Arkansas Student Loan Authority	Arkansas Development Finance Authority
Liabilities					
Current liabilities:					
Accounts payable	$ 69,383	$ 174,190	$ 243,573	$ 1,562	$ 3,276
Accrued interest	12,033	444	12,477		25,652
Accrued and other current liabilities	57,862	14,569	72,431		
Medicaid payable	224,788		224,788		
Income tax refunds payable	206,995		206,995		
Due to other governments	6,428	2,769	9,197		
Workers' compensation benefits payable		11,603	11,603		
Funds held in trust for others		5,267	5,267		
Bonds, notes, and leases payable	38,565	36,153	74,718	10,480	155,950
Claims, judgments, and compensated absences	37,869	19,025	56,894		
Deferred revenue	28,863	28,282	57,145		
Other liabilities		6,953	6,953		
Total current liabilities	682,786	299,255	982,041	12,042	184,878
Long-term liabilities:					
Workers' compensation benefits payable		172,148	172,148		
External portion of investment pool		651,446	651,446		
Bonds, notes, and leases payable	1,062,159	743,151	1,805,310	310,150	1,260,497
Claims, judgments, and compensated absences	154,309	50,399	204,708		
Net pension obligation	1,168		1,168		
Other noncurrent liabilities	16	22,030	22,046		44,844
Deferred revenue		401	401		9,106
Total long-term liabilities	1,217,652	1,639,575	2,857,227	310,150	1,314,447
Total liabilities	1,900,438	1,938,830	3,839,268	322,192	1,499,325
Net assets:					
Invested in capital assets, net of related debt	7,009,304	1,106,738	8,116,042	20	233
Restricted for:					
Unemployment compensation		104,919	104,919		
Debt service	15,606	22,477	38,083		
Other capital projects	38,998	42,566	81,564		
Bond and resolution program					126,245
Program requirements	124,267	205,546	329,813		
Non-expendable		66,807	66,807		
Expendable - capital projects, debt service, loans and other		124,741	124,741	22,507	
Unrestricted	1,399,219	388,486	1,787,705		61,135
Total net assets	8,587,394	2,062,280	10,649,674	22,527	187,613
Total liabilities and net assets	$ 10,487,832	$ 4,001,110	$ 14,488,942	$ 344,719	$ 1,686,938

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


GREAT SEAL OF THE STATE OF ARKANSAS
REGNAT POPULUS
MERCY
JUSTICE

STATE OF ARKANSAS

Statement of Activities

For the year ended June 30, 2003

(In thousands)

Functions/Programs	Expenses	Program revenues: Charges for Services	Program revenues: Operating Grants and Contributions	Program revenues: Capital Grants and Contributions
Primary government:				
Governmental activities:				
Education	$ 2,326,854	$ 10,057	$ 412,428	$ 650
Health and human services	3,785,128	173,949	2,692,349	5,892
Transportation	620,424	132,673	442,028	
Law, justice, and public safety	441,258	24,350	55,761	3,348
Recreation and resources development	243,519	51,626	36,243	4,605
General government	1,048,805	252,146	161,327	924
Labor, commerce, and regulatory	115,983	75,160	2,678	
Interest on long-term debt	55,677			
Total governmental activities	8,637,648	719,961	3,802,814	15,419
Business-type activities:				
Higher Education	1,987,141	915,015	385,443	69,699
Workers' Compensation	33,938			
Employment Security	482,669	6	159,475	
War Memorial Stadium	1,799	1,556		
Revolving loan – construction assistance	5,808			9,522
Revolving loans – other	58			9,175
Total business-type activities	2,511,413	916,577	544,918	88,396
Total primary government	$ 11,149,061	$ 1,636,538	$ 4,347,732	$ 103,815
Component units:				
Arkansas Student Loan Authority	$ 11,749	$ 11,975	$	$
Arkansas Development Finance Authority	119,588	121,302		13,079
Total component units	$ 131,337	$ 133,277	$	$ 13,079

Changes in net assets:
Net (expense) revenue
General revenues:
Taxes:
Personal and corporate income
Sales and use
Motor fuel taxes
Others
Total taxes
Investment earnings
Miscellaneous income
Loss on sale of fixed assets
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
	$ (1,903,719)	$	$ (1,903,719)		
	(912,938)		(912,938)		
	(45,723)		(45,723)		
	(357,799)		(357,799)		
	(151,045)		(151,045)		
	(634,408)		(634,408)		
	(38,145)		(38,145)		
	(55,677)		(55,677)		
	(4,099,454)		(4,099,454)		
		(616,984)	(616,984)		
		(33,938)	(33,938)		
		(323,188)	(323,188)		
		(243)	(243)		
		3,714	3,714		
		9,117	9,117		
		(961,522)	(961,522)		
	$ (4,099,454)	$ (961,522)	$ (5,060,976)		
				$ 226	$
					14,793
				226	14,793
	(4,099,454)	(961,522)	(5,060,976)	226	14,793
	$ 1,722,167	$	$ 1,722,167		
	1,788,327		1,788,327		
	439,483		439,483		
	638,469	265,911	904,380		
	4,588,446	265,911	4,854,357		
	46,139	48,295	94,434		
	292,716	58,436	351,152		
	(31,910)	(4,972)	(36,882)		
	(596,261)	596,261			
	4,299,130	963,931	5,263,061		
	199,676	2,409	202,085	226	14,793
	8,387,718	2,059,871	10,447,589	22,301	172,820
	$ 8,587,394	$ 2,062,280	$ 10,649,674	$ 22,527	$ 187,613

STATE OF ARKANSAS

Balance Sheet

Governmental Funds

June 30, 2003

(In thousands)

Assets		General Fund
Cash and cash equivalents	$	376,764
Investments		1,189,369
Receivable, net:		
Accounts		100,866
Taxes		400,343
Medicaid		166,972
Loans		83,644
Capital leases receivable		81,885
Interest		9,773
Due from other governments		44,921
Due from other funds		9,219
Advances to other funds		11,960
Prepaid assets		11,981
Inventories		39,756
Total assets	$	2,527,453
Liabilities and Fund Balance		
Liabilities:		
Accounts payable	$	69,383
Accrued and other current liabilities		57,862
Deferred revenue		198,163
Income tax refunds payable		206,995
Due to other governments		6,427
Due to other funds		3,498
Advances from other funds		18,118
Medicaid claims payable		224,788
Total liabilities		785,234
Fund balance:		
Reserved for:		
Prepaids		11,981
Inventories		39,756
Debt service		27,639
Loans		76,289
Capital leases receivable		76,186
Advances		11,960
Grant programs		108,863
Capital projects		180,643
Transportation programs		186,727
Tobacco settlement		49,023
Unreserved		973,152
Total fund balance		1,742,219
Total liabilities and fund balance	$	2,527,453

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

STATE OF ARKANSAS

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

June 30, 2003

(In thousands)

Total fund balances:		
Governmental funds		$ 1,742,219
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	$ 233,073	
Infrastructure assets	8,103,046	
Other capital assets	3,583,535	
Accumulated depreciation	(3,969,455)	
Total capital assets, net		7,950,199
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.		900
The Arkansas Judicial Retirement Plan has been funded in excess of annual required contributions, creating a net pension asset. This asset is not a current available financial resource and is not reported in the funds.		12,779
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.		169,300
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	$ (1,066,961)	
Claims, judgments, and compensated absences	(192,178)	
Deferred bond refunding loss	1,064	
Unamortized bond issue premium	(17,484)	
Unamortized bond issue discounts	773	
Net pension obligation	(1,168)	
Other long term debt	(16)	
Accrued interest on bonds	(12,033)	
Total long-term liabilities		(1,288,003)
Net assets of governmental activities		$ 8,587,394

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

STATE OF ARKANSAS

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

For the year ended June 30, 2003

(In thousands)

	General Fund
Revenues:	
Taxes:	
Personal and corporate income	$ 1,714,603
Consumer sales	1,770,946
Gas and motor carrier	439,614
Other taxes	638,510
Intergovernmental	3,823,171
Licenses, permits, and fees	750,872
Investment earnings	46,139
Miscellaneous	250,566
Total revenues	9,434,421
Expenditures:	
Current:	
Education	2,324,631
Health and human services	3,772,155
Transportation	346,282
Law, justice, and public safety	416,353
Recreation and resources development	221,987
General government	1,044,164
Labor, commerce and regulatory	108,378
Debt service:	
Principal retirement	40,066
Interest Expense	50,341
Bond issuance costs	624
Capital outlay	692,898
Total expenditures	9,017,879
Excess of revenues over expenditures	416,542
Other financing sources (uses):	
Proceeds from long-term obligations	224,020
Proceeds from bond refunding	31,150
Payments to refunding escrow agents	(32,737)
Bond Discounts/Premiums	10,329
Capital leases	10,846
Transfers in	5,266
Transfer out	(601,527)
Total other financing sources and uses	(352,653)
Net change in fund balances	63,889
Fund balance-beginning (as restated)	1,678,330
Fund balance-ending	$ 1,742,219

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

STATE OF ARKANSAS

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

For the year ended June 30, 2003

(In thousands)

Net change in fund balance-total governmental funds		$ 63,889
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	$ 692,898	
Depreciation expense	(349,656)	
Excess of capital outlay over depreciation expense		343,242
Capital assets donated are treated as revenue in the statement of activities.		7,921
Bond proceeds provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the statement of net assets.		(255,170)
Bonds issued at a premium provide current financial resources to governmental funds, but increase the long-term liabilities in the statement of net assets		(10,728)
Bonds issued at a discount reduce current financial resources to governmental funds, but decrease the long-term liabilities in the statement of net assets		398
Bond issuance costs are expenditures to governmental funds, but are deferred charges in the statement of net assets.		624
Contributions to certain pension plans use current financial resources to governmental funds but decrease the net pension obligation or increase the net pension asset.		786
Payments to refunding escrow agent use current financial resources to governmental funds, but reduces long-term liabilities in the statement of net assets		31,620
Loss on early retirement of bonds reduce current financial resources to governmental funds, but decrease the long-term liabilities in the statement of net assets		1,117
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		(10,846)
Repayment of long-term debt is reported as an expenditure in governmental funds, repayment reduces long-term liabilities in the statement of net assets. In the current year, these amounts consist of:		
Bond principal retirement		40,066
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 increased by this amount this year.		23,359
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:		
Loan repayment that is treated as an expenditure in the governmental funds and a reduction of long term debt in the statement of net assets	855	
Lease cancellation recorded only in the statement of net assets	174	
Interest accreted on capital appreciation bonds	(3,097)	
Increase in claims, judgments, and compensated absences	(384)	
Amortization of bond premium, discount and issuance costs	1,825	
Loss on sale of fixed assets	(31,910)	
Increase in accrued interest	(4,065)	
Total additional expenditures		(36,602)
Change in net assets of governmental activities		$ 199,676

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

STATE OF ARKANSAS

Statement of Net Assets

Proprietary Funds

June 30, 2003

(In thousands)

	Enterprise Funds			
Assets	**Higher Education**	**Workers' Compensation Commission**	**Non-Major Enterprise Funds**	**Total**
Current assets:				
Cash and cash equivalents	$ 204,997	$ 34,960	$ 190,698	$ 430,655
Receivables, net:				—
Accounts	153,623	8,618	69,541	231,782
Loans	9,540		19,553	29,093
Interest	2,002	64	532	2,598
Due from other funds	1,679	387	1,616	3,682
Other governments	9,117		10,080	19,197
Investments	62,332	121,803	16,256	200,391
Prepaid expenses	2,402	27		2,429
Inventories	16,727		31	16,758
Deposits with bond trustee	149,891			149,891
Deferred charges			25	25
Other current assets	5,624			5,624
Total current assets	617,934	165,859	308,332	1,092,125
Noncurrent assets:				
Cash and cash equivalents				
Restricted	55,564		627	56,191
Receivables, net	44,863		192,489	237,352
Investments				—
Restricted	105,751		12,809	118,560
Unrestricted	233,752	7,209		240,961
External portion of investment pool	651,446			651,446
Other noncurrent assets	7,482		1,110	8,592
Total noncurrent assets	1,098,858	7,209	207,035	1,313,102
Capital assets:				
Land	67,202	580	2,972	70,754
Infrastructure	80,466			80,466
Buildings	1,868,387	2,272	18,076	1,888,735
Equipment	408,363	1,423	6,401	416,187
Improvements other than building	46,655			46,655
Leasehold improvements	2,570		245	2,815
Construction in progress	162,323		89	162,412
Other depreciable assets	104,097	94		104,191
Less accumulated depreciation	(1,144,141)	(1,944)	(12,613)	(1,158,698)
Total capital assets, net of depreciation	1,595,922	2,425	15,170	1,613,517
Total assets	$ 3,312,714	$ 175,493	$ 530,537	$ 4,018,744

STATE OF ARKANSAS

Statement of Net Assets

Proprietary Funds

June 30, 2003

(In thousands)

	Enterprise Funds			
	Higher Education	Workers' Compensation Commission	Non-Major Enterprise Funds	Total
Liabilities				
Current liabilities:				
Accounts payable and other current liabilities	$ 83,590	$ 4	$ 90,596	$ 174,190
Accrued interest payable			444	444
Accrued and other current liabilities	13,792	157	620	14,569
Due to other funds	1,937		3,737	5,674
Due to other governments	155		2,614	2,769
Funds held in trust for others	5,267			5,267
Workers' compensation benefits payable		11,603		11,603
Bonds, notes, and leases payable	29,983	160	6,010	36,153
Claims, judgments, and compensated absences	18,843	31	151	19,025
Deferred revenue	24,640		3,642	28,282
Other current liabilities	6,953			6,953
Total current liabilities	185,160	11,955	107,814	304,929
Noncurrent liabilities:				
Workers' compensation benefits payable		172,148		172,148
External portion of investment pool	651,446			651,446
Advances from other funds	11,960			11,960
Bonds, notes, and leases payable	644,557	1,680	96,914	743,151
Claims, judgments, and compensated absences	48,116	493	1,790	50,399
Other noncurrent liabilities	14,880	7,150		22,030
Deferred revenue	329		72	401
Total noncurrent liabilities	1,371,288	181,471	98,776	1,651,535
Total liabilities	1,556,448	193,426	206,590	1,956,464
Net assets:				
Invested in capital assets, net of related debt	1,092,509		14,230	1,106,739
Restricted:				
Unemployment compensation			104,919	104,919
Debt service	22,018		459	22,477
Capital projects	42,398		168	42,566
Program requirements	1,679		203,867	205,546
Nonexpendable	66,807			66,807
Expendable - capital projects, debt service, loans and other	124,741			124,741
Unrestricted	406,114	(17,933)	304	388,485
Total net assets (deficit)	1,756,266	(17,933)	323,947	2,062,280
Total liabilities and net assets	$ 3,312,714	$ 175,493	$ 530,537	$ 4,018,744

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

STATE OF ARKANSAS

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

Proprietary Funds

Year ended June 30, 2003

(In thousands)

	Enterprise Funds			
	Higher Education	Workers' Compensation Commission	Non-Major Enterprise Funds	Total
Operating revenues:				
Charges for sales and services	$	$	$ 1,556	$ 1,556
Licenses, permits, and fees	915,015		6	915,021
Grants and contributions	307,526			307,526
Investment earnings			9,848	9,848
Miscellaneous	15,843	105	319	16,267
Total operating revenues	1,238,384	105	11,729	1,250,218
Operating expenses:				
Cost of sales and services			497	497
Compensation and benefits	1,183,832	7,671	29,243	1,220,746
Supplies and services	495,930	1,052	12,728	509,710
General and administrative expenses	79,245	24,933	7,662	111,840
Scholarships and fellowships	97,331	15		97,346
Employment Security Division benefit and aid payments			433,684	433,684
Depreciation	103,559	202	919	104,680
Amortization			281	281
Interest			5,235	5,235
Total operating expenses	1,959,897	33,873	490,249	2,484,019
Operating income (loss)	(721,513)	(33,768)	(478,520)	(1,233,801)
Nonoperating revenues (expenses):				
Investment earnings	26,382	2,525	9,540	38,447
Taxes			241,927	241,927
Insurance tax		23,984		23,984
Grants and contributions	77,917		159,475	237,392
Interest and amortization expense	(27,244)	(65)	(85)	(27,394)
Loss on sale of fixed assets	(4,676)	(64)	(232)	(4,972)
Other nonoperating revenue (expense)	42,169			42,169
Total nonoperating revenues (expenses)	114,548	26,380	410,625	551,553
Income (loss) before transfers and contributions	(606,965)	(7,388)	(67,895)	(682,248)
Transfer in	601,119			601,119
Transfer out		(36)	(4,822)	(4,858)
Capital grants and contributions	69,699		18,697	88,396
Change in net assets	63,853	(7,424)	(54,020)	2,409
Total net assets-beginning	1,692,413	(10,509)	377,967	2,059,871
Total net assets-ending	$ 1,756,266	$ (17,933)	$ 323,947	$ 2,062,280

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

STATE OF ARKANSAS

Statement of Cash Flows

Proprietary Funds

For the year ended June 30, 2003

(Expressed in thousands)

	Enterprise Funds			
	Higher Education	**Workers' Compensation Commission**	**Non-major Enterprise Funds**	**Total**
Cash flows from operating activities:				
Cash received from customers	$ 663,654	$	$ 1,579	$ 665,233
Cash received from other government agencies	258,677			258,677
Auxiliary enterprise charges	134,359			134,359
Payments to employees	(974,549)	(7,622)	(29,065)	(1,011,236)
Payments of benefits	(206,320)	(9,227)	(429,875)	(645,422)
Payments to suppliers	(489,477)	(2,164)	(24,140)	(515,781)
Interest received (paid)	316		4,536	4,852
Loan administration received (paid)	(2,048)		(3,312)	(5,360)
Other receipts (payments)	13,458	105	59	13,622
Net cash used in operating activities	(601,930)	(18,908)	(480,218)	(1,101,056)
Cash flows from noncapital financing activities:				
Gifts and grants	101,739		9,522	111,261
Direct lending receipts	94,317			94,317
Direct lending payments	(98,913)			(98,913)
Taxes		14,628	227,238	241,866
Operating grants and contributions	601,119		168,986	770,105
Other receipts (payments)	11,238			11,238
Net transfers to other funds	6,751	(36)	(4,570)	2,145
Net cash provided by noncapital financing activities	716,251	14,592	401,176	1,132,019
Cash flows from capital and related financing activities:				
Principal paid on capital debts and leases	(47,053)	(85)	(5,735)	(52,873)
Interest paid on capital debts and leases	(26,135)	(65)	(92)	(26,292)
Acquisition and construction of capital assets	(164,375)	(15)	(844)	(165,234)
Proceeds from governmental sources	6,995			6,995
Proceeds from long-term borrowings	185,181			185,181
Other receipts (payments)	(52,160)			(52,160)
Net cash used in capital and related financing activities	(97,547)	(165)	(6,671)	(104,383)
Cash flows from investing activities:				
Purchase of investments	(151,946)		(3,318)	(155,264)
Proceeds from sale and maturities of investments	131,163	28,236	17,572	176,971
Interest and dividends on investments	7,616	2,572	9,545	19,733
Loan repayments	(2,072)			(2,072)
Net cash provided (used in) investing activities	(15,239)	30,808	23,799	39,368
Net increase (decrease) in cash and cash equivalents	1,535	26,327	(61,914)	(34,052)
Cash and cash equivalents-beginning	259,026	8,633	253,239	520,898
Cash and cash equivalents-ending	$ 260,561	$ 34,960	$ 191,325	$ 486,846
Reconciliation of operating loss to net cash used in operating activities:				
Operating loss	$ (721,513)	$ (33,768)	$ (478,520)	$ (1,233,801)
Adjustments to reconcile operating loss to net cash used in operating activities				
Depreciation	103,559	202	919	104,680
Amortization			(90)	(90)
Bad debt expense	70			70
Decrease in allowance for doubtful note receivable	(8)			(8)
Indirect cost allowance	1,479			1,479
Loan principal and interest canceled	544			544
Net appreciation (depreciation) of investments	(87)		299	212
Net changes in assets and liabilities:				
Accounts receivable	6,518		(44)	6,474
Loans receivable	(430)		(3,501)	(3,931)
Other current assets	(2,695)	(9)	5	(2,699)
Current liabilities	1,149		(16)	1,133
Accounts payable and other accrued liabilities	4,724	14,639	321	19,684
Compensated absences	4,553	28	32	4,613
Deferred revenue	207		377	584
Net cash used in operating activities	$ (601,930)	$ (18,908)	$ (480,218)	$ (1,101,056)

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

STATE OF ARKANSAS

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2003

(In thousands)

Assets	Pension Trust Funds	Agency Funds
Cash and cash equivalents	$ 685,799	$ 51,263
Receivables:		
Accounts		7,400
Employee	10,818	
Employer	5,589	
Interest and dividends	48,183	
Advances to other funds	18,118	
Other	196,677	1,552
Total receivables	279,385	8,952
Investments at fair value:		
Certificates of Deposit		48,196
Bonds, notes, mortgages, and preferred stock	3,109,382	414,096
Common stock	4,300,166	
Real estate	202,881	
International investments	1,499,795	
Mutual funds	452,039	
Pooled investment funds	13,169	
Corporate obligations	681,619	
Asset backed securities	144,474	
Other	1,391,945	
Total investments	11,795,470	462,292
Securities lending collateral	1,523,008	
Fixed assets	868	
Other assets	16,784	
Total assets	14,301,314	522,507
Liabilities		
Accounts payable and other liabilities	7,251	8,657
Obligations under securities lending	1,523,008	
Investment principle payable	660,825	
Due to other governments		64,617
Due to other funds	1	3,728
Due to third parties		445,505
Total liabilities	2,191,085	522,507
Net Assets		
Held in trust for:		
Employee's pension benefits	12,110,229	
Total net assets	$ 12,110,229	$ 0

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

STATE OF ARKANSAS

Statement of Changes in Fiduciary Net Assets

Fiduciary Funds

For the year ended June 30, 2003

(In thousands)

		Pension Trust Funds
Additions:		
Contributions:		
Members	$	207,846
Employers		215,219
Supplemental contributions		3,721
Court fees		2,171
Reinstatement fees		1,008
Total contributions		429,965
Investment income:		
Net increase (decrease) in fair value of investments		19,365
Interest, dividends, and other		353,805
Real estate operating income		11,748
Securities lending income		17,911
Total investment income		402,829
Less investment interest expense:		
Investment activity expense		76,210
Net investment income		326,619
Miscellaneous		6,837
Total additions (losses)		763,421
Deductions:		
Benefits paid to participants or beneficiaries		620,439
Refunds of employee contributions		5,171
Administrative expense		12,693
Total deductions		638,303
Change in net assets held in trust for:		
Employees' pension benefits		125,118
Net assets, beginning		11,985,111
Net assets, ending	$	12,110,229

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

GREAT SEAL OF THE STATE OF ARKANSAS

REGNAT POPULUS

MERCY

JUSTICE

STATE OF ARKANSAS

Notes to the Financial Statements

June 30, 2003

(1) Summary of Significant Accounting Policies

(a) Basis of Presentation

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

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

(b) The Reporting Entity

For financial reporting purposes, the State of Arkansas' primary government includes all funds, departments and agencies, boards, commissions, and authorities that make up the State's legal entity. The State's reporting entity also is comprised of its component units; legally separate organizations for which the State's elected officials are financially accountable.

(c) Component Units

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

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

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

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

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

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

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

(d) Accounting Restatements

The following table summarizes changes to fund balances/net assets as previously reported on the balance sheet/statement of net assets (in thousands):

	General Fund		Government-Wide
Ending fund balance as previously reported in the 2002 Comprehensive Annual Financial Report	$ 1,734,853	Ending net assets as previously reported in the 2002 Comprehensive Annual Financial Report	$ 8,291,618
Funds classified as general in 2002 and agency in 2003	(41,644)	Funds classified as general in 2002 and agency in 2003	(41,644)
Funds classified as agency in 2002 and general in 2003	17	Funds classified as agency in 2002 and general in 2003	17
Prior year adjustments:		Prior year adjustments:	
Cash and cash equivalent	20,461	Current Assets	29,562
Investments	2,367	Noncurrent assets	22,184
Receivables	29,773	Capital assets	84,519
Accounts payable	1,238	Current liabilities	1,238
Deferred revenue	(68,735)	Long term liabilities	224
Beginning fund balance as reported in the 2003 Comprehensive Annual Financial Report	$ 1,678,330	Beginning net assets as reported in the 2003 Comprehensive Annual Financial Report	$ 8,387,718

(e) Government-Wide Financial Statements

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

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

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

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

(f) Fund Financial Statements

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

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

Governmental Fund

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

General Fund

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

Proprietary Funds

The focus of Proprietary Fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows, which is similar to business. These funds are used to account for operations of those State agencies providing goods or services to the general public on a user-charge basis or where the State has decided that periodic determination of revenues earned, expenses incurred, and/or income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The following is a description of the major proprietary funds of the State:

Higher Education Fund

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

Workers' Compensation Commission Fund

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

Non-Major Enterprise Funds

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

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the State. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the State's own programs. These funds include pension trust and agency funds. Pension trust funds are accounted for on the accrual basis. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement or results of operations.

(Continued)

(g) Measurement Focus and Basis of Accounting

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

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

The State and the discretely presented component units have adopted the provisions of GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Funds That Use Proprietary Fund Accounting*. As permitted by the statement, the State has elected not to adopt Financial Accounting Standards Board (FASB) Statements issued after November 30, 1989, unless the GASB specifically adopts such FASB Statements or Interpretations.

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

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods. All other revenues and expenses are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the State’s policy to use restricted resources first, then unrestricted resources as they are needed.

(h) Assets, Liabilities, and Net Assets or Equity

Cash and Cash Equivalents

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

Investments

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

Investments in the pension trust funds are reported at fair values 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, 2003, five universities and three foundations participated in the Pool. These foundations hold approximately $651.4 million (external portion) of the investments in the Pool, which are reported separately along with the related liability in the Higher Education Fund and in the business-type activities column of the government-wide financial statements. Participation in or withdrawal from the Pool is based on the daily market value of the units within the Pool. Income from the Pool is allocated to the participants in the Pool based on the market value per unit from the previous day. The Pool issues a publicly available financial report, which may be obtained by writing or calling the University of Arkansas System, 2404 North University Avenue, Little Rock, Arkansas, 72207-3608, (501) 686-2500.

Interfund Receivables and Payables

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

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

Inventories and Prepaid Items

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

Capital Assets

Methods Used to Value Capital Assets

Capital assets, which include property, plant, and 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 nondepreciable land improvements are capitalized, regardless of cost. All other capital assets, including equipment, are capitalized when the individual items exceed $2,500.

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

(Continued)

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, 2003, is $70,549 and is not reflected in the financial statements.

Depreciation and Useful Lives

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

	Years
Assets:	
Equipment	5-10
Buildings	40
Infrastructure	30
Land improvements	20-30
Leasehold improvements	10-99
Other depreciable assets	15-99

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. Because actual claim costs depend upon such factors as duration of worker disability, medical cost trends, occupational disease, and inflation, the process used in computing the ultimate cost of settling claims and expense for administering claims is necessarily based on estimates. In addition, the Internal Revenue Code of 1986 establishes rules and regulations for arbitrage rebates. The Construction Assistance Revolving Loan Fund, ADFA, and ASLA have made provisions for revenues above the rebate limit, which must be remitted to the Federal Government.

Income Tax Refunds Payable

Income tax refunds are accounted for as a reduction in the appropriate tax revenue category. The amounts reported as income tax refunds payable at June 30, 2003, is related to projected refund estimates attributable to fiscal year 2003 tax revenues.

Compensated Absences

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

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

Deferred Revenue

In the government-wide financial statements and proprietary fund financial statements deferred revenue is recognized when cash or other assets are received prior to their being earned. In the governmental fund statements deferred revenue is recognized when revenue is unearned or unavailable. Also included in deferred revenue is the undistributed food stamp inventory of $3.6 million.

Bond-Related Items

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

In the fund financial statements, bond premiums and discounts, as well as bond issuance costs are recognized in the current period. 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

(Continued)

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.

(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. 39, *Determining Whether Certain Organizations are Component Units – an Amendment of GASB Statement No. 14*, provides specific criteria for evaluating whether certain legally separate, tax-exempt entities should be included as component units because of the nature and significance of their relationship with the primary government and its component units. This statement is effective for periods beginning after June 15, 2003 (i.e., fiscal year 2004). Management has not yet determined the effect this new statement will have on its financial statements.

GASB Statement No. 40, *Deposit and Investment Risk Disclosures – an Amendment of GASB Statement No. 3*, revises the required deposit and investment disclosures. Certain disclosures are eliminated such as activity and fair value. Ratings for debt securities, concentration risk, interest rate risk and other disclosures are added. This statement is effective for periods beginning after June 15, 2004 (i.e., fiscal year 2005).

GASB Statement No. 41, *Budgetary Comparison Schedule – Perspective Differences,* clarifies existing guidance on budgetary comparisons in GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis – for State and Local Governments* with budgetary structures (for example, certain program-based budgets) that prevent them from presenting budgetary comparison information for their general funds and major special revenue funds, as currently required by Statement 34. Under Statement 41, such governments will present budgetary comparison schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget. Generally, governments should present budgetary comparisons for the activities that are reported in the general fund and each major special revenue fund. Arkansas implemented GASB 41 in the current fiscal year.

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

(2) Deposits and Investments

(a) Cash

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

Cash and cash equivalents are defined as short-term highly liquid investments with original maturities of 90 days or less. The reported amount of total deposits at June 30, 2003, is as follows (expressed in thousands):

		Primary government	Component units
Carrying value of deposits	$	1,036,130	1,308
Bank balance of deposits		1,117,661	2,134
Amount insured or collateralized with securities held by the State or its agent in the State's name (Category 1)		990,575	2,134
Amount collateralized with securities held by the pledging financial institution's trust department or agent in the State's name (Category 2)		90,438	
Uncollateralized, or collateralized with securities held by the pledging financial institution, or its trust department or agent but not in the State's name (Category 3)		36,648	

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

		Primary government	Component units
Reported amount of deposits	$	1,036,130	1,308
Undeposited receipts/cash on hand		17,856	
Cash held at U.S. Treasury		47,323	
Investments disclosed as cash for GASB 3		(2,200)	
Cash equivalents disclosed as investments for GASB 3		501,563	182,874
Cash and cash equivalents as reported on the statement of net assets	$	1,600,672	184,182
Cash and cash equivalents as reported on the statement of net assets (by reporting unit):			
Governmental activities	$	376,764	
Business-type activities		486,846	
ASLA			73
ADFA			184,109
Pension Trust Funds		685,799	
Agency Funds		51,263	
Total	$	1,600,672	184,182

(b) Investments

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

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

(c) Primary Government

Investments for the Primary Government, including fiduciary funds, at June 30, 2003, by security type and level of risk are as follows (expressed in thousands):

Security type	Custodial Credit Risk 1	2	3	Reported amount/ fair value
Categorized:				
Cash equivalents (CD's & MM's)	$ 559,248	39,156	16,817	615,221
Government securities	2,032,719	3,130	1,134	2,036,983
Corporate stocks	4,864,344	7,762	613	4,872,719
Bonds	963,001	14,032		977,033
Securities lending collateral	711,800			711,800
Other asset-backed securities	55,541			55,541
International securities	1,279,428			1,279,428
Managed investment pool	122,730			122,730
Mortgage obligations	80,646			80,646
Repurchase agreements	63,797			63,797
Investments purchased with security lending collateral:				
Corporate securities			477,679	477,679
Repurchase agreements			71,745	71,745
Bank obligations			185,935	185,935
Commercial paper			44,951	44,951
Other categorized investments	58,277	18,789		77,066
Total investments categorized by security type	$ 10,791,531	82,869	798,874	11,673,274
Uncategorized:				
Mutual funds				$ 1,001,255
Pooled funds				780,109
External investment pool				651,446
Investment agreements				132,392
Guaranteed investment contract				6,513
Investments held by counterparty under securities loaned:				
Government securities				261,672
Corporate securities				500,656
International securities				19,933
Limited partnership				1,178,453
Private placements				2,956
Real estate investments				365,997
Mortgage loans				204,598
Other investments				51,498
Total				$ 16,830,752

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

Reported amount of investments	$	16,830,752
Investments disclosed as cash for GASB 3		2,200
Cash equivalents disclosed as investments for GASB 3		(501,563)
Investments as reported on the statement of net assets	$	16,331,389
Investments as reported in the accompanying financial statements (by reporting unit):		
Governmental activities	$	1,189,369
Business-type activities		1,361,250
Pension trust funds		13,318,478
Agency Funds		462,292
Total	$	16,331,389

(d) Component Units

Investments for the Discretely Presented Component Units at June 30, 2003, by security type and level of risk are as follows (expressed in thousands):

Security type		Custodial Credit Risk 1	2	3		Reported amount/ fair value
Categorized:						
Government securities	$	819,555	53,611			873,166
Money market accounts			9,528			9,528
Commercial paper		253				253
Guaranteed investment contracts				13,882		13,882
Repurchase agreements		1,131				1,131
Total investments categorized by security type	$	820,939	63,139	13,882		897,960
Uncategorized:						
Mutual funds					$	183,169
Investment agreements						239,254
Total					$	1,320,383

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

Reported amount of investments	$	1,320,383
Cash equivalents disclosed as investments for GASB 3		(182,874)
Investments as reported on the statement of net assets	$	1,137,509
Investments as reported on the statement of net assets (by reporting unit):		
ASLA	$	77,021
ADFA		1,060,488
Total	$	1,137,509

(3) Derivatives

Primary Government

(a) Forward Currency Contracts

Arkansas Public Employees Retirement System (APERS) and Arkansas Teacher Retirement System (Teacher) enter into forward-exchange contracts to manage exposure of foreign portfolio holdings to changes in foreign currency exchange rates. A forward-exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. Risks associated with such contracts include movement in the value of the foreign currency related to the U.S. dollar and the ability of the counterparty to perform. The contracts are valued at forward exchange rates, and the changes in the value of open contracts are recognized as unrealized appreciation/depreciation in the statement of changes in plan net assets. The realized gain or loss on closed forward currency contracts represents the difference between the value of the original contracts and the closing value of such contracts and is included in net increase (decrease) in fair value of investments in the statement of changes in plan net assets. At June 30, 2003, the retirement systems referred to above were party to outstanding forward exchange currency contracts to purchase foreign currencies with contract amounts of $54.77 million, collectively. Market values of these outstanding contracts were $54.48 million resulting in an unrealized net gain of approximately $.29 million. The retirement systems also had outstanding forward currency contracts to sell foreign currency with contract amounts of $37.7 million at June 30, 2003. Market values of these contracts were $37.4 million resulting in an unrealized net gain of approximately $.3 million.

(b) 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 custodial credit risk (see note 2 on Deposits and Investments). The retirement systems referred to above invest in these securities to enhance yields on investments. Changes in market interest rates affect the cash flows of these securities and may result in changes in fair value. The overall return or yield on these securities depends on the changes in the interest and principal payment pattern and the market value of the underlying assets.

(c) Pooled Funds

APERS and Arkansas State Police Retirement System had approximately $211 and $34 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

(d) Mortgage-Backed Securities

ADFA invests in various asset and mortgage-backed securities. These securities are reported at fair value in the statement of net assets. They are also included in the totals of U.S. Government and Agency securities in the disclosure of custodial credit risk. ADFA invests in these securities to enhance yields on investments. Changes in market interest rates affect the cash flows of these securities and may result in changes in fair value. The overall return or yield on these securities depends on the changes in the interest and principal payment pattern and the market value of the underlying assets.

(e) Interest Rate Swaps

ADFA has entered into an interest rate swap agreement to effectively convert $10 million of variable rate debt based on the three-month LIBOR to fixed rate debt with an effective fixed rate of 7.698%. ADFA is exposed to interest rate risk under the swap agreement if the three-month LIBOR rate is less than 7.418%. The interest rate swap agreement is set to expire January 2, 2014.

ASLA has entered into an interest rate swap agreement to effectively convert $33.65 million of fixed rate debt to variable rate debt with a weighted average interest rate based on the PSA Municipal Swap Index. The effective interest rate of the debt was 2.4% for the period ended June 30, 2003. The differential to be paid or received on the interest rate swap is accrued as interest rates change and is charged or credited to interest expense over the life of the agreement. ASLA's credit risk related to this interest rate swap agreement is generally the differential, if any, payable by the counterparty which accumulated prior to the June 1 and December 1 settlement dates each year. ASLA is exposed to interest rate risk under the swap agreement and will incur interest expense above the related bond interest rates if the weighted PSA Municipal Swap Index rate exceeds 4.84%. The related PSA Municipal Swap Index rate was 1.14% at June 30, 2003. The swap agreement expired on June 1, 2003.

(4) Securities Lending Transactions

State Police, Teacher, and APERS participate in security lending programs, as authorized by Arkansas Code Annotated Title 24, Chapter 3, Subchapter 4, Section 12, whereby investment securities are transferred to an independent broker or dealer in exchange for collateral in the form of cash and cash equivalents or other securities guaranteed by the U.S. Government or an agency thereof equal to at least 102% of the full market value of the security loaned. At all times during the term of each loan, the total value of the collateral is not to be less than 95% of the full market value of all securities on loan. The program is administered by custodial agent banks. The code does not specify the types of securities that may be loaned. The type of securities on loan at June 30, 2003, includes domestic and international equities, domestic and international corporate fixed income securities, U.S. Treasury securities, governmental agency securities, and non-U.S. sovereigns. Securities on loan at fiscal year end for cash collateral are uncategorized in the preceding summary of deposits and investments (note 2); securities on loan for noncash collateral are classified by category of custodial credit risk based on the categorization appropriate for the collateral. With the exception of cash collateral, the pensions do not have the ability to pledge or sell the collateral unless there is borrower default. The pensions invest cash collateral received; accordingly, investments made with cash collateral received appear as assets on the statement of plan net assets. As the pensions must return the cash collateral to the borrower upon expiration of the loan, a corresponding liability is recorded as obligations under securities lending. At June 30, 2003, cash collateral and investments made with cash collateral was approximately $1.52 billion. These securities have also been classified in the preceding summary of deposits and investments (see note 2). The weighted average maturity of collateral investments generally does not match the maturity of the loans. The custodial agents provide the pensions with an indemnification if an insolvency causes the borrower to fail to return the securities lent. However, in the history of the pensions' participation in such programs, no losses resulting from default have occurred. Total securities on loan at June 30, 2003, were $1.52 billion and total collateral received from these securities on loan was $1.52 billion. At June 30, 2003, the pension systems have no credit risk exposure to borrowers because the amounts the pension systems owe the borrowers exceed the amounts the borrowers owe the pension systems.

(5) Short Sales of Securities

Teacher participates in short sales of securities, as allowed under the prudent investor rule as set forth by Arkansas Code Annotated Title 24, Chapter 3, Subchapter 4, Section 17, whereby investment securities are borrowed and sold in anticipation of a price decline. If the price declines, the short seller generates a gain and closes out the short position with a purchase of like securities at a cost that is less than the obligation created by the initial borrowing. Because short sale borrowings represent obligations to deliver securities, they are not investments. The code does not specify the types of securities that can participate in such sales. Short sale obligations are marked-to-market and are recorded as a liability as of June 30, 2003, at a fair value of $22.1 million. The short sale transactions are administered by a custodial agent bank.

(6) Receivables

Receivables at June 30, 2003, consisted of the following (expressed in thousands):

Primary Government

	Accounts	Taxes	Employee/ Employer	Medicaid	Loans	Capital lease receivable	Investment-Related	Other receivables	Allowance for uncollectibles	Total
General Fund	$ 173,027	569,827		166,972	97,338	102,335	9,772	3,729 [1]	(275,789)	847,211
Higher Education Fund	834,593	3,143			12,190		2,002		(641,900)	210,028
WCC	8,618						64			8,682
Non-major Enterprise Funds	285,814				19,553		532		(23,784)	282,115
Pension Trust			16,407				48,183	196,677		261,267
Agency	7,400							1,552		8,952
Total	$ 1,309,452	572,970	16,407	166,972	129,081	102,335	60,553	201,958	(941,473)	1,618,255

(1) Reflected as "due from other funds" in general fund and "receivables-agency funds" in government-wide.

Component Units

	Accounts	Loans	Capital lease receivable	Investment-related	Allowance for uncollectibles	Net receivable by component unit
ASLA	$	259,545		5,657	(1,725)	263,477
ADFA	1,046	348,991	84,591	6,641	(11,873)	429,396
Total	$ 1,046	608,536	84,591	12,298	(13,598)	692,873

(Continued)

(7) Intergovernmental Activity (expressed in thousands)

(a) Interfund Receivables and Payables

		Due from	Due to
General Fund	$	9,219	3,498
Higher Education Fund		1,679	1,937
Workers' Compensation Commission		387	
Non-major Enterprise Funds		1,616	3,737
Agency Funds			3,728
Pension Trust			1
Total	$	12,901	12,901

Interfund receivables and payables include $2.3 million due from the Employment Security Division to the General Fund for computer services; $3.7 million due from the Employee Benefits Division Agency Fund to the General Fund for FICA savings and forfeited cafeteria plan withholding, which will be deposited in the Employee Health Plan Fund; and $1.1 million due from the General Fund to the Higher Education Fund for financial aid, payroll reimbursement, Arkansas Academic Challenge Scholarship, and training contract with the Department of Human Services. All amounts are expected to be repaid within one year except for amounts included in advances to/from other funds – primary government as detailed below.

(b) Advances To/From Other Funds – Primary Government

		Advances to	Advances from
Higher Education Fund	$	11,960	
General Fund		18,118	11,960
Pension Trust – Teacher			18,118
Total	$	30,078	30,078

Advances include an outstanding balance of $18,118 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 advances to the Higher Education Fund for the construction of a biomedical research building. Repayment terms are based upon tax revenue from the 4% additional mixed drink tax collected each fiscal year. Interest is charged at 2.5% annually.

(c) Transfers

		Operating transfers in	Operating transfers out
General Fund	$	5,266	601,527
Higher Education Fund		601,119	
Enterprise Fund – Workers' Compensation Commission			36
Non-Major Enterprise Fund – Employment Security Department			1,073
Construction Assistance Revolving Loan Fund			765
Other Revolving Loan Funds			2,984
Total	$	606,385	606,385

(Continued)

The transfer from the General Fund to the Higher Education Fund was for State funding of colleges and universities. The transfer from the Workers' Compensation Commission Fund to the General Fund was reimbursement for the payment of insurance premiums. The transfer from the Employment Security Department to the General Fund was for employment security reimbursements. The transfer from the Construction Assistance Revolving Loan Fund to the General Fund was a grant from the Environmental Protection Agency to reimburse the Arkansas Soil and Water Conservation Commission for assistance in building clean drinking water facilities. The transfer from the Other Revolving Loan Funds to the General Fund ($2,652 to Arkansas Department of Health and $332 to Arkansas Soil and Water Conservation Commission) was also a grant from the Environmental Protection Agency for reimbursement of administrative expenses and monitoring of public drinking water facilities to ensure compliance with federal guidelines.

(8) Capital Assets

(a) Primary Government

Capital asset activity for the year ended June 30, 2003, was as follows (expressed in thousands):

		Balance July 1, 2002 (as restated)	Additions	Deletions	Balance June 30, 2003
Governmental activities:					
Capital assets, not being depreciated:					
Land	$	125,974	2,562	(917)	127,619
Construction in progress		1,598,303	654,913	(337,341)	1,915,875
Other non-depreciable assets		231,220	19,939		251,159
Total capital assets, not being depreciated		1,955,497	677,414	(338,258)	2,294,653
Capital assets, being depreciated:					
Land improvements		103,812	2,129	(487)	105,454
Infrastructure		7,845,142	258,024	(120)	8,103,046
Leasehold improvements		755	123		878
Buildings		758,591	39,385	(11,541)	786,435
Equipment		623,921	60,633	(56,715)	627,839
Other depreciable assets		5,337	199	(4,187)	1,349
Total capital assets, being depreciated		9,337,558	360,493	(73,050)	9,625,001
Subtotal		11,293,055	1,037,907	(411,308)	11,919,654
Less accumulated depreciation for:					
Land improvements		(15,962)	(1,645)	242	(17,365)
Infrastructure		(2,946,064)	(269,402)	17	(3,215,449)
Leasehold improvements		(176)	(43)		(219)
Buildings		(310,792)	(20,876)	9,714	(321,954)
Equipment		(383,725)	(57,526)	27,759	(413,492)
Other depreciable assets		(812)	(164)		(976)
Total accumulated depreciation		(3,657,531)	(349,656)	37,732	(3,969,455)
Governmental activities capital assets, net	$	7,635,524	688,251	(373,576)	7,950,199

		Balance July 1, 2002	Additions	Deletions	Balance June 30, 2003
Business-type activities:					
Capital assets, not being depreciated:					
Land	$	66,163	5,905	(1,314)	70,754
Construction in progress		169,987	130,297	(137,872)	162,412
Total capital assets, not being depreciated		236,150	136,202	(139,186)	233,166
Capital assets, being depreciated:					
Improvements other than building		32,519	14,161	(25)	46,655
Leasehold improvements		2,793	22		2,815
Buildings		1,726,089	177,143	(14,497)	1,888,735
Equipment		406,679	41,730	(32,222)	416,187
Other depreciable assets		64,947	42,004	(2,760)	104,191
Infrastructure		112,087	11,414	(43,035)	80,466
Total capital assets, being depreciated		2,345,114	286,474	(92,539)	2,539,049
Less accumulated depreciation for:					
Improvements other than building		(13,601)	(866)		(14,467)
Land improvements		(5)		5	
Leasehold improvements		(1,757)	(195)	3	(1,949)
Buildings		(695,187)	(43,367)	14,987	(723,567)
Equipment		(276,672)	(27,913)	9,470	(295,115)
Other depreciable assets		(49,296)	(20,381)	5,355	(64,322)
Infrastructure		(51,219)	(11,958)	3,899	(59,278)
Total accumulated depreciation		(1,087,737)	(104,680)	33,719	(1,158,698)
Total capital assets, being depreciated, net		1,257,377			1,380,351
Business-type activities capital assets, net	$	1,493,527			1,613,517

(Continued)

	Balance July 1, 2002	Additions	Deletions	Balance June 30, 2003
Major Enterprise Funds:				
Higher Education:				
Capital assets, not being depreciated:				
Land	$ 62,595	5,905	(1,298)	67,202
Construction in progress	169,898	130,297	(137,872)	162,323
Total capital assets, not being depreciated	232,493	136,202	(139,170)	229,525
Capital assets being depreciated:				
Improvement other than building	32,494	14,161		46,655
Leasehold improvements	2,548	22		2,570
Buildings	1,706,333	176,482	(14,428)	1,868,387
Equipment	397,730	41,511	(30,878)	408,363
Other depreciable assets	64,865	41,992	(2,760)	104,097
Infrastructure	112,087	11,414	(43,035)	80,466
Total capital assets, being depreciated	2,316,057	285,582	(91,101)	2,510,538
Less accumulated depreciation for:				
Improvement other than building	(13,601)	(866)		(14,467)
Leasehold improvements	(1,701)	(187)	3	(1,885)
Buildings	(686,998)	(42,852)	14,920	(714,930)
Equipment	(270,368)	(27,352)	8,381	(289,339)
Other depreciable assets	(49,252)	(20,345)	5,355	(64,242)
Infrastructure	(51,219)	(11,957)	3,898	(59,278)
Total accumulated depreciation	(1,073,139)	(103,559)	32,557	(1,144,141)
Total capital assets, being depreciated, net	1,242,918			1,366,397
Higher Education: capital assets, net	$ 1,475,411			1,595,922

(Continued)

	Balance July 1, 2002	Additions	Deletions	Balance June 30, 2003
Workers' Compensation Commission:				
Capital assets, not being depreciated:				
Land	$ 580			580
Total capital assets, not being depreciated	580			580
Capital assets being depreciated:				
Buildings	2,272			2,272
Equipment	1,542	3	(122)	1,423
Other depreciable assets	82	12		94
Total capital assets, being depreciated	3,896	15	(122)	3,789
Less accumulated depreciation for:				
Buildings	(660)	(75)		(735)
Equipment	(1,133)	(91)	95	(1,129)
Other depreciable assets	(44)	(36)		(80)
Total accumulated depreciation	(1,837)	(202)	95	(1,944)
Total capital assets, being depreciated, net	2,059			1,845
Workers' Compensation Commission capital assets, net	$ 2,639			2,425

(b) Discretely Presented Component Units

Activity for ADFA for the year ended June 30, 2003, was as follows (expressed in thousands):

	Balance July 1, 2002	Deletions	Balance June 30, 2003
ADFA:			
Capital assets being depreciated:			
Equipment	$ 752	(157)	595
Less accumulated depreciation for:			
Equipment	(527)	165	(362)
ADFA capital assets, net	$ 225	8	233

Activity for ASLA for the year ended June 30, 2003, was as follows (expressed in thousands):

	Balance July 1, 2002	Additions	Balance June 30, 2003
ASLA:			
Capital assets being depreciated:			
Equipment	$ 328	17	345
Less accumulated depreciation for:			
Equipment	(311)	(14)	(325)
ASLA capital assets, net	$ 17	3	20

(Continued)

(c) Capital Assets

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

Governmental Activities:	
Education	$ 6,084
Health and human services	10,939
Transportation	273,870
Law, justice, and public safety	21,665
Recreation and resources development	20,859
General government	14,531
Labor, commerce and regulatory	1,708
Total depreciation expense – governmental	$ 349,656
Business-type Activities:	
Enterprise Funds	$ 104,680
Total depreciation expense – business-type activities	$ 104,680
Component Units:	
ADFA	$ 98
ASLA	14
Total depreciation expense – component units	$ 112

(Continued)

(9) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2003, are summarized as follows (in thousands):

	Balance, July 1, 2002 (as restated)	Additions	Accretion on capital appreciation bonds	Reductions	Refunding	Balance, June 30, 2003	Due within one year	Due greater than one year
Governmental Activities:								
Bonds payable:								
General obligation	$ 712,939	255,170	3,096	18,599	31,620	920,986*	21,554**	899,432
Special obligation	765			180		585	85	500
Plus/(less):								
Deferred bond refunding loss		(1,117)		(53)		(1,064)	(53)	(1,011)
Issuance premium (discount)	8,424	10,329		2,044		16,709	1,978	14,731
Total bonds payable	722,128	264,382	3,096	20,770	31,620	937,216	23,564	913,652
Other debt instruments	2,499			2,474		25	25	
Notes payable to component unit	60,000			3,669		56,331	3,056	53,275
Note payable to pension trust fund	19,461			1,343		18,118	1,451	16,667
Notes payable to health care financing administration	2,154			1,023		1,131	445	686
Capital leases	14,567	369		3,074		11,862	2,763	9,099
Capital leases with component unit	77,153	23,462		11,109	13,465	76,041	7,261	68,780
Total notes and leases payable	175,834	23,831		22,692	13,465	163,508	15,001	148,507
Subtotal bonds, notes, and leases payable	897,962	288,213	3,096	43,462	45,085	1,100,724	38,565	1,062,159
Claims and judgments	112,244	17,254		25,326		104,172	32,589	71,583
Compensated absences	80,318	7,688				88,006	5,280	82,726
Subtotal claims, judgments, and compensated absences	192,562	24,942		25,326		192,178	37,869	154,309
Net pension obligation	2,209			1,041		1,168		1,168
Governmental activity total	$ 1,092,733	313,155	3,096	69,829	45,085	1,294,070	76,434	1,217,636

* includes accretion on capital appreciation bonds of $67,254.

** includes accretion on capital appreciation bonds of $1,870.

(Continued)

	Balance, July 1, 2002 (as restated)	Additions	Reductions	Refunding	Balance, June 30, 2003	Due within one year	Due greater than one year
Business-type Activities:							
Bonds payable:							
Special obligation:							
War Memorial	$ 1,835		895		940	940	
Construction Assistance Revolving Loan Fund	108,115		4,840		103,275	5,070	98,205
College and University Revenue Bonds	497,060	177,684	37,515		637,229	22,684	614,545
Plus/(Less) Issuance premiums/(discounts)	(1,455)	167	(164)		(1,124)	7	(1,131)
Total bonds payable	605,555	177,851	43,086		740,320	28,701	711,619
Notes payable	22,028	489	236		22,281	4,375	17,906
Notes payable with component unit	6,754		405		6,349	417	5,932
Total notes payable	28,782	489	641		28,630	4,792	23,838
Capital leases	9,921	7,008	8,815		8,114	2,350	5,764
Capital leases with component unit	2,574		334		2,240	310	1,930
Total lease payable	12,495	7,008	9,149		10,354	2,660	7,694
Subtotal bonds, notes and lease payable	646,832	185,348	52,876		779,304	36,153	743,151
Claims and judgments	190,957	85,961	81,365		195,553	23,405	172,148
Compensated absences	52,529	5,093			57,622	7,223	50,399
Business-type activity total	$ 890,318	276,402	134,241		1,032,479	66,781	965,698
Major Enterprise Funds:							
Higher Education Fund:							
Bonds payable:							
College and University Revenue Bonds	$ 497,060	177,684	37,515		637,229	22,684	614,545
Plus issuance premiums		167			167	7	160
Total bonds payable	497,060	177,851	37,515		637,396	22,691	614,705
Notes payable	22,028	489	236		22,281	4,375	17,906
Notes payable with component unit	6,754		405		6,349	417	5,932
Total notes payable	28,782	489	641		28,630	4,792	23,838
Capital leases	9,921	7,008	8,815		8,114	2,350	5,764
Capital leases with component unit	649		249		400	150	250
Total lease payable	10,570	7,008	9,064		8,514	2,500	6,014
Subtotal bonds, notes and lease payable	536,412	185,348	47,220		674,540	29,983	644,557
Claims and judgments	10,725	69,495	68,418		11,802	11,802	
Compensated absences	50,123	5,034			55,157	7,041	48,116
Higher Education total	$ 597,260	259,877	115,638		741,499	48,826	692,673
Workers' Compensation Commission Fund:							
Capital leases with component unit	$ 1,925		85		1,840	160	1,680
Claims and judgments	180,232	16,466	12,947		183,751	11,603	172,148
Compensated absences	497	28			525	32	493
Workers' Compensation Commission total	$ 182,654	16,494	13,032		186,116	11,795	174,321

(Continued)

	Balance, July 1, 2002	Additions	Reductions	Balance, June 30, 2003	Due within one year	Due greater than one year
Component units:						
Arkansas Student						
Loan Authority:						
Bonds payable:						
Revenue	$ 320,640		6,860	313,780	3,620	310,160
Less issuance discounts	(15)		(5)	(10)		(10)
Subtotal bonds payable ASLA	320,625		6,855	313,770	3,620	310,150
Notes payable:		6,860		6,860	6,860	
Total bonds and notes payable ASLA	320,625	6,860	6,855	320,630	10,480	310,150
Arkansas Development						
Finance Authority:						
Bonds payable:						
Special Obligation	1,432,066	306,732	320,636	1,418,162	155,950	1,262,212
Less issuance discounts	(1,962)		(247)	(1,715)		(1,715)
Total bonds payable ADFA	1,430,104	306,732	320,389	1,416,447	155,950	1,260,497
Component units total	$ 1,750,729	313,592	327,244	1,737,077	166,430	1,570,647

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, 2003, were as follows (expressed in thousands):

	Final maturity date	Interest rates %		Balance
Federal Highway Grant Anticipation and Tax Revenue G.O. Bonds:				
2000A Series Federal Highway G.O. Bonds	2012	5.25-5.50	$	175,000
2001A Series Federal Highway G.O. Bonds	2013	4.00-5.25		185,000
2002 Series Federal Highway G.O. Bonds	2014	3.50-5.00		215,000
Soil and Water Conservation Bonds:				
1995A Series Water Resources G.O. Bonds	2024	4.80-5.60		4,420
1995B Series Water Resources G.O. Bonds	2025	4.40-5.75		6,350
1994A Series Waste Disposal G.O. Bonds	2008	4.80-5.50		4,665
1995A Series Waste Disposal G.O. Bonds	2025	4.25-5.50		2,135
1998A Series Waste Disposal G.O. Bonds	2027	4.50-5.05		9,115
2000A Series Water, Waste, and Pollution	2033	4.75-5.75		5,000
2001A Series Water, Waste, and Pollution	2011	4.65-6.30		8,145
2001B Series Water, Waste, and Pollution	2011	3.25-4.45		2,980
2002A Series Water, Waste, and Pollution	2026	4.00-5.00		13,630
2002B Series Water, Waste, and Pollution	2025	4.25-5.00		6,705
2002C Series Water, Waste, and Pollution	2020	3.50-5.00		8,125
2002D Series Water, Waste, and Pollution	2017	3.00-4.75		9,055
2002E Series Water, Waste, and Pollution	2012	2.75-5.80		2,865
2002F Series Water, Waste, and Pollution	2012	2.00-4.20		2,515
2002G Series Water, Waste, and Pollution	2035	2.85-4.95		5,000
2002H Series Water, Waste, and Pollution	2017	4.50-5.35		2,040
2002I Series Water, Waste, and Pollution	2026	3.00-4.75		10,975
2002J Series Water, Waste, and Pollution	2008	3.00-3.00		4,020
2002K Series Water, Waste, and Pollution	2026	3.00-4.875		8,855
2003A Series Water, Waste, and Pollution	2020	2.25-5.30		2,400
2003B Series Water, Waste, and Pollution	2027	2.00-4.65		6,365
College Savings Bonds:				
1991A Series, G.O. Bonds	2011	6.40-7.00		12,362
1991B Series, G.O. Bonds	2012	6.45-7.00		19,465
1991C Series, G.O. Bonds	2013	6.25-6.90		12,921
1993 Series, G.O. Bonds	2014	5.15-5.95		16,130
1995 Series, G.O. Bonds	2015	4.60-5.90		17,419
1996A Series, G.O. Bonds	2016	4.00-5.65		19,790
1996B Series, G.O. Bonds	2016	4.65-6.30		14,507
1196C Series, G.O. Bonds	2016	4.40-6.00		22,258
1997A Series, G.O. Bonds	2017	4.70-6.05		25,779
1997B Series, G.O. Bonds	2017	4.15-5.60		24,630
1998A Series, G.O. Bonds	2017	4.00-5.35		35,365
Total			$	920,986

(Continued)

Future amounts required to pay principal and interest on general obligation bonds at June 30, 2003, including accrued accreted interest of approximately $67 million on capital appreciation bonds, were as follows:

		Principal	Interest	Total
Year ending June 30:				
2004	$	19,684	45,773	65,457
2005		19,827	45,570	65,397
2006		65,275	44,254	109,529
2007		66,612	42,856	109,468
2008		69,357	40,029	109,386
2009-2013		372,418	159,926	532,344
2014-2018		200,224	70,309	270,533
2019-2023		22,265	7,936	30,201
2024-2028		14,725	2,521	17,246
2029-2033		3,345	652	3,997
Total	$	853,732	459,826	1,313,558

Details of general obligation bonds outstanding are as follows:

Federal Highway Grant Anticipation and Tax Revenue General Obligation Bonds – Act 1027 of 1999 and a statewide election conducted June 15, 1999, authorized the State to issue Federal Highway Grant Anticipation and Tax Revenue General Obligation Bonds. All bonds issued under the authority of this act are general obligations of the State and are secured by irrevocable pledge of the full faith, credit, and resources of the State. The act limited the total principal amount to $575 million to be issued in several series of various principal amounts. The bonds were issued to pay the cost of constructing ad renovating improvements to interstate highways and related facilities in the State of Arkansas. The bonds are payable primarily by revenues derived from the tax on diesel fuel at the rate of 4 cents per gallon.

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

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

State Waste Disposal and Pollution Abatement Facilities General Obligation Bonds – Act 686 of 1987, as amended, authorized the State Soil and Water Conservation Commission to issue Waste Disposal and Pollution Abatement Facilities General Obligation Bonds. All bonds issued under the authority of this act are general obligations of the State and are secured by an irrevocable pledge of the full faith, credit, and resources of the State. The act limited the total principal amount to $250 million with no more than $50 million being issued during any fiscal biennium unless the General Assembly by law authorizes a greater amount to be issued. The bonds are issued to provide financing for the development of waste disposal and pollution abatement facilities projects in the State of Arkansas. Repayment of financial assistance provided for the development of the projects is first used to repay the bonds, any remaining debt service requirement is paid from general revenues. No bonds were issued under this act in FY 2002-03.

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

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

Special obligation bonds outstanding at June 30, 2003, were as follows (expressed in thousands):

	Final maturity date	Interest rate(s) %	Balance
Vocational and Technical Education – Capital Improvements – 1992A Series	2012	5.80-6.38	$ 585

Future amounts required to pay principal and interest on special obligation bonds at June 30, 2003, were as follows (expressed in thousands):

		Principal	Interest	Total
Year ending June 30:				
2004	$	85	37	122
2005		90	31	121
2006		95	26	121
2007		100	20	120
2008		105	14	119
2009-2013		110	7	117
Total	$	585	135	720

Details of special obligation bonds outstanding are as follows:

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

Other Debt Instruments – Other debt instruments are similar to special obligation bonds in regard to the methods of issuance and the sources of repayment of principal and interest.

Other debt instruments outstanding at June 30, 2003, were as follows (expressed in thousands);

	Final maturity date	Interest rate(s) %		Balance
Certificates of participation:				
Department of Education – 1996 Series	2004	7.00-7.50	$	25

Future amounts required to pay principal and interest on other debt instruments at June 30, 2003, were as follows (expressed in thousands):

		Principal	Interest	Total
Year ending June 30:				
2004	$	25	2	27

Details of other debt instruments are as follows:

Department of Education – Act 384 of 1953 authorized the Department of Education to issue certificates of participation designated as Department of Education Certificates of Participation. These certificates of participation are special obligations secured by certain school districts' certificates of indebtedness of $8,019,968. As a result of a number of school districts having paid their obligation before maturity dates, the State Board of Education has called $1,954,407 in certificates of participation that were used by the revolving loan program for loans to the school districts.

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, 2003, were as follows (expressed in thousands):

		Principal	Interest	Total
Year ending June 30:				
2004	$	3,056	2,825	5,881
2005		3,166	2,716	5,882
2006		2,381	2,605	4,986
2007		2,492	2,491	4,983
2008		2,617	2,365	4,982
2009-2013		15,229	9,651	24,880
2014-2018		19,130	5,121	24,251
2019-2023		3,620	1,599	5,219
2024-2028		3,170	820	3,990
2029-2033		1,470	77	1,547
Total	$	56,331	30,270	86,601

Notes Payable to Pension Trust Fund – The note payable to the pension trust fund consists of a note issued to the Arkansas Teacher's Retirement System from the Department of Education for a statewide computer system capable of linking all public school district systems and the Department of Education's computer system. The note payable provides that interest for the loan(s) for this project shall be at the rate of eight percent (8%). The Agency borrowed $24.825 million in nine (9) installments between November 24, 1992 and July 17, 1996, to fund the project. Accrued interest totaled $5.018 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, 2003, were as follows (expressed in thousands):

		Principal	Interest	Total
Year ending June 30:				
2004	$	1,451	1,449	2,900
2005		1,567	1,333	2,900
2006		1,692	1,208	2,900
2007		1,828	1,072	2,900
2008		1,974	926	2,900
2009-2013		9,606	1,996	11,602
Total	$	18,118	7,984	26,102

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

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

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

(Continued)

Future amounts required to pay principal and interest on the note payable to the Medicare-Medicaid Health Care Financing Administration at June 30, 2003, were as follows (expressed in thousands):

		Principal	Interest	Total
Year ending June 30:				
2004	$	445	118	563
2005		504	58	562
2006		182	5	187
Total	$	1,131	181	1,312

Business-Type Activities

Special obligation bonds outstanding at June 30, 2003, issued pursuant to specific statutory provisions enacted by the legislature and paid from specifically dedicated fees and other revenues generated by a particular program and do not constitute general debt of the State were as follows (expressed in thousands):

	Final maturity date	Interest rate(s) %		Balance
Construction Assistance Revolving Loan Fund	2022	4.5 – 6.3	$	103,275
War Memorial Stadium Commission Revenue Improvement Bonds – 1999 Series	2004	5.0		940
Total			$	104,215

Details of the Special Obligation Bonds outstanding are as follows:

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

(Continued)

Future amounts required to pay principal and interest on the special obligation bonds at June 30, 2003, 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 $1,291:

		Principal	Interest	Total
Year ending June 30:				
2004	$	5,070	5,030	10,100
2005		5,345	4,792	10,137
2006		5,665	4,537	10,202
2007		5,985	4,262	10,247
2008		6,300	3,975	10,275
2009-2013		36,475	15,051	51,526
2014-2018		32,005	5,479	37,484
2019-2023		6,430	646	7,076
Total	$	103,275	43,772	147,047

War Memorial Stadium Commission – The War Memorial Stadium Commission Stadium Improvement Revenue Bonds Series 1999, dated December 15, 1999, in the amount of $3.5 million were issued under the provisions of Amendment 65 to the Constitution of the State of Arkansas and Arkansas Code

Annotated Sections 22-3-1001 et seq. for the purpose of financing the cost of acquiring, constructing, and equipment betterments and improvements to War Memorial Stadium located in Little Rock, Arkansas, and paying costs of issuing the bonds. The bonds which bear an interest rate of 5% and mature in 2004 are payable from net revenues derived by the Commission from the operation of the Stadium.

		Principal	Interest	Total
Year ending June 30:				
2004	$	940	47	987

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, 2003, 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 $167:

	Final maturity date	Interest rate(s) %	Balance
Henderson State University	2026	3.00-7.00	$ 17,298
Southern Arkansas University – Magnolia	2028	1.40-5.35	11,880
Southern Arkansas University Tech – Camden	2015	2.05-5.54	1,071
Arkansas State University – Beebe	2023	3.00-6.61	4,685
Arkansas State University – Jonesboro	2031	1.76-5.65	50,958
Arkansas State University – Mountain Home	2019	3.81-5.38	6,780
Arkansas State University - Newport	2024	1.30-4.63	5,002
Arkansas Tech University	2031	3.75-6.375	20,388
University of Arkansas at Fayetteville	2032	Variable	232,952
University of Arkansas at Fayetteville - Systems	2016	Variable	2,342
University of Arkansas at Little Rock	2015	Variable	24,890
University of Arkansas for Medical Sciences	2019	Variable	79,742
University of Arkansas at Monticello	2018	Variable	5,427
University of Arkansas at Pine Bluff	2027	Variable	10,832
University of Central Arkansas	2033	3.50-7.75	53,085
University of Arkansas at Hope Community College	2021	2.05-5.75	7,210
University of Arkansas Community College at Batesville	2018	Variable	5,326
University of Arkansas at Morrilton	2022	4.88-4.90	5,125
University of Arkansas at Fort Smith	2021	4.00	49,970
East Arkansas Community College	2012	3.50-6.00	1,320
Garland County Community College	2017	3.50-4.50	3,240
Mid-South Technical College	2019	4.40-5.36	13,405
Mississippi County Community College	2013	4.00-5.35	5,170
North Arkansas Community Technical College	2016	4.30-6.00	2,535
Phillips Community College of the University of Arkansas	2017	3.90-5.00	5,515
Rich Mountain Community College	2022	2.25-5.00	1,945
Northwest Arkansas Community College	2020	1.50-5.85	9,495
Black River Technical College	2028	1.35-4.25	3,331
Cossatot Technical College	2008	2.05-11.00	387
Pulaski Technical College	2028	3.93-4.89	24,235
South Arkansas Community College	2011	6.37	161
Ozarka College	2010	7.24	157
Total			$ 665,859

Future amounts required to pay principal and interest on college and university revenue bonds and notes payable as of June 30, 2003, were as follows (expressed in thousands). The principal amount shown differs from the amount on the statement of net assets due to unamortized premiums of approximately $167:

		Principal	Interest	Total
Year ending June 30:				
2004	$	27,476	28,944	56,420
2005		30,012	27,975	57,987
2006		27,929	26,913	54,842
2007		27,913	25,852	53,765
2008		28,742	24,738	53,480
2009-2013		153,787	103,848	257,635
2014-2018		148,740	72,274	221,014
2019-2023		134,573	38,461	173,034
2024-2028		53,623	15,948	69,571
2029-2033		33,064	4,269	37,333
Total	$	665,859	369,222	1,035,081

Component Units

Arkansas Student Loan Authority – As of June 30, 2003, the Authority had notes payable to a bank with outstanding balances of $4,550,000 and $2,310,000 with interest at 4.50% and 4.25%, respectively. Both of these notes mature on June 1, 2004.

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

Revenue bonds outstanding at June 30, 2003, were as follows (expressed in thousands):

	Final maturity date	Interest rate(s) %		Balance
Student Loan Revenue Bonds, Series 1992A-1	2006	5.95-6.40	$	8,170
Student Loan Revenue Bonds, Series 1992A-2	2006	6.75		2,120
Student Loan Revenue Bonds, Series 1993A-1	2006	5.75-6.125		1,240
Student Loan Revenue Bonds, Series 1994A	2009	Adjustable		53,400
Student Loan Revenue Bonds, Series 1994B	2009	7.25		6,600
Student Loan Revenue Refunding Bonds, Series 1996A	2010	Adjustable		42,900
Student Loan Revenue Refunding Bonds, Series 1996B	2010	6.25		14,000
Student Loan Revenue Bonds, Series 1997A	2014	Adjustable		31,150
Student Loan Revenue Refunding Bonds, Series 1997B	2014	5.10-5.60		17,400
Student Loan Revenue Refunding Bonds, Series 2000A-1	2030	Adjustable		55,000
Student Loan Revenue Refunding Bonds, Series 2000A-2	2030	Adjustable		20,000
Student Loan Revenue Refunding Bonds, Series 2002A-1	2036	Adjustable		56,000
Student Loan Revenue Refunding Bonds, Series 2002A-2	2009	Adjustable		5,800
Total			$	313,780

Future amounts required to pay principal and interest on revenue bonds at June 30, 2003, were as follows (expressed in thousands):

		Principal	Interest	Total
Year ending June 30:				
2004	$	3,620	15,147	18,767
2005		2,400	14,936	17,336
2006		20,660	14,760	35,420
2007			14,468	14,468
2008			14,468	14,468
2009-2013		140,850	51,196	192,046
2014-2018		35,000	32,924	67,924
2019-2023			30,500	30,500
2024-2028			30,500	30,500
2029-2033		70,000	20,600	90,600
2034-2038		41,250	8,400	49,650
Total	$	313,780	247,899	561,679

Revenue Bonds are reflected in the financial statements net of discounts of approximately $9 thousand.

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

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

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Bonds payable at June 30, 2003, were as follows (expressed in thousands):

	Final maturity date	Interest rate(s) %		Balance
Single Family Bonds Payable	2034	1.15-10.00	$	911,079
Multi-Family Bonds Payable	2035	2.40-9.75		155,943
Development Finance Programs Bonds Payable	2029	1.00-8.48		262,765
Tobacco Bond Payable	2041	2.80-5.50		60,000
General Fund Note Payable	2003	1.02-1.69		26,660
Total			$	1,416,447

Future amounts required to pay principal and interest on ADFA debt at June 30, 2003, were as follows (expressed in thousands). The principal amount shown differs from the amount on the balance sheet due to unamortized discounts of approximately $1,715:

		Principal	Interest	Total
Year ending June 30:				
2004	$	155,950	74,550	230,500
2005		80,686	71,001	151,687
2006		50,327	67,756	118,083
2007		50,525	64,546	115,071
2008		50,143	61,331	111,474
2009-2013		240,100	265,507	505,607
2014-2018		242,032	196,746	438,778
2019-2023		186,063	132,488	318,551
2024-2028		210,925	76,645	287,570
2029-2033		130,850	21,745	152,595
2034-2038		17,375	2,083	19,458
2039-2043		3,186	345	3,531
Total	$	1,418,162	1,034,743	2,452,905

Prior Defeasances

Primary Government

In prior years, the State defeased certain bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments of old bonds. Accordingly, these trust account assets and the liability for the defeased bonds are not included in these financial statements. Bonds with total outstanding amounts of approximately $76.3 million are considered defeased at June 30, 2003.

(Continued)

Component Units

In prior years, ADFA defeased certain bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments of old bonds. Accordingly, these trust account assets and the liability for the defeased bonds are not included in these financial statements. Bonds with total outstanding amounts of approximately $48.4 million are considered defeased at June 30, 2003.

Current Refundings

Primary Government

During fiscal year 2003, the State issued (expressed in thousands) $31,150 of general obligation bonds to redeem $31,620 of outstanding bonds of the Soil and Water Commission resulting in an economic present value savings of $1,109 and a reduction of $3,968 in future debt service. The refunding resulted in loss on early retirement of $1,117. The bonds bear interest at rates ranging from 2.0% to 5.35% and mature in 2003-2027.

On December 1, 2001, the University of Arkansas at Fort Smith issued $41,500 of student fee revenue bonds, due December 1, 2021, with interest rates ranging from 2.0% to 5.0% to defease the Series 1997 and Series 1999 bond issues and for construction. A portion of the proceeds on new student fee revenue bonds were placed in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liability for the defeased bonds are not included in the Institution's financial statements. The final call date of the defeased bonds is April 1, 2009. As of June 30, 2003, the escrow fund established to provide the retirement of the bonds being refunded had a balance of $35,626. The remaining principal amount of the outstanding bonds considered defeased was $33,090.

Component Units

In March 2003, the Arkansas Department of Corrections (the "Department") recognized interest savings through ADFA's issuance of the $12,985,000 *Arkansas Development Finance Authority Correction Facilities Revenue Refunding Bonds, 2003 Series A.* The proceeds were used to currently refund the outstanding *Correction Facilities Refunding Bonds, Series 1997* (the "1997 Bonds"); to purchase a debt service reserve insurance policy for purposes of funding a debt service reserve; to pay the premium on a municipal bond insurance policy; and to pay the costs of issuing bonds. The 1997 Bonds were issued to advance refund the *Correction Facilities Construction Bonds, Series 1990,* which were issued to finance the cost of acquiring, constructing, and equipping a new correction facility for the Department and acquiring, constructing, and equipping improvements at other correction facilities of the Department.

(10) Leases

The State has entered into various lease agreements with the private sector, primarily for buildings and equipment. These agreements are for various terms with most containing clauses indicating that their continuation is subject to continuing appropriation by the Legislature. Other leases are classified as operating leases with the lease payments 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 fixed asset and the incurrence of an obligation by the lessee. Capital leases in the government-wide and proprietary fund statements are reported as a long-term obligation in those funds along with the related assets. Capital leases for the Governmental Funds are reported as other financing sources and expenditures.

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

The assets acquired through capital leases (expressed in thousands) are as follows:

		Governmental activities	Business-type activities	Higher Education Fund	Workers' Compensation Commission
Assets:					
Buildings	$	126,418	4,347	1,495	2,852
Machinery and equipment		3,747	300,611	300,611	
Less Accumulated depreciation		(50,165)	(83,084)	(82,349)	(735)
Total	$	80,000	221,874	219,757	2,117

Future minimum commitments under operating and capital leases by fund type as of June 30, 2003, were as follows (expressed in thousands):

		Capital leases		
		Governmental activities	Business-type activities	Higher Education Fund
Year ending June 30:				
2004	$	3,593	3,526	3,526
2005		3,189	2,501	2,501
2006		2,604	1,318	1,318
2007		1,775	1,102	1,102
2008		1,200	619	619
2009-2013		1,971	356	356
Total minimum lease payments		14,332	9,422	9,422
Less interest		2,470	1,308	1,308
Present value of future minimum lease payments	$	11,862	8,114	8,114

(Continued)

		Capital leases with component unit			
		Governmental activities	**Business-type activities**	**Higher Education Fund**	**Workers' Compensation Commission**
Year ending June 30:					
2004	$	9,486	386	161	225
2005		9,996	366	139	227
2006		9,985	373	145	228
2007		9,844	234	10	224
2008		9,509	228		228
2009-2013		31,432	1,127		1,127
2014-2018		12,748			
2019-2023		4,627			
Total minimum lease payments		97,627	2,714	455	2,259
Less interest		21,586	474	55	419
Present value of future minimum lease payments	$	76,041	2,240	400	1,840

		Operating leases			
		Governmental activities	**Business-type activities**	**Higher Education Fund**	**Non-major enterprise funds**
Year ending June 30:	$				
2004		10,357	7,243	6,430	813
2005		5,697	4,096	3,628	468
2006		2,805	1,821	1,670	151
2007		2,068	878	878	
2008		815	356	356	
2009-2013			1,048	1,048	
Total minimum lease payments	$	21,742	15,442	14,010	1,432
Total rental expenditure/ expense (2003)	$	11,642	4,604	4,290	314

(11) Fund Balances/Net Assets

Deficit Net Assets

The WCC had a $17.9 million deficit in net assets as of June 30, 2003. The deficit was primarily generated by a change in actuarial assumptions during the fiscal year ended June 30, 1997. If the deficit is not eliminated by normal operations, WCC has the ability to seek legislation to 1) increase Workers' Compensation Tax Premiums, or 2) increase the threshold of claims submitted to WCC. WCC has the ability to change its investment strategy to receive larger returns on its investments without legislation.

(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 APERS. Highway is administered by the plan itself. Each plan provides retirement, disability, and death benefits, in accordance with benefit provisions as established and amended by State Statute (A.C.A.24). Each plan issues a publicly available financial report, which may be obtained by writing or calling the appropriate plan:

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

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

Arkansas Teacher Retirement Plan	**Arkansas Public Employees Retirement Plan**
1400 West Third Street Little Rock, AR 72201 (501) 682-1517	One Union National Plaza 124 W. Capital, Suite 400 Little Rock, AR 72201 (501) 682-7800

(b) Funding Policies

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

	Teacher	APERS	Highway	State Police	Judicial
Number of participating employers/contributing entities	411	755	1	1	1
Contribution rates for the fiscal year ended June 30, 2003 (% of covered payroll):	12.00%	10 - 20%	12.90%	22.00%	12.00%
Covered payroll (in thousands)	1,683,000	1,147,900	116,800	20,000	15,935
State					
Plan members – contributory plans	6.00%	6.00%	6.00%	9.25%	5.0% & 6.0%
Annual pension cost (in thousands)	200,456	113,273	15,581	5,864	3,811
Contributions made (in thousands)	200,456	113,273	15,581	6,905	4,066

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

Fiscal year	Plan	Annual required contribution	Percentage contributed
2003	Teacher	$ 200,456	100%
	APERS	113,273	100%
2002	Teacher	191,353	100%
	APERS	107,189	100%
2001	Teacher	181,116	100%
	APERS	99,325	100%

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

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 2003 contribution to APERS represented 100% of total contributions required of all participating entities. Beginning with the 1997 fiscal year, the State no longer contributes to Teacher. As required by Act 1194 of 1995, the State increased the local state supported school appropriations so that such retirement contributions come directly from the school districts.

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

		Judicial	State Police
Annual required contribution (ARC)	$	4,190	5,853
Interest on net pension obligation		(939)	171
Adjustment to annual required contribution		560	(160)
Annual pension cost		3,811	5,864
Contributions made		(4,065)	(6,905)
Change in net pension obligation		(254)	(1,041)
Net pension obligation (asset), beginning of year (as restated)		(12,525)	2,209
Net pension obligation (asset), end of year	$	(12,779)	1,168

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

No pension liability exists for Highway, Teacher or APERS, as the State's contributions to each respective plan for the year ending June 30, 2003, was equal to the ARC.

(Continued)

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

	Year ending	Annual pension cost (APC)	Percentage of APC contributed	Net pension obligation (asset)
Judicial	6/30/2003	$ 3,811	100.00%	$ (12,779)
	6/30/2002	4,372	91.08%	(12,525)
	6/30/2001	3,515	87.62%	(13,578)
State Police	6/30/2003	5,864	100.00%	1,168
	6/30/2002	5,906	118.00%	2,209
	6/30/2001	5,752	123.52%	3,238
Highway	6/30/2003	15,581	100.00%	
	6/30/2002	15,013	100.00%	
	6/30/2001	14,395	100.00%	

(c) Higher Education

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

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

Each college or university contributes a percentage of an employee’s salary ranging from 5% to 10%, to a TIAA-CREF or Fidelity Fund retirement account, allocated between the two funds according to the employee’s choice. In addition, employees may make voluntary contributions of any amount up to the individual maximum allowance. During 2003, total employer contributions to TIAA-CREF and Fidelity were $51.9 million and $9.8 million, respectively. Employee contributions to TIAA-CREF and Fidelity were $43.8 million and $8.9 million, respectively.

(Continued)

(13) Additional Information – Enterprise Funds

The State of Arkansas issued special obligation bonds to finance the lending program and operations of the Construction Assistance Revolving Loan Program and construction and renovations of the War Memorial Stadium.

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.

War Memorial Stadium is an outdoor athletic stadium used for athletic events, concerts, and other functions requiring large seating facilities.

(a) Condensed Statement of Net Assets

	War Memorial Stadium Commission	Construction Assistance Revolving Loan Fund
Assets		
Current assets	$ 467	76,029
Noncurrent assets	627	206,408
Capital assets	10,170	
Total assets	$ 11,264	282,437
Liabilities		
Current liabilities	$ 1,007	8,518
Noncurrent liabilities	96	96,914
Total liabilities	1,103	105,432
Net Assets		
Invested in capital assets net of related debt	9,230	
Restricted	627	177,005
Unrestricted	304	
Total net assets	$ 10,161	177,005

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

		War Memorial Stadium Commission	Construction Assistance Revolving Loan Fund
Charges for sales and services (pledged against bonds)	$	1,556	-
Investment earnings (pledged against bonds)			9,109
Miscellaneous		11	
Depreciation expense		(449)	
Amortization expense			(281)
Other operating expense		(1,265)	(5,527)
Operating income (loss)		(147)	3,301
Nonoperating revenue/expenses:			
Investment earnings		2	
Taxes		753	
Loss on sale of assets		(3)	
Transfers to other funds			(765)
Interest and amortization expense		(85)	
Capital grants and contributions			9,522
Change in net assets		520	12,058
Total net assets, beginning of year		9,641	164,947
Total net assets, end of year	$	10,161	177,005

(c) Condensed Statement of Cash Flows

		War Memorial Stadium Commission	Construction Assistance Revolving Loan Fund
Net cash provided (used) by:			
Operating activities	$	357	5,269
Noncapital financing activities		806	8,757
Capital and related financing activities		(1,616)	(4,840)
Investing activities		709	6,480
Net increase (decrease)		256	15,666
Cash and cash equivalents, beginning		670	59,810
Cash and cash equivalents, end	$	926	75,476

(14) Risk Management Program

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

(a) Health and Life Plans

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

The Board provides the following employee benefits to State employees: comprehensive major medical that also includes basic dental, vision, and mental health parity; prescription drug benefits; basic and supplemental group term life insurance; a cafeteria plan that includes a flexible medical spending account and a dependent daycare/elder care account; and a deferred compensation plan with the option to participate in one or both of the deferred compensation companies. The State employees are self-insured for medical health, group term life insurance, and pharmacy claims. Beginning January 1, 2002, the State began to provide a fully funded mental health parity benefit.

Public school employees are offered the comprehensive major medical plan (excluding basic vision and dental benefits) including a mental health parity benefit; prescription drug benefits; and the 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. The public school group is fully insured for the medical, mental health benefits, and group term life insurance and is self-insured for pharmacy claims.

Basic group term life insurance and accidental death and dismemberment coverage is offered to all State and public school employees. The basic life insurance premium for active State employees is paid from the insurance trust fund. The basic life insurance premium for public school employees is $0.65 per month and is contingent upon health plan participants. Supplemental coverage is offered to both State and public school employees. Supplemental life insurance premiums are bracketed by age, annual salary, and amount of coverage for both State and public school employees contingent upon health plan participants. The State and public school employee may also purchase dependent coverage.

(Continued)

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

		2003	2002
Claim liability, beginning of year	$	17,800	3,800
Incurred claims		132,323	116,118
Claims payments		(132,323)	(102,118)
Claim liability, end of year	$	17,800	17,800

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

(b) Risk Management Office

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

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

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, the vehicle is generally insured for the full amount of losses subject to varying deductible amounts. Also, such commercial insurance generally provides coverage against liability losses up to $100 thousand per occurrence in state and $500 thousand per occurrence out of state. Certain state agencies have elected not to purchase commercial insurance for certain vehicles and losses on such vehicles are recorded as expenditures in the General Fund as paid. Liability losses arising from uninsured vehicles are heard and adjudicated by the State Claims Commission.

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

(c) State Claims Commission

The State Claims Commission was established by State law to hear and adjudicate all claims against the State and its agencies and component units excluding those arising from workers' compensation law, employment security law, and the acts of the various retirement plans. According to State law, only claims for actual damages are allowed. The Commission may authorize awards for actual damages up to $7.5 thousand without further approval, while amounts exceeding $7.5 thousand 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, 2003, is $319 thousand.

(d) Public Employee's Claims Division of the Arkansas Insurance Department

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

The Program is self-insured and is administered by the Public Employees Claims Division of the State Insurance Department. Each State agency is responsible for contributing to the Program each year an amount determined by the division based on past claims experience. The State's liability for claims at June 30, 2003, including claims incurred but not reported, is estimated to be approximately $65.4 million in the Government Wide financial Statements.

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

		2003	2002
Claim liability, beginning of year	$	59,700	54,500
Incurred claims		15,900	14,500
Claims payments		(10,200)	(9,300)
Claim liability, end of year	$	65,400	59,700

(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 Disability Trust Fund pays wage loss benefits in excess of $75 thousand per case. The employer's primary insurer is responsible for the first $75 thousand per case. The Disability Trust Fund is funded by taxes assessed on workers' compensation premiums earned by insurance companies operating in the State and by assessments on self-insured employers as if they were commercially insured. The liability of the Disability Trust Fund at June 30, 2003, is based on actuarial estimates of ultimate claim costs for both reported and unreported claims, discounted at 5%, and is recorded in the Workers' Compensation Commission Enterprise Fund.

The second such plan was created by State law and is known as the Second Injury Trust Fund. The Second Injury Trust Fund was created to encourage employment of disabled workers by limiting in the event of subsequent injury, the employer's liability for permanent disability benefits. The employee is to be fully protected in that the Second Injury Trust Fund pays the worker the difference between the employer's liability and the balance of his disability or impairment, which resulted from all disabilities or impairments combined. The Second Injury Trust Fund is funded by taxes assessed on workers' compensation premiums earned by insurance companies operating in the State and by assessments on self-insured employers as if they were commercially insured. The claim liability is estimated by discounting at 5% the expected future claim payments of reported claims and is recorded in the Workers' Compensation Commission Enterprise Fund.

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

		2003	2002
Claim liability, beginning of year	$	180,232	173,736
Incurred claims		16,466	17,544
Claims payments		(12,947)	(11,048)
Claim liability, end of year	$	183,751	180,232

(f) Petroleum Storage Tank 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 for corrective action up to $1 million per occurrence with a $7.5 thousand deductible as well as third-party property claims or bodily injury claims for damages up to $1 million per occurrence, also with a $7.5 thousand deductible. The Storage Tank Fund is funded by an environmental assurance fee of two-tenths of one dollar 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.

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

		2003	2002
Claim liability, beginning of year	$	15,650	18,758
Incurred claims		2,276	982
Claims payments		(3,478)	(4,090)
Claim liability, end of year	$	14,448	15,650

(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, five four-year institutions and one two-year institution participate in the health insurance programs, along with the UA System's divisions of Criminal Justice Institute, Arkansas Archeological Survey, Division of Agriculture, System Administration, and the University of Arkansas Foundation. 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):

		2003	2002
Claim liability, beginning of year	$	10,725	11,525
Incurred claims		69,495	62,019
Claims payments		(68,418)	(62,819)
Claim liability, end of year	$	11,802	10,725

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

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

(h) Arkansas State Police Health Insurance Plan

Liabilities for claims incurred but not reported are included in the Arkansas State Police Health Insurance Plan. These liabilities exist because of the span of time between the incurrence of obligations to pay claims and the liquidation of the obligations by the agency across reporting periods. The amounts of these liabilities are based on evaluation of claims data for those claims that were incurred before year-end and paid after year-end for June 30, 2003.

		2003	2002
Claim liability, beginning of year	$	443	443
Incurred claims		6,586	
Claims payments		(6,090)	
Claim liability, end of year	$	939	443

(i) Other Post Employment Benefits

The State provides post employment health insurance coverage benefits to eligible employees who retire from the state. The Employee Benefit Division for the State of Arkansas is the Plan Administrator for all health insurance plans offered to State employees, including retirees. Health care benefits are funded through both employee and employer contributions. Employer contribution rates are set in accordance with Act 185 of 2001, effective July 1, 2001, which states that each State agency must pay a State employer contribution of up to $350.00 per budgeted position to support the State group insurance program. The current monthly premium effective July 1, 2003 has been set at $280.00 per budgeted position.

As of June 30, 2003, there were approximately 6,770 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, 2003, the State paid an aggregate amount for Active employees, COBRA participants and Retirees of $132.3 million.

(15) Commitments and Contingencies

Primary Government

(a) Litigation

The State, its agencies, and employees are defendants in numerous legal proceedings, many of which normally occur in governmental operations. Such litigation includes, but is not limited to, claims assessed against the State for property damage and personal injury, alleged inmate wrongs, and other alleged torts, alleged breaches of contract, condemnation proceedings, challenges of State law, and other alleged violations of State and federal laws. Certain claims have been adjudicated against the State, but remained unpaid by the State as of the balance sheet date. The State has accrued liabilities in the approximate amount of $6 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 $22 million.

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

		2003	2002
Litigation, beginning of year	$	18,127	14,150
Incurred litigation		11,073	4,832
Litigation payments		(23,630)	(855)
Litigation, end of year	$	5,570	18,127

On November 21, 2002, the Arkansas Supreme Court affirmed a lower court ruling that the current Arkansas school-funding system is unconstitutional. The Court concluded "that the State has not fulfilled its constitutional duty to provide the children of this state with a general, suitable, and efficient school-funding system." The State has accrued approximately $3.4 million in attorney's fees related to this case which are required to be paid to the plaintiff's attorneys. In addition, although not yet determinable, future appropriations required to comply with this ruling are expected to be material to the State's financial statements.

It is not possible to predict with certainty the ultimate outcome of all lawsuits pending or threatened against the State, including those discussed above. Based on the current status of all of these legal proceedings for which accruals have not been made in the State's financial statements, it is the opinion of 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, 2003, 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

Under the provisions of the Pulaski County Desegregation Settlement Agreement, the State agreed to provide loans to the Little Rock School District (LRSD). If the composite test scores of the LRSD minority students reach a specified level before December 1, 2001, any outstanding loan balance will be forgiven. The standards by which the test scores will be measured have yet to be determined by the parties. As of June 30, 2003, the State's loan receivable is $5 million and is recorded in the General Fund.

(d) Construction and Other Commitments

At June 30, 2003, the State has commitments of approximately $388.3 million for construction and other contracts. The Soil and Water Conservation Commission has approved $30.1 million in loans for projects for water systems, waste water, or pollution abatement that have not been disbursed at June 30, 2003.

(e) Bond Guarantees

The 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, 2003, total bonds guaranteed by the AEDC Bond Guaranty Reserve Fund were approximately $48.1 million. In addition, AEDC has committed to guarantee approximately $5.26 million in industrial development revenue bonds that have not closed at June 30, 2003.

(f) Tobacco Settlement

In November 1998, the Attorney General joined 45 other states and five territories in a settlement with the nation's largest tobacco manufacturers. The settlement includes base payments to states totaling $220.6 billion over the next 25 years, and continues in perpetuity. All disbursements from the Master Settlement Agreement were initially deposited to the Tobacco Settlement Cash Holding Account. In 2001, funds were distributed to various accounts within the general fund including the Arkansas Healthy Century Trust Account, in the amount needed to bring the principal balance to $100,000,000, and the remainder was distributed to the Tobacco Settlement Program Account. For 2002 and thereafter, the first $5,000,000 shall be distributed to the Tobacco Settlement Debt Service Account, and the amounts remaining shall be distributed to the Tobacco Settlement Program Account. While Arkansas' share of the base payments will not change over time, the amount of the annual payment is subject to a number of modifications including adjustments for inflation and usage volumes. Some of the adjustments may result in increases in the payments (inflation, for example), while other adjustments will likely cause decreases in payments (volume adjustments, for example). The net effect of these adjustments on future payments is unclear; therefore, the financial statements only reflect amounts that can be reasonably estimated.

(16) Subsequent Events

Primary Government

On September 23, 2003, $20 million in bonds dated September 1, 2003, were sold for $20 million with interest rates ranging from 2.5% to 4.75%. The proceeds from the sale of these bonds were used to finance the development of water, waste disposal, pollution abatement, irrigation, drainage and flood control and/or wetland preservation facilities projects throughout the State. The costs of issuing the bonds were paid from the net proceeds from the sale of the bonds.

Higher Education

(i) **University of Arkansas Community College and Batesville** – Bids were opened on October 28, 2003 for the construction of a library and additional classrooms. The estimated cost of the project is $2,000,000.

(ii) **University of Arkansas at Monticello – In December of 2002, the University** announced that Forest Echoes Technical Institute in Crossett, Arkansas and great Rivers Technical Institute in McGehee, Arkansas would merge with the University. The merger was authorized and completed in accordance with Act 1244 of 1991. The University of Arkansas Board of Trustees approved the merger of Great Rivers on December 2, 2002 and approved the merger of Forest Echoes on January 9, 2003. Both mergers were further ratified by the State Board of Workforce Education on February 5, 2003 and by the Arkansas Higher Education Coordinating Board on February 7, 2003. The mergers with the University of Arkansas at Monticello became effective on July 1, 2003 and at that time each of the technical institutes ceased to exist as separate entities. At June 30, 2002, Great Rivers Technical Institute had unrestricted net assets of $888,781 and Forest Echoes Technical Institute had unrestricted net assets of $1,124,137.

(iii) ***Arkansas Tech University*** – The Board of Trustees voted to merge Arkansas Tech University and Arkansas Valley Technical Institute, located in Ozark, Arkansas in February 2003. The merger became effective July 1, 2003. Arkansas Valley Technical Institute, a public institution operating under State control, has a total enrollment of approximately 600 students. There are eleven programs leading to associate degrees.

The institution executed a lease for a new computer system and software with International Business Machines Incorporated effective August 1, 2003. The total purchase price was $706,174. The lease has a payment period of sixty months.

The institution issued bonds for the construction of a building to house the Art Department. The amount of the bonds were not to exceed $4,000,000 and were sold October 29, 2003.

(iv) **Garland County Community College** – As required by Act 678 of 2003, the College merged with Quapaw Technical Institute July 1, 2003. The merged institution will be named National Park Community college.

(v) **Pulaski Technical College Foundation, Inc.** – The Pulaski Technical College Foundation, Inc., at its regular meeting June 23, 2003, voted to transfer title of the real and personal property located at 3201 Reynolds Road in Bauxite, Arkansas to the College. The resolution was approved August 4, 2003. The property consists of seven buildings on 50.85 acres. The property is valued at $1,650,000.

(vi) **Northwest Arkansas Community College** – Subsequent to June 30, 2003, Dr. Rebecca Panitz became the second President of Northwest Arkansas Community College effective August 1, 2003.

During the 2003 fiscal year, Northwest Arkansas Community College made application for Title III and Title IV Federal Grants. In May 2003, the Institution received notification of the approval and awarding of the Title IV Upward Bound Grant to receive $220,000 per year for the next five years. As fiscal year 2003 ended, the Institution is awaiting the announcement of the approval and awarding of the Title III grant which is also a five year grant that will be used for Institutional improvement.

(vii) **Arkansas State University – Jonesboro** – On August 11, 2003, the University entered into a five year agreement to refinance the existing printing press lease with the Arkansas State University Foundation and also lease additional printing press equipment. The University agreed to make monthly payments in the amount of $10,039.24 to the Foundation. At the end of the lease agreement, the University may purchase the equipment from the foundation for $1.

As of September 1, 2003, QualChoice no longer provides services through Regional Medical Center of Northeast Arkansas. The University has selected NovaSys Health Network to replace QualChoice as the network and third party administrator.

(Continued)

REQUIRED
SUPPLEMENTARY INFORMATION (TAB)

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
Teacher	2003	6/30/2003	$ 8,263,000	9,672,000	1,409,000	85.4%	$ 1,683,000	83.70%
	2002	6/30/2002	8,328,000	9,062,000	734,000	91.9%	1,628,000	45.1%
	2001	6/30/2001	8,166,000	8,561,000	395,000	95.4%	1,557,000	25.4%
Public Employees	2003	6/30/2003	4,416,000	4,674,000	258,000	94.5%	1,147,900	22.50%
	2002	6/30/2002	4,404,000	4,398,000	(6,000)	100.1%	1,112,000	(0.5)%
	2001	6/30/2001	4,342,000	4,111,000	(231,000)	105.6%	1,070,000	(21.6)%
Highway	2003	6/30/2003	1,040,400	976,000	(64,300)	106.6%	116,800	(55.1)%
	2002	6/30/2002	1,026,300	918,100	(108,200)	111.8%	113,500	(95.4)%
	2001	6/30/2001	971,569	860,314	(111,255)	112.9%	106,728	(104.2)%
State Police	2003	6/30/2003	212,450	261,500	49,050	81.0%	20,000	249.0%
	2002	6/30/2002	223,768	251,763	27,995	88.9%	19,680	142.20%
	2001	6/30/2001	229,921	242,355	12,434	94.9%	20,158	61.7%
Judicial	2003	6/30/2003	126,520	137,925	11,405	91.7%	15,935	72.0%
	2002	6/30/2002	124,212	124,734	522	99.6%	15,112	3.5%
	2001	6/30/2001	119,191	116,073	(3,118)	102.7%	14,869	(21.0)%

See accompanying notes to the schedule of funding progress.

STATE OF ARKANSAS

Note to Schedule of Funding Progress

June 30, 2003

Actuarial Assumptions

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

	Teachers Retirement	**Judicial**	**State Police**	**Highway**	**APERS**
Actuarial valuation date	June 30, 2003	June 30, 2003	June 30, 2003	June 30, 2003	June 30, 2003
Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Individual Entry Age Normal Cost
Amortization method	Level Percentage of Pay	Level Percentage of Pay	Level Percentage of Pay	Level Percentage of Pay, Open	30-Year Open
Remaining amortization period	36 years	30 years	19 years	0 years	(a), (b)
Asset valuation method	4 Year Smoothed Market	4 Year Smoothed Market	4 Year Smoothed Market	5 Year Smoothed Market	4-Year Smoothed Market
Actuarial assumptions:					
Inflation rate	4.0%	3.0%	4.25%	4.0%	4.0%
Investment rate of return*	8.0%	7.0%	7.75%	8.0%	8.0%
Projected salary increases*	4.0 – 10.1%	4.0%	4.25% – 8.09%	4.5% – 10.5%	5% – 9%
Postretirement benefit increases	3% simple	(c)	3.0% compounded	3.0% compounded	3.0% annual compounded

*Includes assumed inflation.

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

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

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

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STATE OF ARKANSAS

Required Supplementary Information

General Fund

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

June 30, 2003

(In thousands)

		Budgeted amounts			Variance with final budget – positive
		Original	Final	Actual amounts	(negative)
Expenditures: *					
Current:					
General government	$	5,193,882	5,407,864	1,354,189	4,053,675
Education		2,548,446	2,717,310	2,355,427	361,883
Health and human resources		3,757,293	3,925,809	3,432,009	493,800
Law, justice, and public safety		495,491	628,927	431,708	197,219
Recreation and resource development		254,934	580,096	226,076	354,020
Regulation of business and professionals		161,669	166,866	104,457	62,409
Transportation		1,440,487	1,204,961	295,634	909,327
Debt service		95,994	121,945	38,707	83,238
Capital outlay		159,192	1,282,635	737,791	544,844
Total expenditures	$	14,107,388	16,036,413	8,975,998	7,060,415

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

See accompanying notes to budgetary schedule.

(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 GAAP. Revenues are recognized when cash is received and deposited in the State Treasury or reported to the Department of Finance and Administration. Expenditures are recorded when cash is disbursed. If goods or services are not received before year end, all encumbrances lapse, except those appropriations for multiyear projects.

(b) Budgetary Basis Reporting – Budgetary Process

State finance law requires that a balanced budget be approved by the Governor and the General Assembly. The Governor presents an annual budget to the General Assembly which includes an estimate of revenues, expenditures, and other financing sources and uses anticipated during the coming biennial period. The General Assembly, which has full authority to amend the budget, adopts a line item budget by appropriating monies in biennial appropriation acts. 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 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, carryforward provisions and restrictions on spending by the General Assembly.

Before signing the appropriation act, the Governor may veto any specific item, subject to legislative override. Further changes to the budget established in the biennial appropriation may be made via supplemental appropriation acts or other subsequent legislative acts. These also must be approved by the General Assembly and signed by the Governor and are subject to the line item veto.

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

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

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

Each of these legally adopted internal funds are accounted for on the cash basis. All prior fiscal year unpaid bills or claims that did not have sufficient funds and appropriation at the end of the fiscal year may be submitted by the agency to the Claims Commission. Upon approval of the claims, funds are appropriated in the following biennium to allow for payment, unless the claims are approved during a special session of the legislature or in the case of small claims, upon the decision of the Claims Commission.

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

The rate of spending of appropriations is controlled by DF&A. DF&A utilizes quarterly allotment which restricts spending to a certain percentage of the annual appropriation. The percentage is established to coincide with the expected actual rate of revenue collections, thereby ensuring adequate cash flow throughout the year.

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

A report provides information at the individual appropriation line item level, which is the legal level of budgetary control, and is available from DF&A. For financial reporting, the State groups these appropriation account categories by function to conform to its organization structure.

STATE OF ARKANSAS

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

June 30, 2003

The Department of Finance and Administration monitors the State's spending against its budget utilizing the Arkansas Administrative Statewide Information System (AASIS). AASIS was designed with internal controls to prohibit state agency spending from exceeding its budget. Budget is the undeferred and funded appropriations enacted by the Arkansas State Legislature. Budget is controlled at the appropriation line item (Commitment Item), which is the legal level of budgetary control. For financial reporting, the State groups State agencies and their appropriations into functional categories.

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

Total GAAP basis expenditures General Fund	$	9,017,879
Less non-cash federal grant expenditures		(304,181)
Less non appropriated fund		(2,746,944)
Plus expenses eliminated or reclassed as transfers for reporting purposes		3,026,702
Less basis of accounting differences		(17,458)
Total statutory basis expenditures General Fund	$	8,975,998

COMBINING
FINANCIAL STATEMENTS (TAB)

NON-MAJOR ENTERPRISE FUNDS

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

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

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

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

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

STATE OF ARKANSAS

Combining Statement of Net Assets

Non-major Proprietary Funds

As of June 30, 2003

(Expressed in thousands)

	Business-type activities enterprise funds				
Assets	**Employment Security Department**	**War Memorial Stadium Commission**	**Construction Assistance Revolving Loan Fund**	**Other Revolving Loan Funds**	**Total**
Current assets:					
Cash and cash equivalents	$ 106,750	299	75,476	8,173	190,698
Receivables:					
Accounts	68,059	-	75	1,407	69,541
Loans	-	-	-	19,553	19,553
Interest	-	-	478	54	532
Other funds	1,557	59	-		1,616
Other governments	10,080	-	-	-	10,080
Investments	16,203	53	-	-	16,256
Inventories	-	31	-	-	31
Deferred charges	-	25	-	-	25
Total current assets	202,649	467	76,029	29,187	308,332
Noncurrent assets:					
Cash and cash equivalents- restricted		627			627
Receivables, net			192,489		192,489
Investments- restricted			12,809		12,809
Other noncurrent assets	-	-	1,110	-	1,110
Capital assets:					
Land	2,972	-	-	-	2,972
Buildings	3,706	14,370	-	-	18,076
Equipment	6,058	343	-	-	6,401
Leasehold improvements	245		-	-	245
Assets under construction	89		-	-	89
Less accumulated depreciation	(8,070)	(4,543)	-	-	(12,613)
Net capital assets	5,000	10,170			15,170
Total noncurrent assets	5,000	10,797	206,408	-	222,205
Total assets	$ 207,649	11,264	282,437	29,187	530,537
Liabilities					
Current liabilities:					
Accounts payable	$ 90,280	-	288	28	90,596
Accrued interest payable	-	20	424	-	444
Accrued and other current liabilities	611	9	-	-	620
Due to other funds	2,346	-	-	1,391	3,737
Due to other governments	2,614	-	-	-	2,614
Compensated absences payable	113	38	-	-	151
Deferred revenue			2,736	906	3,642
Bonds payable		940	5,070		6,010
Total current liabilities	95,964	1,007	8,518	2,325	107,814
Noncurrent liabilities:					
Bonds payable	-	-	96,914	-	96,914
Compensated absences payable	1,766	24		-	1,790
Deferred revenue		72			72
Total noncurrent liabilities	1,766	96	96,914	-	98,776
Total liabilities	97,730	1,103	105,432	2,325	206,590
Net assets:					
Invested in capital asset, net of related debt	5,000	9,230	-	-	14,230
Restricted for unemployment compensation	104,919	-	-	-	104,919
Restricted for debt service	-	459	-	-	459
Restricted for capital projects	-	168	-	-	168
Restricted by program requirements	-	-	177,005	26,862	203,867
Unrestricted	-	304	-	-	304
Total net assets	109,919	10,161	177,005	26,862	323,947
Total net assets and liabilities	$ 207,649	11,264	282,437	29,187	530,537

STATE OF ARKANSAS

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets

Non-major Proprietary Funds

Year Ended June 30, 2003

(Expressed in thousands)

	Business-type activities enterprise funds				
	Employment Security Department	War Memorial Stadium Commission	Construction Assistance Revolving Loan Fund	Other Revolving Loan Funds	Total
Operating revenues:					
Charges for sales and services	$	1,556			1,556
Licenses, permits and fees	6				6
Investment earnings			9,109	739	9,848
Miscellaneous	53	11	-	255	319
Total revenue	59	1,567	9,109	994	11,729
Operating expenses:					
Cost of sales and services		497			497
Compensation and benefits	28,856	387			29,243
Supplies and services	12,455	273			12,728
ESD benefits	433,684				433,684
General and administrative expenses	7,204	108	292	58	7,662
Depreciation	470	449			919
Amortization			281		281
Interest			5,235		5,235
Total operating expenses	482,669	1,714	5,808	58	490,249
Operating income (loss)	(482,610)	(147)	3,301	936	(478,520)
Nonoperating revenues (expenses):					
Investment earnings	9,538	2			9,540
Taxes	241,174	753			241,927
Operating grants and contributions	159,475				159,475
Interest and amortization expense		(85)			(85)
Loss on sale of fixed assets	(229)	(3)			(232)
Total nonoperating revenues (expenses)	409,958	667	-	-	410,625
Income (loss) before transfers	(72,652)	520	3,301	936	(67,895)
Transfer from other funds					
Transfer to other funds	(1,073)		(765)	(2,984)	(4,822)
Capital grants and contributions			9,522	9,175	18,697
Change in net assets	(73,725)	520	12,058	7,127	(54,020)
Total net assets-beginning	183,644	9,641	164,947	19,735	377,967
Total net assets-ending	$ 109,919	10,161	177,005	26,862	323,947

STATE OF ARKANSAS

Combining Statement of Cash Flows

Non-major Proprietary Funds

Year Ended June 30, 2003

(Expressed in thousands)

	Business-type activities enterprise funds				
	Employment Security Department	**War Memorial Stadium Commission**	**Construction Assistance Revolving Loan Funds**	**Other Revolving Loan Funds**	**Total**
Cash flows from operating activities:					
Cash received from customers	$	1,579			1,579
Payments to employees	(28,758)	(307)			(29,065)
Payments of benefits	(429,875)				(429,875)
Payments to suppliers	(23,225)	(915)			(24,140)
Interest received (paid)			3,963	573	4,536
Loan administration received (paid)			1,306	(4,618)	(3,312)
Other receipts (payments)	59				59
Net cash provided (used in) operating activities	(481,799)	357	5,269	(4,045)	(480,218)
Cash flows from noncapital financing activities:					
Gifts and grants			9,522		9,522
Taxes	226,432	806			227,238
Operating grants and contributions	160,063			8,923	168,986
Net transfers to other funds	(1,073)		(765)	(2,732)	(4,570)
Net cash provided by noncapital financing activities	385,422	806	8,757	6,191	401,176
Cash flows from capital and related financing activities:					
Principal paid on capital debts and leases		(895)	(4,840)		(5,735)
Interest paid on capital debts and leases		(92)			(92)
Acquisition and construction of capital assets	(215)	(629)			(844)
Net cash used in capital and related financing activities	(215)	(1,616)	(4,840)	-	(6,671)
Cash flows from investing activities:					
Purchase of investments			(4,020)		(4,020)
Proceeds from sale and maturities of investments	7,072	702	10,500		18,274
Interest and dividends on investments	9,538	7			9,545
Net cash provided by investing activities	16,610	709	6,480	-	23,799
Net increase (decrease) in cash and cash equivalents	(79,982)	256	15,666	2,146	(61,914)
Cash and cash equivalents-beginning	186,732	670	59,810	6,027	253,239
Cash and cash equivalents-ending	$ 106,750	926	75,476	8,173	191,325
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:					
Operating income (loss)	$ (482,610)	(147)	3,301	936	(478,520)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation	470	449			919
Amortization			(67)	(23)	(90)
Net appreciation (depreciation) of investments			299		299
Net changes in assets and liabilities:					
Accounts receivable		50	174	(268)	(44)
Loans receivable			1,562	(5,063)	(3,501)
Other current assets		(2)	19	(12)	5
Current liabilities		2	(18)		(16)
Accounts payable and other accrued liabilities	314		(1)	8	321
Compensated absences	27	5			32
Deferred revenue				377	377
Net cash provided (used in) operating activities	$ (481,799)	357	5,269	(4,045)	(480,218)

TRUST AND AGENCY FUNDS

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

Pension Trust Funds – These funds are accounted for in essentially the same manner as proprietary funds, and includes Judicial, Teacher, State Police, Highway, and APERS retirement plans.

Agency Funds – These funds are custodial in nature and do not involve measurement of operations. Included in these funds are assets held by the Insurance Department and various other State agencies.

STATE OF ARKANSAS

Combining Statement of Fiduciary Net Assets

Pension Trust Funds

June 30, 2003

(In thousands)

Assets		**Teacher**	**APERS**	**Highway**	**State Police**	**Judicial**	**Total**
Cash and cash equivalents	$	360,958	307,972	684	6,058	10,127	685,799
Receivables:							
Employee		9,207	968	643			10,818
Employer		5,589					5,589
Interest and dividends		22,458	18,049	6,670	479	527	48,183
Advances to other funds		18,118					18,118
Other		146,869	42,791	5,213	1,299	505	196,677
Investments at fair value:							
Bonds, notes, mortgages, and preferred stock		1,931,320	664,032	440,262	33,986	39,782	3,109,382
Common stock		2,482,378	1,242,710	437,691	72,747	64,640	4,300,166
Real estate		140,776	62,105				202,881
International investments		1,046,290	420,436		33,069		1,499,795
Mutual funds			449,973		2,066		452,039
Pooled investment funds					13,169		13,169
Corporate obligations			664,619		17,000		681,619
Asset backed securities		54,119	86,521		2,170	1,664	144,474
Other		1,228,829	163,116				1,391,945
Securities lending collateral		717,698	769,617		35,693		1,523,008
Fixed assets		794	74				868
Other assets		2,760	14,024				16,784
Total assets		8,168,163	4,907,007	891,163	217,736	117,245	14,301,314
Liabilities and Net Assets							
Liabilities:							
Accounts payable and other liabilities		1,184	5,568	41	308	150	7,251
Investment principal payable		398,924	249,159		10,765	1,977	660,825
Obligations under securities lending		717,698	769,617		35,693		1,523,008
Due to other funds		1					1
Total liabilities		1,117,807	1,024,344	41	46,766	2,127	2,191,085
Net assets:							
Held in trust for:							
Employee's pension benefits	$	7,050,356	3,882,663	891,122	170,970	115,118	12,110,229

STATE OF ARKANSAS

Combining Statement of Changes in Fiduciary Net Assets

Pension Trust Funds

Year Ended June 30, 2003

(Expressed in thousands)

		Teacher	APERS	Highway	State Police	Judicial	Total
Additions:							
Contributions:							
Members	$	76,735	113,638	15,581	29	1,863	207,846
Employers		200,456	1,901	7,437	4,581	844	215,219
Supplemental contributions			2,418		4	1,299	3,721
Court Fees					1,267	904	2,171
Reinstatement fees					1,008		1,008
Total contributions		277,191	117,957	23,018	6,889	4,910	429,965
Investment income:							
Net increase (decrease) in fair value of investments		(86,632)	83,390	18,723	1,628	2,256	19,365
Interest, dividends, and other		206,212	113,751	27,442	2,795	3,605	353,805
Real estate operating income		8,578	3,170				11,748
Securities lending income		2,343	15,012		556		17,911
Total investment income		130,501	215,323	46,165	4,979	5,861	402,829
Less investment expense		(47,151)	(23,395)	(3,716)	(1,391)	(557)	(76,210)
Net investment income		83,350	191,928	42,449	3,588	5,304	326,619
Miscellaneous		121	6,716				6,837
Total additions (losses)		360,662	316,601	65,467	10,477	10,214	763,421
Deductions:							
Benefits paid to participants or beneficiaries		383,072	169,763	48,403	13,401	5,800	620,439
Refunds of employee/employer contributions		3,585	678	907		1	5,171
Administrative expenses		7,974	4,318	340	21	40	12,693
Total deductions		394,631	174,759	49,650	13,422	5,841	638,303
Change in net assets held in trust for:							
Employees' pension benefits		(33,969)	141,842	15,817	(2,945)	4,373	125,118
Net assets, beginning (as restated)		7,084,325	3,740,821	875,305	173,915	110,745	11,985,111
Net assets, ending	$	7,050,356	3,882,663	891,122	170,970	115,118	12,110,229

STATE OF ARKANSAS

Combining Statement of Fiduciary Net Assets

Agency Funds

June 30, 2003

(Expressed in thousands)

Assets		**Insurance Department**	**Other agencies**	**Total**
Cash and cash equivalents	$	16,735	34,528	51,263
Receivables:				
Accounts			7,400	7,400
Other			1,552	1,552
Investments at fair value:				
Certificates of deposit		12,111	36,085	48,196
Bonds, government securities, notes, mortgages, and preferred stock		368,680	45,416	414,096
Total assets	$	397,526	124,981	522,507
Liabilities				
Liabilities:				
Accounts payable and other liabilities	$		8,657	8,657
Due to other governments			64,617	64,617
Due to other funds			3,728	3,728
Due to third parties		397,526	47,979	445,505
Total liabilities	$	397,526	124,981	522,507

STATISTICAL SECTION (TAB)

Table 1

STATE OF ARKANSAS

Government-Wide Revenues and Expenses (Unaudited)

Last Two Fiscal Years

June 30, 2003

(In thousands)

	2003	2002
REVENUES:		
Program Revenues:		
Charges for services	$ 719,961	$ 624,197
Operating grants and contributions	3,802,814	3,425,029
Capital grants and contributions	15,419	6,707
General Revenues:		
Taxes	4,588,446	4,493,647
Investment earnings	46,139	63,121
Miscellaneous income	292,716	45,374
Loss on sale of fixed assets	(31,910)	(14,696)
Transfers-internal services	(596,261)	(609,619)
Total Revenues	8,837,324	8,033,760
EXPENSES:		
Education	2,326,854	2,236,210
Health and human services	3,785,128	3,304,714
Transportation	620,424	522,826
Law, justice, and public safety	441,258	428,701
Recreation and resource development	243,519	218,534
General government	1,048,805	940,426
Labor, commerce, regulatory	115,983	98,494
Interest on long-term debt	55,677	51,215
Total Expenses	8,637,648	7,801,120
Change in Net Assets	$ 199,676	$ 232,640

STATE OF ARKANSAS

Expenditures by Function (Unaudited)

General Fund

June 30, 2003

(In thousands)

		2003	2002		2001	2000
General government	$	1,044,164	902,922		681,055	587,147
Education		2,324,631	2,231,401		2,172,021	2,098,860
Health and human services		3,772,155	3,293,609		2,984,687	2,698,687
Law, justice, and public safety		416,353	405,434		509,428	333,211
Recreation and resource development		221,987	196,731		196,734	203,358
Labor, commerce and regulatory		108,378	96,655		120,189	161,703
Transportation		346,282	257,976	(1)	788,416	622,061
Debt service		91,031	93,392		69,841	77,244
Capital outlay		692,898	810,947	(1)	132,485	142,227
Total expenditures	$	9,017,879	8,289,067		7,654,856	6,924,498

Note: The expenditures for fiscal year 1994 are shown on a cash basis.

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

Table 2

1999	1998	1997	1996	1995	1994
992,322	724,127	751,164	783,378	722,077	954,499
1,959,309	1,883,809	1,812,291	1,690,844	1,629,154	1,539,641
2,614,967	2,496,628	2,437,633	2,297,385	2,067,465	2,834,720
311,176	265,313	282,258	241,228	200,574	268,862
170,619	177,838	163,937	178,519	150,509	132,716
139,345	121,450	147,064	130,339	126,415	95,751
559,572	635,188	677,638	579,417	483,972	517,992
57,917	54,876	77,360	27,413	9,184	12,374
120,525	110,988	184,003	94,874	73,812	6,984
6,925,752	6,470,217	6,533,348	6,023,397	5,463,162	6,363,539

STATE OF ARKANSAS

Revenues by Source (Unaudited)

General Fund

June 30, 2003

(In thousands)

	2003	2002	2001	2000
Taxes:				
Personal and corporate income	$ 1,714,603	1,671,615	1,704,226	1,670,110
Consumer sales	1,770,946	1,719,686	1,728,033	1,622,476
Gas and motor carrier	439,614	430,735	257,407	285,113
Other taxes	638,510	647,387	373,688	349,969
Intergovernmental	3,823,171	3,417,665	2,882,725	2,613,654
Licenses, permits, and fees	750,872	591,817	480,698	481,078
Investment earnings	46,139	63,167	107,074	102,158
Other	250,566	49,403	623,006	442,979
Total revenues	$ 9,434,421	8,591,475	8,156,857	7,567,537

Note: The revenues for fiscal year 1994 are shown on cash basis.

1999	1998	1997	1996	1995	1994
1,873,980	1,822,383	1,614,700	1,587,671	1,441,787	1,321,557
1,560,892	1,476,686	1,435,841	1,364,977	1,312,884	1,220,868
386,503	368,050	355,586	353,598	348,296	334,691
353,136	361,071	312,704	407,647	328,390	306,335
2,459,368	2,387,385	2,335,367	2,213,786	1,990,879	1,731,468
438,174	414,338	381,498	355,742	255,279	227,750
108,000	90,169	68,888	66,033	48,931	25,483
390,236	241,826	386,352	361,376	333,038	1,473,901
7,570,289	7,161,908	6,890,936	6,710,830	6,059,484	6,642,053

STATE OF ARKANSAS

Ratio of Outstanding General Obligation Bonded Debt to Gross General Revenues and Per Capita (Unaudited)

Last ten fiscal years

(In thousands – Except for ratio and per capita data)

	Population	Gross general revenues	General obligation bonded debt	Net general obligation bonded debt	
				Per capita	Ratio to gross general revenue
Year ended June 30:					
2003	2,723	$ 4,043,000	$ 920,986	338.22	0.228
2002	2,703	3,930,800	712,939	263.76	0.181
2001	2,689	3,958,000	551,189	204.98	0.139
2000	2,673	3,844,800	546,172	204.33	0.142
1999	2,557	3,698,300	388,336	151.87	0.105
1998	2,540	3,544,400	400,402	157.64	0.113
1997	2,525	3,315,000	299,101	118.46	0.090
1996	2,507	3,142,200	244,683	97.60	0.078
1995	2,483	2,964,300	146,729	59.09	0.049
1994	2,449	2,752,100	149,261	60.95	0.054

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

STATE OF ARKANSAS

Ratio of Annual Debt Service Expenditures for General Bonded Debt to
Total General Fund Revenues and Expenditures (Unaudited)

Last ten fiscal years

(In thousands)

	Debt Service	Total Revenue	Ratio	Total Expenditures	Ratio
Year ended June 30:					
2003	$ 91,031	$ 9,434,421	0.0096	9,017,839	0.0101
2002	93,392	8,591,475	0.0109	8,289,067	0.0113
2001	69,841	8,076,157	0.0086	7,576,656	0.0092
2000	77,244	7,567,537	0.0102	6,924,498	0.0112
1999	57,917	7,570,289	0.0077	6,925,752	0.0084
1998	54,876	7,161,908	0.0077	6,470,217	0.0085
1997	77,360	6,890,936	0.0112	6,533,348	0.0118
1996	27,413	6,710,830	0.0041	6,023,397	0.0046
1995	9,184	6,059,484	0.0015	5,463,162	0.0017
1994	12,374	6,642,053	0.0019	6,363,539	0.0019

Source: Arkansas Department of Finance and Administration Office of Accounting

STATE OF ARKANSAS

Revenue Bond Coverage (Unaudited)

Arkansas Student Loan Authority

Last ten years

(In thousands)

Arkansas Student Loan Authority	Gross revenue	Direct operating expense	Net revenue available for debt service	Principal	Interest	Total debt service	Coverage
Year ended June 30:							
2003	$ 67,629	$ 3,667	$ 63,962	$ 4,290	$ 6,594	$ 10,884	5.88
2002	61,654	3,597	58,057	13,005	7,769	20,774	2.79
2001	53,888	3,680	50,208	17,655	12,478	30,133	1.67
2000	44,630	2,902	41,728	4,730	10,353	15,083	2.77
1999	42,470	2,775	39,695	1,665	12,002	13,667	2.90
1998	37,510	2,572	34,938	2,100	12,200	14,300	2.44
1997	33,702	2,360	31,342	8,570	12,554	21,124	1.48
1996	31,471	2,076	29,395	2,575	10,968	13,543	2.17
1995	29,253	2,001	27,252	3,200	10,379	13,579	2.01
1994	22,198	1,673	20,525	3,415	7,470	10,885	1.89

Source: State of Arkansas Student Loan Authority.

STATE OF ARKANSAS

Demographic Statistics (Unaudited)
Last ten fiscal years

Calendar year (forecast)	Total population (in thousands)	Per capita personal income	Unemployment rate
2003	2,723	$ 23,899	5.2%
2002	2,703	23,142	5.1%
2001	2,689	23,757	4.5%
2000	2,673	23,114	4.4%
1999	2,557	22,188	4.5%
1998	2,540	21,149	5.5%
1997	2,525	20,334	5.3%
1996	2,507	19,425	5.4%
1995	2,483	18,524	4.9%
1994	2,449	17,757	5.3%

Source:

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

STATE OF ARKANSAS

Economic Statistics (Unaudited)

Last ten years

(In millions)

Calendar year	Gross State Product (stated in 1996 dollars)	Personal income
2003	$ 68,107	$ 65,077
2002	66,641	62,552
2001	65,950	60,290
2000	64,140	57,340
1999	61,545	54,996
1998	59,427	52,434
1997	57,691	49,901
1996	55,743	47,278
1995	53,805	44,767
1994	51,000	42,340

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

STATE OF ARKANSAS

Property Values, Taxable Sales, Bank Deposits, and Bank Loans (Unaudited)

(In millions – except for bank number data)

Last ten fiscal years

	Assessed property values	Taxable total sales	Banks: Number	Banks: Deposits	Banks: Loans	Banks: Assets
Calendar year ended:						
2003	$ 26,357	$ 38,120	166	$ 27,415	$ 21,355	$ 33,196
2002	25,357	36,529	170	25,492	19,948	30,635
2001	23,979	36,275	178	23,536	18,104	28,165
2000	22,696	35,486	185	21,545	16,599	25,682
1999	21,648	33,307	195	22,467	16,433	26,725
1998	20,796	31,873	202	21,503	14,772	25,128
1997	19,895	30,824	226	24,704	17,159	28,735
1996	18,383	30,425	233	26,453	17,515	30,633
1995	17,021	28,794	242	24,057	16,298	27,987
1994	16,639	26,862	257	23,431	14,085	27,085

Sources:

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

STATE OF ARKANSAS

Twenty-five Largest Private Sector Employers in Arkansas (Unaudited)

June 30, 2003

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

Sources:

Arkansas Business 2004 Book of Lists

*Data Base of Arkansas Department of Economic Development

STATE OF ARKANSAS

Miscellaneous Public Education Statistics (Unaudited)

Last ten years

	Number of schools	Average daily attendance	Number of teachers	Pupil-teacher ratio
School year ended:				
2003	1139	415525	30874	13.46
2002	1133	420015	31429	13.36
2001	1159	418906	31883	13.14
2000	1149	422958	31010	13.64
1999	1108	421933	30745	13.72
1998	1149	429892	29616	14.52
1997	1104	426983	29415	14.52
1996	1095	420901	29344	14.34
1995	1095	418222	28875	14.48
1994	1119	414065	28550	14.50

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

	Expenditure on education per pupil in daily attendance			% Revenue from State Government		
	United States	Arkansas	Arkansas Rank	United States	Arkansas	Arkansas Rank
School year ended:						
2003	$ 7829 *	5789 *	47 *	49.33% *	61.45% *	12
2002	7899	5876	47	50.10%	62.30%	11
2001	7640	5966	46	50.20%	62.20%	12
2000	7146	5625	46	50.70%	62.90%	12
1999	6734	5545	42	49.80%	61.00%	16
1998	6638	5848	34	49.10%	60.80%	14
1997	6335	4498	48	48.70%	65.90%	6
1996	6103	4353	48	47.90%	65.40%	7
1995	5894	4059	49	46.00%	63.60%	9
1994	5730	3949	49	45.80%	62.70%	11

* Estimate

Source:
National Education Association Research, Estimates Data Bank

Rankings and Estimates, A Report of School Statistics

STATE OF ARKANSAS

Miscellaneous Higher Education Statistics (Unaudited)

Last ten years

Public Institutions

	Fall net enrollment	Degrees awarded		
		Undergraduate	Graduate	Total
2002-03	108,824	16,950	2,890	19,840
2001-02	103,715	15,148	2,984	18,132
2000-01	100,207	14,090	2,852	16,942
1999-00	98,989	13,747	2,927	16,674
1998-99	97,742	13,028	2,829	15,857
1997-98	95,435	12,787	2,869	15,656
1996-97	92,069	13,157	2,910	16,067
1995-96	90,276	12,560	2,715	15,275
1994-95	89,466	11,934	2,808	14,742
1993-94	89,230	11,789	2,795	14,584

Private Institutions

	Fall net enrollment	Degrees awarded		
		Undergraduate	Graduate	Total
2002-03	12,277	2,204	236	2,440
2001-02	11,890	2,108	184	2,292
2000-01	11,483	2,057	118	2,175
1999-00	11,015	1,633	108	1,741
1998-99	10,781	1,874	87	1,961
1997-98	10,698	1,950	80	2,030
1996-97	11,116	1,893	90	1,983
1995-96	10,969	1,801	80	1,881
1994-95	10,703	1,577	59	1,636
1993-94	10,602	1,634	73	1,707

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

STATE OF ARKANSAS

Miscellaneous Statistics (Unaudited)

Date of Statehood	1836
Form of Government	Constitutional Representative Government
Land Area	34,036,700 Acres
Miles of State Highway	16,367
State Police Protection:	
Number of Stations	20
Number of State Police	503
Higher Education (State supported):	
Number of Campuses	33
Number of Students	108,824
Recreation:	
Number of State Parks	46
Area of State Parks and Forests	52,586 Acres
Number of State Parks Museums	5